

**Firm Brochure**

(Part 2A of Form ADV)

**Inherent Group, LP  
510 LaGuardia Place, 5<sup>th</sup> Floor  
New York, NY 10012**

**P: 646-494-0202**

**F: 646-783-5497**

December 26, 2019

**This brochure provides information about the qualifications and business practices of Inherent Group, LP. If you have any questions about the contents of this brochure, please contact the firm at 646-494-0202 or by email at [michael@inherentgroup.com](mailto:michael@inherentgroup.com). 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 Inherent Group, LP is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Inherent Group, LP is registered as an investment adviser with the SEC. Registration with the SEC does not imply a certain level of skill or training.**

**Item 2****Material Changes**

Since the last annual filing of this brochure on March 31, 2019, Inherent Group, LP (“Inherent” or the “firm”) has updated this brochure to reflect the personnel changes set forth in Items 8 and 13. There were no other material changes that are required to be included in this section.

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## **Item 4                      Advisory Business**

### **Firm Description**

Inherent Group, LP (“Inherent”) is a Delaware limited partnership founded in 2017. Inherent was founded primarily to serve as the investment adviser to private funds and other entities described more fully below.

Equity interests in Inherent’s private funds are not registered under the Securities Act of 1933, as amended (the “Securities Act”). In addition, Inherent’s private funds are not registered as investment companies under the Investment Company Act of 1940, as amended. Accordingly, equity interests in the private funds will be offered exclusively to investors satisfying the applicable eligibility and suitability requirements provided for in either private placement transactions within the United States (in accordance with Regulation D promulgated under the Securities Act) or in offshore transactions (in accordance with Regulation S promulgated under the Securities Act).

### **Principal Owners**

Anthony (Tony) L. Davis is the CEO, CIO, and sole member of Inherent Group GP, LLC, the general partner of Inherent. Mr. Davis and a trust established by David Untracht, its trustee, are each 50% owners of an intermediate entity, Inherent Holdings, LLC, that owns 98% of Inherent.

### **Types of Advisory Services**

Inherent provides discretionary investment management services to the following “master-feeder” fund structure:

- Inherent ESG Opportunity Master, LP, a Cayman Islands exempted limited partnership with an actively managed investment portfolio (the “Master Fund”); and
- Inherent ESG Opportunity, LP, a Delaware limited partnership (the “Onshore Feeder”), and Inherent ESG Opportunity Offshore Feeder, Ltd., a Cayman Islands exempted company (together with Inherent ESG Opportunity Intermediate Partnership, LP, an intermediate Cayman Islands exempted limited partnership, the “Offshore Feeder”; and together with the Onshore Feeder, the “Feeder Funds”), which invest substantially all of their assets in the Master Fund (together with the Feeder Funds, the “Funds”). The Funds, the Other Investment Entities (as defined below) and any separately managed account(s) to which the firm may determine to provide investment advisory services in the future are collectively and/or singularly referenced herein as “Clients” or “Client,” respectively.

The Master Fund’s investment portfolio is managed in accordance with the Funds’ offering memoranda and memorandum and articles of association, limited partnership agreement, or investment guidelines, as applicable.

Inherent currently provides discretionary investment management services to the following legacy entities:

- two investment vehicles wholly owned by Mr. Davis; and
- a charitable organization, Inherent Foundation (the “Foundation”), of which Mr. Davis and Michael Ellis, Inherent’s Managing Director/COO/CCO, are trustees;

each of the foregoing, an “Other Investment Entity.” The Other Investment Entities are not currently open to investment by third-party investors.

As discussed above in this Item 4, nothing shall prohibit Inherent from accepting separately managed accounts as Clients if the firm determines to do so in the future from time to time.

Inherent's investment advice is tailored to the needs of its Clients. Information about the Feeder Funds is more fully set forth in their respective offering memorandums. Since Inherent does not provide individualized advice to investors, such investors should consider whether the respective Feeder Fund meets their investment objectives and risk tolerance prior to investing. Inherent is not undertaking to provide any investment advice (impartial or otherwise), or to give advice in a fiduciary capacity in connection with making an investment in the Feeder Funds.

### **Assets under Management**

As of December 31, 2018, Inherent had \$551,218,181 in regulatory assets under management ("RAUM"), calculated using the same method used to compute "regulatory assets under management" for Item 5.F.(2) in Part 1A of Form ADV. As of such date, \$357,403,929 of the foregoing RAUM was attributable to the Funds. Inherent currently manages, and expects in the future to manage, all Client assets on a discretionary basis.

## **Item 5 Fees and Compensation**

### **Management Fees and Incentive-Based Compensation**

Inherent does not receive management fees or incentive-based compensation from the Other Investment Entities. Inherent receives management fees and incentive-based compensation from the Funds' assets contributed by outside (i.e., third-party) investors. Management fees and incentive-based compensation are calculated by a third-party administrator. Management fees are deducted from investors' sub-accounts in the Master Fund and paid to Inherent. Incentive-based compensation is allocated from investors' capital accounts in the Onshore Feeder and the Offshore Feeder. The manner in which management fees and incentive-based compensation are charged by Inherent, including information about any associated limitations on withdrawals or redemptions of investors' capital or shares (as applicable), is more fully described in each Feeder Fund's offering memorandum.

### **Other Fees and Expenses**

The payment of expenses by the Funds will reduce the value of each investor's investment in a Feeder Fund.

Detailed information regarding the expenses to which each Feeder Fund is subject is included in each such Fund's offering memorandum. Generally, each Feeder Fund bears its own expenses and its *pro rata* share of the expenses of any Master Fund or intermediate Feeder Fund. The Master Fund is responsible for paying all other expenses attributable to the Master Fund and the Feeder Funds, including:

- organizational and offering expenses, other than placement fees (if any) and including expenses attributable to compliance with the Alternative Investment Fund Managers Directive ("AIFMD") and other private placement, lobbying law and distribution rules in the U.S. and other foreign jurisdictions and compliance with anti-money laundering laws and know-your-customer requirements;
- expenses incurred by the Master Fund or any Feeder Fund, or by Inherent or its affiliates, in connection with the investments of the Master Fund, including:
  - brokerage commissions;

- transaction costs;
- ticket charges;
- expenses related to short sales;
- clearing and settlement charges;
- custodial fees;
- interest expenses and other financing charges (including initial and variation margin);
- broken deal expenses;
- consulting, investment banking and other professional fees relating to particular investments or contemplated investments;
- expenses related to the formation and operation of the Master Fund, the Feeder Funds and any vehicle through which the Master Fund may hold investments, including any expenses that may otherwise qualify as eligible brokerage expenses under Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended (the “Securities Exchange Act”);
- research-related expenses (including fees for news and quotation equipment and connectivity costs and services and market data services and other fees paid to third-party providers of research products and services including those that would otherwise constitute eligible research under Section 28(e) described in the section entitled “*Brokerage Practices - Research and Other Soft Dollar Benefits*” in Item 12 below, and software for managing and monitoring research and trading);
- fees for portfolio risk management services (including the costs of risk management software or database packages and related connectivity costs);
- fees for market information systems and related connectivity costs; and investment-, operations-, portfolio-, and trading-related software, including trade order management software (i.e., software used to route trade orders) and related connectivity costs;
- the management fee;
- other expenses incurred in connection with the ongoing operations of the Master Fund and the Feeder Funds:
  - including costs relating to communications with Fund investors (including printing, mailing, investor web portal and other costs of information dissemination);
  - fees charged by the administrator (including for certain information technology services and middle office trade support services, as well as for accounting, reporting, tax, compliance and audit services and software);

- third-party accounting, tax, compliance and related expenses (including expenses incurred in connection with tax filings, preparation of tax information and audits and expenses attributable to compliance with U.S. Foreign Account Tax Compliance Act, the Organization for Economic Cooperation and Development's Common Reporting Standard, the United Kingdom's Agreements with Crown Dependencies and Overseas Territories and similar regimes) and costs of valuation and pricing services;
- third-party legal and compliance fees and related expenses, including fees and expenses related to:
  - filings, documents and registrations relating to the Master Fund or the Feeder Funds with the SEC and/or other foreign or domestic regulators, such as Form PF, short and long exposure and/or ownership filings with U.S. and foreign regulators, AIFMD Annex IV and the AIFMD annual report, but excluding expenses related to preparation of Inherent's Form ADV;
  - compliance with U.S. federal, state, local, non-U.S. and other laws and regulations (including, but not limited to, securities laws, ERISA, Department of Labor, SEC and Commodity Futures Trading Commission rules and regulations);
  - side letters with investors in any Feeder Fund and compliance therewith; and
  - agreements related to products and/or services for the benefit of the Feeder Funds and/or Master Fund and compliance therewith;
- expenses related to litigation and threatened litigation, if any, and expenses related to legal inquiries (formal and informal), including regulatory "sweeps"; *provided*, that any such expenses being paid or reimbursed as the result of a request for indemnification pursuant to the terms of the Fund's applicable organizational document(s) will be subject to the terms of such indemnification;
- insurance premiums paid by the Master Fund, any Feeder Fund, Inherent and/or their officers, principals and partners with regard to losses, claims, damages, liabilities and expenses that would otherwise be indemnification expenses;
- indemnification expenses;
- fees and expenses relating to investor meetings and conferences;
- Fees and expenses of the Offshore Feeder board of directors and an advisory committee that Inherent may form (the "Advisory Committee"), including without limitation those for travel, registration fees and background checking;
- registered office, corporate licensing, corporate secretarial and other similar expenses;
- entity-level taxes (e.g., income taxes payable by special purpose vehicles and sales, franchise and transfer taxes);

- expenses related to proxy voting research, reporting, execution and recordkeeping services;
- fees and expenses associated with the preparation of amendments and revisions to the Feeder Funds' offering memoranda and subscription agreements, the Funds' articles of association or partnership agreement (as applicable) and the solicitation of consent to such amendments;
- expenses incurred in connection with liquidating the Feeder Funds or the Master Fund;
- extraordinary expenses; and
- other similar expenses.

The Master Fund and Feeder Funds may reimburse Inherent for advances made to pay for the foregoing expenses. Similarly, Inherent has the right to be reimbursed by each Other Investment Entity for certain expenses set forth in such entity's investment management agreement.

#### **Item 6                      Performance-Based Fees**

Inherent will receive incentive-based compensation based on a share of capital gains on, or capital appreciation of, an investor's investment in the Onshore Feeder and the Offshore Feeder. This compensation arrangement may create an incentive for Inherent to make more speculative investments or increase Inherent's focus on short-term profits, rather than focusing on long-term capital appreciation. This could expose the portfolio to additional levels of risk than it would face if Inherent was not receiving incentive-based compensation. Apart from the Funds, Inherent manages the Other Investment Entities without receiving a management fee or incentive-based compensation from such accounts.

Please refer to the section entitled "*Fees and Compensation*" in Item 5 above for a description of Inherent's incentive-based compensation.

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

Inherent provides investment advice to private funds in a master-feeder structure and to Other Investment Entities, which include (a) two investment vehicles wholly owned by Mr. Davis and (b) the Foundation, a charitable organization of which Mr. Davis and Mr. Ellis are trustees. It does not impose any minimum account requirements on the Other Investment Entities. The Other Investment Entities are not currently open to investment by third-party investors. The Feeder Funds are the only investors in the Master Fund, and the Master Fund is not otherwise available for direct investment. The Feeder Funds are available for investment only by investors who satisfy certain suitability standards. An investor in the Feeder Funds is generally required make an initial subscription of at least \$10,000,000, subject to exceptions in the sole discretion of the general partner or board of directors to the Feeder Funds.



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

### **Methods of Analysis and Investment Strategy**

The Master Fund is an opportunistic investment fund led by CEO and CIO Tony Davis and Portfolio Manager Nikhil Mirchandani. It targets value-oriented long and short opportunities globally in a best-ideas, concentrated, low-turnover portfolio. It seeks asymmetric risk/reward in both equity and credit markets, enabling the potential for excess returns through the cycle. The Fund uses an environmental, social, and governance (“ESG”) framework as a sourcing, underwriting, and engagement tool to identify and execute on attractive investment opportunities. The Fund drives active, constructive engagement with companies by focusing on material issues for long-term value creation.

The Fund is generally net long, focusing on durable businesses that Inherent believes will compound capital at attractive risk-adjusted returns over a multi-year time frame. Opportunistic short exposure targets strategically challenged businesses where material ESG deficiencies may accelerate competitive losses.

The Master Fund invests in both equity and credit, allocating based on available opportunities. The Master Fund comprises a concentrated, force-ranked, “best ideas” portfolio targeting 15 long and 0-10 short core positions.

Long investments are primarily either (1) ESG Thematic, where portfolio companies’ business models are aligned with environmental or social megatrends, or (2) ESG Operational, where engagement with portfolio companies on ESG and strategic matters can generate value by improving operational performance and increasing long-term orientation. Our constructivist engagement efforts address both financially material ESG factors as well as traditional capital allocation and business strategy matters.

Inherent believes that great businesses will increasingly identify and incorporate material ESG factors into their operating models, lowering their cost of capital. Conversely, Inherent expects capital markets to penalize businesses that do not adequately address material sustainability issues. The Master Fund seeks to both catalyze and capitalize on these developments.

Inherent may employ portfolio leverage on behalf of its Clients. Inherent anticipates that its exposure will vary through the cycle, generally ranging from 100-150% (gross) and 25-100% (net), but may exceed such ranges from time to time in its sole discretion so long as such exposure is consistent with the offering memoranda of its Funds and/or investment management agreements with its Clients.

The investment strategies of the Other Investment Entities, which entities are not currently open to investment by third-party investors, are generally different from the investment strategy of the Master Fund and are described more fully herein. The Foundation invests in a range of assets, including without limitation publicly traded securities, investment funds managed by third parties, including index funds, bank loans and securities of private issuers, which investments may or may not be mission-related. It generally seeks a lower risk-adjusted return than the Master Fund and greater current income relative to the investment strategy of the Master Fund. One of the two investment vehicles wholly owned by Mr. Davis invests exclusively in the securities of private issuers. The other investment vehicle wholly owned by Mr. Davis invests in publicly traded securities, generally seeks a lower risk-adjusted return than the Master Fund, and does not invest in short positions. Notwithstanding the foregoing, Inherent may from time to time determine to allocate certain investment opportunities both to the Master Fund and to one or more of the Other Investment Entities. As a result, Inherent’s management of the Other Investment Entities creates a potential conflict of interest. See the sections entitled “*Methods of Analysis, Investment Strategies and Risk of Loss – Risk of Loss – Conflicts of Interest – Conflicts with*

*Other Clients*” and “– *Conflicts with Other Funds*” in this Item 8 below and “*Other Financial Industry Activities and Affiliations – Relationships or Arrangements with Third Parties*” in Item 10 below.

## **Risk of Loss**

This “– *Risk of Loss*” section and the “– *Risk Factors*” and “– *Conflicts of Interest*” sections that follow primarily relate to investments made in the Feeder Funds and, in turn, the Master Fund and not to investments in the Other Investment Entities, which are not currently open to outside investors. If the Other Investment Entities or any other Clients become open to outside investors then these sections will be updated accordingly.

An investment in the Feeder Funds, and, in turn, the Feeder Funds’ investment as limited partners in the Master Fund, will involve substantial risks, including, but not limited to, those described below. There can be no assurance that the Funds’ investment objectives will be achieved or that there will be any return of capital, and investment results may vary. Interests in the Funds are a potentially suitable investment only for sophisticated investors for whom such an investment does not represent a complete investment program and who, in consultation with their own investment and tax advisors, fully understand and are capable of assuming the risks of such an investment. In addition, there are significant actual and potential conflicts of interest that arise in connection with the Funds. Investors should be aware of such conflicts as set forth under “–*Conflicts of Interest*” below.

For a more complete discussion of risks of investing in the Funds, potential investors should read the respective Feeder Fund’s offering memorandum. Risks for which an abbreviated description only are provided below are more fully described in such documents.

## **Risk Factors**

### **General Risks**

*Investment-Related Risks.* The securities business is speculative, prices are volatile, and market movements are difficult to predict. Supply and demand for securities change rapidly and are affected by a variety of factors, including interest rates, housing prices, merger activities, regulation, unemployment, wage growth and general economic trends. In addition to these general investment risks, Inherent may use investment techniques that subject the Feeder Funds and/or the Master Fund to certain risks; some, but not all, of these risks are summarized below.

*Investment and Trading Risks Generally.* An investment in a Feeder Fund, and, in turn, in the Master Fund, involves a high degree of risk, including the risk that the entire amount invested may be lost. The Master Fund will invest in and actively trade securities and other financial instruments using strategies and investment techniques with significant risk characteristics, including risks arising from the volatility of the global equity, currency, and fixed income markets, the risks of short sales, the risks of leverage, the potential illiquidity of derivative instruments and other portfolio investments and the risk of loss from counterparty defaults and the risk of borrowing to meet withdrawal/redemption requests. No guarantee is made that the Master Fund’s investment program or overall portfolio, or various investment strategies used or investments made will have low correlation with each other or that the Master Fund’s, and, therefore, the Feeder Funds’, returns will exhibit low long-term correlation with an investor’s traditional securities portfolio. Inherent intends for the Master Fund’s investment program to use investment techniques including margin transactions, option transactions, swaps and other derivative transactions, short sales and forward and futures contracts, which involve substantial volatility and can, in certain circumstances, substantially increase the adverse impact to which the Master Fund, and, therefore, the Feeder Funds, would be subject. All investments made by the Master Fund will risk the loss of capital. No guarantee or representation is made that the Master Fund’s investment program will be successful, that either Feeder Fund or the Master Fund will achieve

its investment objective or that there will be any return of capital invested to investors in the Feeder Funds or the Master Fund, and investment results may vary.

*Broad Discretionary Power to Choose Investments and Strategies.* Inherent has broad discretionary power to decide what investments the Master Fund will make and what strategies it will use. While Inherent currently employs the strategies described herein, it is not obligated to do so, and Inherent may choose any other investments and strategies that it believes are advisable, consistent with the Master Fund's investment objectives and the Feeder Funds' constituent and offering documents.

*No Guarantee of Return or Performance.* The obligations or performance of the Feeder Funds or the Master Fund or the returns on investments in the Feeder Funds or the Master Fund are not guaranteed in any way. Any losses of the Feeder Funds or the Master Fund will be borne solely by investors in the Feeder Funds or the Master Fund. Ownership interests in the Feeder Funds or the Master Fund are not insured by the Federal Deposit Insurance Corporation, and are not deposits, obligations of, or endorsed or guaranteed in any way, by any banking entity.

*Legal, Tax and Regulatory Risks; Enhanced Scrutiny and Regulation of Private Funds.* In response to the global financial crisis, recent years have seen widespread legislative and regulatory actions taken by numerous governments and their agencies, including the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Dodd-Frank Act significantly revises and expands the rulemaking, supervisory and enforcement authority of federal bank, securities and commodities regulators and also imposes enhanced recordkeeping and reporting obligations on investment advisers in respect of private funds. The Dodd-Frank Act also establishes a general framework for systemic regulation. The full scope of such regime, and its application to investment advisers and to private funds, will remain unclear until all of the implementing regulations are developed and enacted. Future regulatory actions authorized by the Dodd-Frank Act could adversely affect the Funds. Legal, tax and regulatory developments are likely to continue to occur during the term of the Funds, and such developments may adversely affect the Funds. The securities and futures markets are subject to comprehensive statutes, regulations and margin requirements and regulators, self-regulatory organizations and exchanges have been authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to change by government and judicial actions. The regulatory environment for private funds is evolving, and currently there are numerous legislative and regulatory proposals in the United States, Europe and other countries that could affect the Funds and their respective activities. Changes in the regulation of private funds and their activities may adversely affect the ability of the Master Fund to pursue its investment strategy, its ability to obtain leverage and financing and the value of investments held by the Master Fund. There has been an increase in governmental, as well as self-regulatory, scrutiny of the alternative investment industry in general. Such scrutiny may increase the Funds' exposure to potential liabilities and to legal, compliance, and other related costs. Increased regulatory oversight may also impose additional administrative burdens on Inherent and the Advisory Committee (if established), including, responding to examinations and investigations, implementing new policies and procedures, and complying with recordkeeping and reporting obligations. Such burdens may divert Inherent's and the Advisory Committee's time, attention, and resources from portfolio management activities. It is impossible to predict what, if any, changes in laws and regulations may occur, but any laws and regulations which restrict or limit the ability of the Master Fund to trade in securities or the ability of the Master Fund to employ, or brokers and other counterparties to extend, credit in its trading (as well as other regulatory changes that result) could have a material adverse impact on Master Fund's portfolio.

The Feeder Funds, the Master Fund and Inherent are also subject to regulation in foreign jurisdictions in which they engage in business. Investors should understand that the Feeder Funds' and the Master Fund's business is dynamic and is expected to change over time. Therefore, the Feeder Funds and the Master Fund may be subject to new or additional regulatory constraints in the future. The offering memoranda of the Feeder Funds cannot address or

anticipate every possible current or future regulation that may affect the Feeder Funds, the Master Fund, Inherent or their businesses. Such regulations may have a significant impact on the investors in the Funds or the operations of the Feeder Funds or the Master Fund, including, without limitation, restricting the types of investments the Feeder Funds or the Master Fund may make, preventing the Feeder Funds and/or the Master Fund from exercising its voting rights with regard to certain financial instruments and requiring the Feeder Funds and/or the Master Fund to disclose the identity of their investors. Inherent may cause the Feeder Funds or the Master Fund to be subject to such regulations if it believes that an investment or business activity that may trigger such regulation is in the Feeder Funds' or the Master Fund's interest, even if such regulations may have a detrimental effect on one or more investors in the Feeder Funds. Prospective investors are encouraged to consult their own advisors regarding an investment in the Feeder Funds and the Master Fund.

In addition, the outcome of the 2016 U.S. Presidential election has increased uncertainty regarding future political, legislative, regulatory or administrative changes that may impact Inherent, the Feeder Funds, the Master Fund or the Master Fund's investments. Any such changes could impact the laws and regulations applicable to Inherent, the Feeder Funds, the Master Fund or the Master Fund's investments. Significant uncertainty remains in the market regarding the consequences of the election, and the range and potential implications of possible political, regulatory, economic and market outcomes are difficult to predict. Uncertainty regarding the consequences of the election may have an adverse effect or may cause volatility in the U.S. or global economies and currency and financial markets in the short or long term, as well as the values of the Master Fund's investments and the Master Fund's ability to execute its investment strategy or the financial prospects of its investments. While certain of such changes could beneficially impact the Feeder Funds, the Master Fund or certain investments, other changes could adversely impact Inherent, the Feeder Funds, the Master Fund or Master Fund's investments.

*Counterparty Credit Risk.* Because certain purchases, sales, financing arrangements, securities lending transactions and derivative transactions in which the Master Fund may engage involve instruments that are not traded on an exchange, but are instead traded between counterparties (which may include, without limitation, the prime broker) based on contractual relationships, the Master Fund may be subject to the risk that a counterparty will not perform its obligations under the related contracts. Although the Master Fund expects to enter into transactions only with counterparties that Inherent believes to be creditworthy, there can be no assurance that a counterparty will not default and that the Master Fund will not sustain a loss on a transaction as a result. Such risks may differ materially from those entailed in exchange-traded transactions that generally are backed by clearing organization guarantees, daily marking-to-market and settlement of positions and segregation and minimum capital requirements applicable to intermediaries.

In situations where the Master Fund places assets in the care of a custodian or is required to post margin or other collateral with a counterparty, the custodian or the counterparty may fail to segregate such assets or collateral, as applicable, or may commingle the assets or collateral with the relevant custodian's or counterparty's own assets or collateral, as applicable, even if contractually limited or prohibited from doing so. As a result, in the event of the bankruptcy or insolvency of any custodian or counterparty, the Master Fund's excess assets and collateral may be subject to the conflicting claims of the creditors of the relevant custodian or counterparty, and the Master Fund may be exposed to the risk of a court treating the Master Fund as a general unsecured creditor of such custodian or counterparty, rather than as the owner of such assets or collateral, as the case may be. In certain cases, assets of the Master Fund may be placed in the care of a non-U.S. custodian. In any such case, the bankruptcy or insolvency of such custodian will be governed under the laws of the local jurisdiction, which may be less favorable to the Master Fund or provide less protection to the Master Fund's assets than U.S. law.

Inherent intends for the Master Fund to purchase, sell, borrow and lend securities through U.S. prime brokers or foreign affiliates of such prime brokers and have assets held at accounts of such

prime brokers or their foreign affiliates. If the Master Fund's assets are held at a U.S. prime broker, in the event of the bankruptcy or insolvency of such prime broker, even if assets are segregated, the Master Fund may be subject to risk that it will not receive a complete return of those assets. Under SEC rules, the prime broker is required to segregate "fully paid" customer securities and "excess margin securities" for the benefit of customers. In addition, pursuant to the SEC reserve formula, the prime broker is required to place customer funds in a segregated account for the benefit of customers to assure that there will be sufficient assets to satisfy all customer claims. Nonetheless, except with respect to physical securities held in the Master Fund's name, the Master Fund will not have a right to the return of specific assets but rather will generally have a claim based on the net equity in its account. A customer's net equity claim equals the dollar value of (i) all cash held in a customer's account for the purchase of securities (including proceeds from the sale of securities) plus (ii) the value of securities held in such account (determined as of the date of the bankruptcy petition filing), less any amounts owed by the customer to the broker-dealer. With respect to securities, the Master Fund will be entitled to its proportionate share of securities held by the prime broker on behalf of all customers. If there is a shortfall, the customers will share proportionally in the loss. With respect to cash, there will be a net calculation whereby all obligations owed to the prime broker are netted against all cash owed to customers. Securities Investor Protection Corporation ("SIPC") will guarantee the shortfall up to \$500,000 per customer account with a maximum of \$250,000 in cash. Many firms have additional liquidation insurance which may supplement the SIPC insurance coverage. In the event that there are still customer shortfalls after all of the insurance coverage is used, the Master Fund will become a general unsecured creditor of the prime broker for the remainder of its claim. In the event that the Master Fund's assets are used to support margin loans or are otherwise re-hypothecated, the assets will not be protected under the SEC segregation requirement, reserve formula or SIPC liquidation insurance.

Further, not all activities or transactions conducted with the prime broker are subject to these customer protection rules. If the assets are custodied with a foreign broker-dealer, the above U.S. regulations do not apply and the law in the local jurisdiction will govern the disposition of assets of the broker-dealer upon liquidation. Such proceedings may be time consuming and costly. In some cases, the Master Fund may become an unsecured creditor of the foreign entity where the Master Fund's assets were held.

The Master Fund may be subject to the risk that issuers of the instruments in which it invests and trades may default on their obligations under those instruments, and that certain events may occur which have an immediate and significant adverse effect on the value of those instruments. There can be no assurance that an issuer of an instrument in which the Master Fund invests will not default, or that an event which has an immediate and significant adverse effect on the value of an instrument will not occur, and that the Master Fund will not sustain a loss on a transaction as a result.

Transactions entered into by the Master Fund may be executed on various U.S. and non-U.S. exchanges, and cleared and settled through various clearing houses, custodians, depositories and prime brokers throughout the world. Although the Master Fund will attempt to execute, clear and settle the transactions through entities Inherent believes to be sound, there can be no assurance that a failure by any such entity will not lead to a loss to the Master Fund.

## General Investment Risks

*As the Feeder Funds are primarily vehicles for investing in the Master Fund, risks relating to the Master Fund should be read to include the Feeder Funds and risks relating to the Feeder Funds should be read to include the Master Fund, unless the context otherwise requires.*

**ESG Risk.** The Master Fund will utilize an ESG framework as an underwriting tool in its investment strategy. Inherent believes that considering financially material ESG matters in the investment sourcing and underwriting process, and in constructive engagement with selected companies in the portfolio, will result in better long-term investment results for the Master Fund and the investors. However, considering ESG factors may result in reduced exposure to certain companies or industries and may cause the Master Fund to forego certain investment opportunities entirely. To the extent that investments that perform well are excluded from the Master Fund's portfolio due to ESG-related investment considerations, the Master Fund's performance may be lower than that of private funds that do not consider ESG factors. In addition, the added cost of ESG diligence in assessing the ESG parameters of an investment may also reduce the profitability of the Master Fund's investments. There may be different views of what it means for an issuer to have positive or negative ESG characteristics. While Inherent believes its views are reasonable, its views may differ from the views of investors or of other investment managers. There can be no guarantee that Inherent's determinations regarding a company's ESG characteristics will be accurate, or that companies included in the Master Fund's portfolio will not be adversely impacted by ESG-related events such as environmental damage or improper corporate governance.

**Constructive activism.** With respect to certain investments, Inherent pursues a "constructive activism" strategy of collaboration and cooperation with management of issuers to encourage consideration of ESG principles in corporate decision-making, alongside other strategic and financial matters, and seek to effectuate related corporate changes. The success of a constructive activism investment approach may require, among other things, that: (i) Inherent properly identify issuers whose securities prices can be improved through Inherent's collaborative influence on, and involvement in, the operations of such companies; (ii) the Master Fund acquire sufficient securities or other instruments relating to such issuers at a sufficiently attractive price; (iii) the Master Fund avoid triggering regulatory or other obstacles while building its position; (iv) management of such issuers and other security holders respond positively to Inherent's proposals; and (v) the market price of such issuer's securities increases in response to any actions taken by such companies. There can be no assurance that any of the foregoing will succeed. Successful execution of a constructive activism investment strategy with respect to a particular issuer may depend on the actions of security holders and others with an interest in such issuer or its business. Some security holders may have interests that diverge significantly from those of the Master Fund and some of those parties may be indifferent to the proposed changes. Moreover, securities that Inherent believes are fundamentally under-valued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the time frame Inherent anticipates, even if the Master Fund's strategy is successfully implemented. Even if the prices for an issuer's securities increase, there is no assurance that the Master Fund will be able to realize any increase in the value of its investment.

**Limited Availability of Investment Opportunities.** The business of identifying and effecting investments of the types contemplated by Inherent is competitive and involves a high degree of uncertainty. Furthermore, the identification and availability of investment opportunities is difficult and generally will be subject to market conditions and competition from other investors, including funds of funds and other pooled investment vehicles as well as, in some cases, the prevailing regulatory or political climate. Accordingly, there can be no assurance that the Master Fund will be able to identify and complete attractive investments in the future or that it will be able to fully invest its capital. Finally, there may be other funds sponsored, managed or advised by or affiliated with Inherent that may seek investment opportunities similar to those that the Master Fund is

seeking or may be seeking, and Inherent and such other funds have no obligation to offer any opportunities it or they may identify to the Master Fund. See “—Conflicts of Interest.”

*Competition for Investment Opportunities.* The Master Fund may compete for investments with various other investors such as other public and private funds, commercial and investment banks and commercial finance companies. Such competitors may be larger and have considerably greater financial and other resources. Other funds may have investment objectives that overlap with the Master Fund, which may create competition for investment opportunities with limited supply. Some competitors may have a lower cost of funds and access to funding sources that are not available to the Master Fund, and may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships. These competitive pressures could impair the Master Fund's business, financial condition and results of operations. In addition, as a result of this competition, the Master Fund may not be able to take advantage of attractive investment opportunities from time to time.

*Market Conditions and Volatility.* The success of the Master Fund's activities will be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of the Master Fund's investments), trade barriers, currency exchange controls, national and international political circumstances (including wars, terrorist acts, or security operations), and the occurrence of various events (including hurricanes, earthquakes, and other natural disasters). These factors affect the level and volatility of securities prices and the liquidity of the Master Fund's investments, including, without limitation, common equity and related equity derivative instruments, high-yield securities, convertible securities and derivatives, including futures and option prices, which can be highly volatile. During periods of limited liquidity and higher price volatility, the Master Fund's ability to acquire or dispose of its investments at a price and time that the Master Fund deems advantageous may be impaired. Price movements of forward, futures and other derivative contracts in which the Master Fund's assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation. Such intervention is often intended to directly influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction. It is also possible that a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs may cause a series of defaults by other institutions. This is sometimes referred to as a “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearinghouses, banks, securities firms, and exchanges, with which the Master Fund interacts on a daily basis. These factors and general market conditions could have a material adverse impact on markets in general and on the Master Fund's portfolio.

*Changes in Market Environment.* While Inherent will make efforts to estimate and control the risks associated with changes in the market environment, and will attempt to identify changes as they occur, market environment changes can be sudden and extreme. When these changes occur, certain market dynamics can make the changes more severe and can cause their adverse effects to spread to other markets not affected by the initial changes.

In particular, events can cause other market participants to liquidate large positions in a short period of time in order to raise capital, reduce risk or meet margin calls. To the extent that these market participants hold positions in a portfolio similar to that of the Master Fund, all of these portfolios may begin to exhibit adverse returns and correlations not seen under normal markets, even if the initial changes were in markets in which the Master Fund was not involved.

*Issuer Concentration and Diversification Risk.* The Master Fund invests in a relatively limited number of investments. A consequence of 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, and concentration may reduce the Master

Fund's ability to hedge its exposure and to dispose of depreciating assets. The Master Fund does not have fixed guidelines for investment diversification and its exposure to particular industries, securities, issuers or countries may be under- or over-represented. To the extent the Master Fund's investments are concentrated in a particular industry, security, issuer or country, the Master Fund's portfolio will be more susceptible to fluctuations in value resulting from adverse economic conditions affecting that particular industry, security, issuer or country.

*Illiquid Investments.* While the Master Fund does not expect illiquid investments to comprise a large portion of its portfolio, the Master Fund may make investments in securities and instruments that are or become illiquid. For more information on this risk, please see the offering memoranda of the Feeder Funds.

*Investments in Less Established Companies.* The Master Fund expects to invest a portion of its assets in the securities of less established growth-stage companies. Investments in such companies may involve greater risks than generally are associated with investments in more established companies. For more information on this risk, please see the offering memoranda of the Feeder Funds.

*Equity Securities.* The Master Fund invests in equity and equity-related securities. Numerous inter-related and difficult-to-quantify economic factors, as well as market sentiment, subjective and extraneous political, climate-related and terrorism-related factors, influence the cost of equities and equity-related securities; there can be no assurance that Inherent will be able to predict future price levels correctly. The Master Fund's directional equity and equity-related positions may be leveraged, and even comparatively minor adverse market movements can result in substantial losses.

*Short Sales.* The Master Fund engages in short selling. Short selling involves selling securities that may or may not be owned by the seller and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in the value of securities. A short sale creates the risk of a loss, which could theoretically be unlimited, as the price of the underlying security could theoretically increase without limit, thus increasing the cost of buying those securities to cover the short position. There can be no assurance that the security necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Securities may be sold short by the Master Fund in a long/short strategy to hedge a long position, to hedge the portfolio in general, to enable the Master Fund to express a view as to the relative value between the long and short positions, or as part of an outright short position. There is no assurance that the objectives of these strategies will be achieved, or specifically that the long position will not decrease in value and the securities underlying the short position will not increase in value, causing the Master Fund losses on both components of the transaction, or that the securities underlying an outright short position will not increase in value. If the underlying securities increase in value, the short position decreases in value and the Master Fund sustains a loss. In addition, when the Master Fund effects a short sale, it may be obligated to leave the proceeds thereof with the broker and also deposit with the broker an amount of cash or other securities (subject to requirements of applicable law) that is sufficient under any applicable margin or similar regulations to collateralize its obligation to replace the borrowed securities that have been sold.

In response to dislocations in the financial services industry and other market events, the SEC and securities regulators of many other jurisdictions have implemented certain prohibitions and disclosure requirements on short selling of securities and may impose additional restrictions in the future. In 2010, the SEC's new short sale price test, which took effect through amendment to Rule 201 of Regulation SHO (the "Short Sale Rule"), became effective. The Short Sale Rule goes into effect upon a 10% decline in the price of a National Market System stock (any National Market System security other than an option, *i.e.*, stocks listed on the New York Stock Exchange, NYSE Euronext and NASDAQ) from its previous day's closing price and effectively restricts the display or execution by exchanges and other trading centers of a short sale order in such stock to a price



above the national best bid for the remainder of the trading day and the next trading day. Also, the European Parliament passed a broad regulation which came into effect on November 1, 2012 that restricts and regulates short selling and certain over-the-counter (“OTC”) derivatives in Europe. In addition, following volatility in European markets, some European countries, including France, Italy and Spain, imposed temporary bans on short selling securities for certain companies listed in their markets, and European countries have imposed further restrictions and/or reporting obligations on short selling. Restrictions on the short selling of securities such as the above could interfere with the ability of the Master Fund to execute certain aspects of its investment strategy, including its ability to hedge certain exposures and execute transactions to implement its risk management guidelines, and any such limitations may adversely affect the performance of the Master Fund.

In addition, the Dodd-Frank Act requires the SEC to adopt rules providing for monthly public disclosure of the aggregate amount of the number of short sales of a particular security by institutional investment managers. The Dodd-Frank Act also expands the SEC’s authority over short selling in most securities, and requires the SEC to study the state of short selling, which could lead to further short sale regulation and additional disclosure requirements.

*Hedging Transactions by the Master Fund.* Inherent intends for the Master Fund’s hedging techniques to involve a variety of transactions, including but not limited to certain derivatives transactions, such as swaps, caps and floors, futures, forward contracts, exchange-listed and OTC put and call options on securities or on financial indices, forward foreign currency contracts, various interest rate and foreign exchange transactions and interests in, or swaps on, exchanged-traded funds (some of which may hold derivatives) (collectively, “Hedging Instruments”). These Hedging Instruments are used for both investment and risk management purposes in order to (i) protect against possible changes in the market value of the Master Fund’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 Master Fund’s investment portfolio; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads, or gains on any investment in the Master Fund’s portfolio; (v) hedge the interest rate or currency exchange rate on any of the Master Fund’s liabilities or assets; (vi) protect against any increase in the price of any securities the Master Fund anticipates purchasing at a later date; or (vii) for any other reason that Inherent deems appropriate.

Hedging techniques involve risks different than those of underlying investments. In particular, the variable degree of correlation between price movements of Hedging Instruments and price movements in the position being hedged creates the possibility that losses on the hedge may be greater than gains in the value of the Master Fund’s positions (or that there may be losses on both legs of a transaction). In addition, certain Hedging Instruments and markets may not be liquid in all circumstances. As a result, in volatile markets, the Master Fund may not be able to close out a transaction in certain of these instruments without incurring losses substantially greater than the initial deposit. Although the contemplated use of Hedging Instruments should tend to minimize the risk of loss due to a decline in the value of the hedged position, at the same time the use of these instruments tends to limit any potential gain that might result from an increase in the value of such position.

The ability of the Master Fund to hedge successfully will depend on Inherent’s ability to predict pertinent market movements, which cannot be assured, and to continually recalculate, readjust, and execute hedges in an efficient and timely manner. However, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of independent factors not related to currency fluctuations. For a variety of reasons, Inherent may not necessarily seek to establish a perfect correlation between the Hedging Instruments utilized and the portfolio holdings being hedged. Such an imperfect correlation may prevent the Master Fund from achieving the intended hedge or expose the Master Fund to risk of loss. Inherent may not hedge against a particular risk because it does not regard the probability of the risk occurring to be sufficiently high or the magnitude of the risk to be sufficiently large as to justify the cost of

the hedge, or because it does not foresee the occurrence of the risk. Finally, the daily variation margin requirements in futures contracts that may be sold by the Master Fund could create an ongoing greater potential financial risk than would options transactions, where the exposure is limited to the cost of the initial premium and transaction costs paid by the Master Fund.

*Non-U.S. Investments.* The Master Fund invests a portion of its capital outside the United States in non-U.S. dollar denominated securities, including in securities issued by non-U.S. companies and in non-U.S. currency. These investments involve special risks not usually associated with investing in securities of U.S. companies, including possible adverse political and economic developments, possible seizure or nationalization of non-U.S. deposits, and possible adoption of governmental restrictions that might adversely affect the payment of principal and interest to investors located outside the country of the issuer, whether from currency blockage or otherwise. Because investments in non-U.S. issuers often involve non-U.S. dollar currencies and because the Master Fund will temporarily hold funds in bank deposits in such currencies during the completion of its investment program, the Master Fund will be affected favorably or unfavorably by changes in currency rates (including as a result of the devaluation of a foreign currency) and in exchange control regulations and will incur transaction costs in connection with conversions between various currencies.

In addition, because non-U.S. entities are not subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable with those applicable to U.S. companies, there may be different types of, and lower quality, information available about a non-U.S. company than a U.S. company. These factors can make it difficult to analyze and compare the performance of non-U.S. companies. There is also less regulation, generally, of the securities markets and the financial services sector in foreign countries than there is in the United States. This may make it more difficult for the Master Fund to stay informed of corporate action that may affect the price of a particular security.

Some foreign securities markets have a higher potential for price volatility and relative illiquidity compared to the U.S. securities markets. With respect to these countries there is the possibility of expropriation or confiscatory taxation, political, economic or social instability, limitation on the removal of funds or other assets or the repatriation of profits, restrictions on investment opportunities, the imposition of trading controls, withholding or other taxes on interest, capital gain or other income, import duties or other protectionist measures, various laws enacted for the protection of creditors, greater risks of nationalization or diplomatic developments which could adversely affect the Master Fund's investments in those countries.

Additional costs may be incurred in connection with the Master Fund's international investment activities. Non-U.S. brokerage commissions generally are higher than in the United States. Expenses also may be incurred on currency exchanges when the Master Fund changes investments from one currency to another. Increased custodian costs as well as administrative difficulties (such as the applicability of non-U.S. laws to non-U.S. custodians in various circumstances, including bankruptcy, ability to recover lost assets, expropriation, nationalization, and record access) are also associated with the maintenance of assets in non- U.S. jurisdictions. Expenses also may be incurred because of foreign legal and/or tax requirements and the potential risks associated with them (e.g., costs associated with complying with foreign law as well as applicable tax considerations).

*Foreign Currency Exposure and Foreign Exchange.* Although the prices of non-U.S. investments will generally be determined with reference to currencies other than the U.S. dollar, Inherent will value the Master Fund's securities and other assets in U.S. dollars. The Master Fund may or may not seek to hedge all or any portion of the Master Fund's foreign currency exposure. To the extent unhedged, the value of the Master Fund's assets will fluctuate with U.S. dollar exchange rates, as well as with the price changes of the Master Fund's investments in the various local markets and currencies. For more information on this risk, please see the offering memoranda of the Feeder Funds.

*Risks Relating to the Expected Exit of the United Kingdom from the European Union.* On June 23, 2016, the United Kingdom held a remain-or-leave referendum on the United Kingdom's membership of the European Union, the result of which favored the exit of the United Kingdom from the European Union ("Brexit"). A process of negotiation will determine the future terms of the United Kingdom's relationship with the European Union, as well as whether the United Kingdom will be able to continue to benefit from the European Union's free trade and similar agreements. Depending on the terms of Brexit, economic conditions in the United Kingdom, the European Union and global markets may be adversely affected by reduced growth and volatility. For more information on this risk, please see the offering memoranda of the Feeder Funds.

*New Issues; Investments in Initial Public Offerings.* If an investor is deemed to be, or to include, a "restricted person" or a Rule 5131 Covered Person (as defined in the FINRA Rules and as determined by Inherent in its discretion), it will not participate in any allocations of first day profit and loss attributable to investments by the Master Fund in "new issues," if any (and which may also include any investment that is held by the Master Fund as a hedge against potential losses in such "new issue"), to the extent deemed necessary or advisable by Inherent, in its discretion, to comply with the FINRA Rules. For more information on this risk, please see the offering memoranda of the Feeder Funds.

*Leverage.* The Master Fund uses leverage in its investment strategy. Leverage may take the form of loans for borrowed money (e.g., margin loans) or derivative securities and instruments that are inherently leveraged, including options, futures, forward contracts and swaps. The use of leverage by the Master Fund can substantially increase the market exposure (and market risk) to which the Master Fund's investment portfolio may be subject. Trading on leverage will result in interest charges or costs, which may be explicit (in the case of loans) or implicit (in the case of many derivative instruments) and, depending on the amount of leverage, such charges or costs could be substantial. The level of interest rates generally, and the rates at which the Master Fund can leverage in particular, can affect the operating results of the Master Fund. In addition, in the case of financial difficulty or market turmoil affecting the Master Fund's brokers, the brokers may reduce their lending to the Master Fund, forcing the Master Fund to liquidate investments under severe time pressures and/or lower than expected values.

The Master Fund's use of short-term margin borrowings, derivatives, and other instruments, including leverage, can result in certain additional risks to the Master Fund. For example, should the securities pledged to brokers to secure the Master Fund's margin accounts decline in value, the Master Fund will be subject to a "margin call," pursuant to which the Master Fund is required on relatively short notice either to deposit additional funds with the broker or to suffer mandatory liquidation of the pledged securities to compensate for the decline in value. A significant increase in margin calls could harm the Master Fund's liquidity, results of operations, financial condition, and business prospects. Additionally, in order to obtain cash to satisfy a margin call, the Master Fund may be required to liquidate assets at a disadvantageous time, which could cause it to incur further losses. In the event of a sudden precipitous drop in the value of the Master Fund's assets, the Master Fund might not be able to liquidate assets quickly enough to pay off its margin debt.

In the U.S. futures markets, margin deposits are typically required. In the forward, currency and certain other derivative markets, margin deposits may be even lower or may not be required at all. Such low margin deposits are indicative of the fact that any trading in these markets typically is accompanied by a high degree of leverage. Low margin deposits mean that a relatively small adverse price movement in a futures or forward contract may result in immediate and substantial losses to the investor. For example, if at the time of purchase, 10% of the price of a futures contract were deposited as margin, a 10% decrease in the price of the futures contract would, if the contract is then closed out, result in a total loss of the margin deposit before any deduction for the brokerage commission. In addition, as with sales of other leveraged investments, any sale of a future, forward or other commodity contract may result in losses in excess of the margin deposit.

The premiums for certain options traded on non-U.S. exchanges may be paid for on margin. When the Master Fund sells an option on a futures contract, it may be required to deposit margin in an amount that may be determined by the margin requirement established for the futures contract underlying the option and, in addition, in an amount substantially equal to the current premium for the option. The margin requirements imposed on the writing of options, although adjusted to reflect the probability that out-of-the-money options will not be exercised, can in fact be higher than those imposed on dealing in the futures markets directly. Whether any margin deposit will be required for OTC options and other OTC instruments, such as currency forwards, swaps and certain other derivative instruments, will depend on the credit determinations and specific agreements of the parties to the transaction, which are individually negotiated.

*Exposure to Material Non-Public Information.* Inherent or its affiliates may come into possession of material, non-public information. If material non-public information is received with respect to an issuer of publicly traded securities, the Master Fund will generally 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; and (iii) pursuing other investment opportunities related to such issuer. Further, in the current environment, there is an increased risk of insider trading enforcement actions in a variety of jurisdictions and by a number of regulators. Even in the absence of wrongdoing, any such enforcement activity, or regulatory investigations in connection with a potential enforcement action, can have material and adverse impacts on Inherent and its affiliates. The boundaries of the laws applicable to insider trading and practices relating to insider trading enforcement are continuing to evolve, which may impact the Master Fund's trading activities in ways that are unexpected.

*Accuracy of Public Information.* Inherent will select investments for the Master Fund, in part, on the basis of information and data filed by issuers with various government regulators or made directly available to Inherent by the issuers or through sources other than the issuers. Although Inherent will generally evaluate all such information and data and, when Inherent considers it is appropriate and when it is reasonably available, seek independent corroboration, Inherent is not in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information is not available. Investments may not perform as expected if information is inaccurate or otherwise not reliable.

*Securities Filings and Restrictions.* Inherent may, in its sole discretion, elect to cause the Master Fund to (i) refrain from entering into a transaction to purchase or sell a given financial instrument that Inherent may otherwise have caused the Master Fund to enter into or (ii) sell a given financial instrument that the Master Fund presently holds, if such transaction or the continued ownership of such financial instrument would cause the Master Fund, any Feeder Fund, Inherent or any of their respective affiliates to be required to make a governmental, regulatory or other filing in the United States or any non-U.S. jurisdiction. Any such election by Inherent may cause the Master Fund to (x) forego an investment opportunity that Inherent had determined may otherwise generate a profit for the Master Fund and/or (y) incur additional expenses, including without limitation, brokerage and/or legal fees. Further, there may be instances where the nature or size of the Master Fund's holdings prohibit it from effecting transactions in a given security during certain periods of time or subject such transactions to increased regulatory and compliance burdens, such as regulatory filings.

*Influencing Conduct.* Inherent intends for the Master Fund to directly or indirectly substantially participate in or attempt to influence the conduct of affairs or management of issuers of certain securities acquired by the Master Fund. These activities may give rise to certain filings and other obligations and may limit the Master Fund's ability to trade under the Securities Exchange Act and the Hart Scott Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"). If the Master Fund, acting alone or as part of a group, acquires beneficial ownership of more than 10% of a certain class of securities of a public company or places a director on the board of directors of such a company, under Section 16 of the Securities Exchange Act, the Master Fund may be subject to certain additional reporting requirements and may be required to disgorge certain short-swing profits arising from purchases and sales of such securities. Furthermore, in

such circumstances the Master Fund would be prohibited from entering into a short position in such issuer's securities and, therefore, limited in its ability to hedge such investments. Under the HSR Act, acquisitions of 10% or less of an issuer's voting securities may be exempt under the passive investment exemption, but only if the acquiring person or its managers or advisers have no intention of participating in the formulation, determination, or direction of the basic business decisions of the issuer. Actions the antitrust agencies have found to be inconsistent with this investment-only exemption include having an officer or director on the board of the issuer or proposing someone to serve on the board, proposing actions that require shareholder consent, and soliciting proxies. Similar restrictions and requirements may apply in non-U.S. jurisdictions.

*Special Situations.* The Master Fund invests in companies involved in (or that are the target of) acquisition attempts or tender offers or in companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies, and similar circumstances. In any investment opportunity involving any such type of special situation, there exists the risk that the contemplated transaction will be unsuccessful, take considerable time, or result in a distribution of cash or a new security the value of which is less than the purchase price of the original security or other financial instrument. Similarly, if an anticipated transaction or reorganization does not in fact occur, the Master Fund may be required to sell its investment at a loss. Because there can be substantial uncertainty concerning the outcome of transactions involving companies in which the Master Fund invests, the Master Fund faces the possibility of substantial losses.

*Non-Exchange Traded Equity Securities.* The Master Fund may hold non-exchange traded equity securities. In any investment involving non-exchange traded equity securities, there exists the risk of less liquidity, less regulation and less available information than in other types of transactions. For more information on this risk, please see the offering memoranda of the Feeder Funds.

*Investments in Undervalued Securities.* Part of the Master Fund's investment strategy involves investing in securities that Inherent believes are under-valued. The identification of investment opportunities in under-valued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in under-valued securities offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the Master Fund's investments may not adequately compensate for the business and financial risks assumed. For reasons not necessarily attributable to any of the risks set forth herein (for example, supply/demand imbalances or other market forces), the prices of the securities in which a Fund invests may decline substantially. In particular, purchasing assets at what may appear to be "under-valued" levels is no guarantee that these assets will not be trading at even more "under-valued" levels at a time of valuation or at the time of sale.

*Debt Securities.* The Master Fund invests in U.S. and non-U.S. private, public and government debt securities and instruments, including without limitation, "higher yielding" (and therefore generally higher risk) debt securities, syndicated bank loans, and other subordinate debt obligations. Such securities and instruments may be unrated or below "investment grade" and face ongoing uncertainties and exposure to adverse business, financial, or economic conditions that could lead to the issuer's inability to meet timely interest and principal payments. Such securities may not be exchange-traded and trade in the over-the-counter market, which is generally less transparent and may have wider bid/ask spreads than the exchange-traded marketplace. Such instruments are dependent on 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 securities and could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

The fixed-income securities in which the Master Fund invests may be interest-rate sensitive. An increase in interest rates will generally reduce the value of fixed-income securities, while a decline in interest rates will generally increase the value of fixed-income securities. The performance of the Master Fund may therefore depend in part on the ability to anticipate and respond to such

fluctuations on market interest rates, and to utilize appropriate strategies to maximize returns, while attempting to minimize the associated risks to investment capital.

*Control Positions.* The Master Fund may take control positions in companies. The exercise of control over a company imposes risks of liability for environmental damage, product defects, failure to supervise management and other types of related liability. If such liabilities were to occur, the Master Fund likely would suffer losses in such investments.

*Minority Investments.* The Master Fund invests in minority positions of companies and in companies for which the Master Fund has no legal right to appoint a director or otherwise exert significant influence or protect its position. In such cases, the Master Fund will be significantly reliant on the existing management and board of directors of such companies, which may include representation of other financial investors with whom the Master Fund is not affiliated and whose interests may conflict with the interests of the Master Fund. Consequently, Inherent may not always be in a position to effectively protect the Master Fund's interests.

*Investments in Troubled or Highly Leveraged Companies.* The Master Fund invests in securities of financially troubled companies or companies involved in work-outs, liquidations, reorganizations, bankruptcies and similar transactions and securities of highly leveraged companies. While these investments may offer the potential for high returns, they also bring with them correspondingly greater risks. Under certain circumstances, payments to the Master Fund from an investment may be reclaimed if any such payment is later determined in a bankruptcy proceeding to have been a preferential payment. Litigation or the threat of litigation associated with bankruptcy proceedings may also reduce the value of any investments by the Master Fund in troubled or highly leveraged companies.

*Distressed Securities.* The Master Fund invests in distressed securities. Distressed securities generally entail greater risks due to such things as sensitivity to general economic and capital market conditions, interest rates, risks associated with leveraged companies and risks inherent in investing in companies experiencing financial and operating distress (e.g., issuer credit risk). Distressed securities generally have very low credit ratings or are unrated by credit rating agencies.

*Greater Risk of Loss.* These securities are regarded as highly speculative. There is a greater risk that issuers of lower-rated securities will default than issuers of higher-rated securities. Issuers of lower-rated securities generally are more vulnerable to real or perceived economic changes, political changes or adverse industry developments. In addition, distressed debt securities are frequently subordinated to the prior payment of senior indebtedness or have claims that are otherwise junior in priority with regard to the issuer's assets. If an issuer fails to pay principal or interest, the Master Fund would experience a decrease in income and a decline in the market value of its investments. These securities carry a much greater risk of default and loss, which could include the loss of the entire amount of the investment. Litigation or the threat of litigation associated with bankruptcy proceedings may reduce the value of any investments by the Master Fund in distressed securities.

*Valuation Difficulties.* It is often more difficult to value distressed and other lower-rated securities than higher-rated securities. If an issuer's financial condition deteriorates, accurate financial and business information may be limited or unavailable. In addition, lower-rated investments may be thinly traded and there may be no established secondary market. Because of the lack of market pricing and current information for investments in some distressed and lower-rated securities, valuation of such investments is much more dependent on judgment than is the case with higher-rated securities.

*Liquidity.* There may be no established secondary or public market for investments in distressed and other lower-rated securities. Such securities generally are traded in markets that are less liquid than the market for higher-rated securities. In addition,

relatively few institutional purchasers may hold a major portion of an issue of lower-rated securities. As a result, the Master Fund may be required to sell investments at substantial losses, or may be unable to sell investments.

*Fraud of Counterparties and Issuers.* The Master Fund relies upon the accuracy and completeness of representations made by or on behalf of counterparties and portfolio companies to the extent reasonable, but cannot guarantee that such representations are accurate or complete. The Master Fund cannot eliminate the possibility of material misrepresentation or omission on the part of a counterparty or a portfolio company. Such inaccuracy or incompleteness may adversely affect the valuation of an asset of the Master Fund. Under certain circumstances, payments to the Master Fund from a portfolio investment may be required to be returned if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

*Bank Loans.* The Master Fund's investment program includes investments in 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; (iv) limitations on the ability of the Master Fund to directly enforce its rights with respect to participations; (v) long and less certain settlement periods; and (vi) adverse consequences resulting from participating in such instruments with other institutions of lower credit quality. Successful claims by third parties arising from these and other risks would be borne by the Master Fund.

Some of the bank loans that may be purchased by the Master Fund may ultimately have no, or only a limited, trading market. Illiquid bank loans may trade at a discount to comparable, more liquid investments. In addition, because of the provision of confidential information, the unique and customized nature of a loan agreement, and the private syndication of a loan, certain bank loans may not be purchased or sold as easily as publicly traded securities, particularly as a result of the increased degree of complexity in negotiating a secondary market purchase or sale, which complexity does not exist, for example, in the high-yield bond market. Bank loans may encounter trading delays due to their unique and customized nature, and transfers may be prohibited without the consent of an agent bank or borrower.

*Loans of Portfolio Securities.* The Master Fund may loan securities in its portfolio on terms customary in the securities industry or enter into other transactions constituting a loan of the Master Fund's assets. By entering into such transactions, the Master Fund seeks to increase its income through the receipt of interest on the loan. In the event of the bankruptcy or insolvency of the counterparty to the securities loan, the Master Fund could experience delays in recovering the securities it lent. To the extent that the value of the securities lent by the Master Fund increases in value, the Master Fund could experience a loss if such securities are not recovered.

*Derivative Instruments Generally.* The Master Fund invests in derivative instruments, or "derivatives," including, but not limited to, options, total return swaps, interest rate swaps, credit default swaps ("CDS"), forwards, and indices and other derivatives thereon, and other instruments and contracts that are derived from and are valued in relation to one or more underlying securities, commodities, events, financial benchmarks, currencies or indices. Derivatives typically allow an investor to hedge or speculate upon the price movements of the underlying asset at a fraction of the cost of acquiring, borrowing or selling short the underlying asset. The value of a derivative depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives trading, including risks relating to interest rates, taxes, changing supply and demand relationships, policies of governments, and national and international political and economic events. However, there are a number of additional risks associated with derivatives trading. For example, because many derivatives are "leveraged," and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can not only result in the loss of the entire investment, but may also

expose the Master Fund to the possibility of a loss exceeding the original amount invested. Derivative instruments may not always be liquid, so that in volatile markets the Master Fund may not be able to close out a position without incurring a loss. Daily limits on price fluctuations and speculative position limits on exchanges on which the Master Fund may conduct its transactions in derivative instruments may prevent profitable liquidation of positions, potentially subjecting the Master Fund to greater losses. In addition, in swap transactions, because the Master Fund generally does not have a contractual relationship with the issuer of the underlying reference obligation, the Master Fund generally does not have the benefit of voting rights or the collateral supporting the reference obligation and the liquidity of the swap may be constrained in certain cases pursuant to contract and the swap counterparty's ability and willingness to novate, close, or otherwise modify the trade. Transactions in certain derivatives are subject to mandatory clearing and exchange trading requirements and to regulatory oversight, while other derivatives are subject to risks of trading in the OTC markets or on non-U.S. exchanges. It is expected that many more derivatives will become subject to these mandatory clearing and exchange trading requirements in the near future as rulemaking under the Dodd-Frank Act progresses. Additional risks associated with derivatives trading include:

*Call Options.* The Master Fund may use call options. There are risks associated with the sale and purchase of call options. The seller (writer) of a call option which is covered (*i.e.*, the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security less the premium received, and gives up the opportunity for gain on the underlying security above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security 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. However, if the buyer of the call sells the underlying security short, the loss on the call will be offset in whole or in part by any gain on the short sale of the underlying security.

*Put Options.* The Master Fund may use put options. There are risks associated with the sale and purchase of put options. The seller (writer) of a put option which is covered (*i.e.*, the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sales price (in establishing the short position) of the underlying security plus the premium received, and gives up the opportunity for gain on the short position for values of the underlying security below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security 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. However, if the buyer of the put holds the underlying security, the loss on the put will be offset in whole or in part by any gain on the underlying security.

*Swap Agreements.* The Master Fund enters into swap agreements. Swap agreements can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease the Master Fund's exposure to long-term or short-term interest rates (in the United States or abroad), foreign currency values, mortgage securities, corporate borrowing rates or other factors such as security prices, baskets of securities, or inflation rates. Swap agreements can take many different forms and are known by a variety of names. The Master Fund is not limited to any particular form of swap agreement if Inherent determines that other forms are consistent with the Master Fund's investment objectives and policies.

Swap agreements will tend to shift the Master Fund's investment exposure from one type of investment to another. For example, if the Master Fund agrees to exchange payments in dollars for payments in foreign currency, the swap agreement would tend to decrease the Master Fund's exposure to U.S. interest rates and increase its exposure to foreign currency and interest rates. Depending on how they are used, swap agreements may increase or decrease the overall



volatility of the Master Fund's portfolio. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency, individual equity values or other factors that determine the amounts of payments due to and from the Master Fund. If a swap agreement calls for payments by the Master Fund, it must be prepared to make such payments when due. In addition, if the counterparty's creditworthiness declines, the value of a swap agreement would be likely to decline, potentially resulting in losses by the Master Fund.

*Credit Default Swaps ("CDS").* The Master Fund takes short and/or long positions in securities by entering into CDS contracts referencing such securities or an index of such securities. The CDS transaction market can be extremely volatile and the Master Fund's financial results may be negatively affected as a result of a variety of factors relating to the credit swap market, including changes in the overall economy, supply and demand conditions in the CDS market and other factors affecting the corporate credit markets in general. Under certain market conditions, the Master Fund may not be able to terminate, novate or assign CDS transactions in a timely fashion and for a fair price when desired, if at all. The Master Fund may be required to seek the consent of a relevant CDS counterparty before assigning or transferring any CDS transaction, which may cause delays or force the Master Fund to terminate such CDS transaction. In addition, the tax treatment of credit default swaps is unclear, and there can be no assurance that the Internal Revenue Service (the "IRS") will agree with the Master Fund's treatment of these instruments.

*Forward Trading.* The Master Fund enters into forward contracts or options thereon that are not traded on exchanges and not standardized. Rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Such contracts may be primarily forward interest rate or currency hedging contracts. Forward and "cash" trading is substantially unregulated; there are no limitations on daily price movements and speculative position limits are not applicable. Banks and other dealers with which the Master Fund maintains accounts may require the Master Fund to deposit margin with respect to such trading, although margin requirements are often minimal or nonexistent. The Master Fund's counterparties are not required to continue to make markets in such contracts and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain counterparties have refused to continue to quote prices for forward contracts or have quoted prices with an unusually wide spread (the price at which the counterparty is prepared to buy and that at which it is prepared to sell). Arrangements to trade forward contracts may be made with only one or a few counterparties, and liquidity problems therefore might be greater than if such arrangements were made with numerous counterparties. Disruptions can occur in forward markets due to unusually high trading volume, political intervention or other factors. The imposition of credit controls by governmental authorities might also limit such forward trading to less than the amount that Inherent would otherwise recommend, to the possible detriment of the Master Fund. Market illiquidity or disruption could result in significant losses to the Master Fund.

*Futures Contracts.* The Master Fund uses futures as part of its investment program. Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be entered into nor liquidated unless traders are willing to effect trades at or within the limit. Futures prices have occasionally moved beyond the daily limits for several consecutive days with little or no trading. OTC instruments generally are not as liquid as instruments traded on recognized exchanges. These constraints could prevent the Master Fund from promptly liquidating unfavorable positions and subject it to substantial losses. In addition, the CFTC and various exchanges impose speculative position limits on the number of positions that, on an aggregate basis, the Master Fund and any other investment fund or separately managed account managed by Inherent may indirectly hold or control in particular commodities. It is possible that an exchange or the CFTC may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for

liquidation only. If Inherent elects to transact in non-U.S. futures, the Master Fund could be exposed to additional risks associated with less or varying regulation and less predictable legal protections for futures than in U.S. futures transactions. Foreign futures or options contracts may also be subject to foreign exchange risks.

*Illiquidity and Credit Risk of Derivative Instruments and OTC Trading.* The Master Fund may enter into transactions involving privately negotiated OTC derivative instruments, including, among others, instruments such as interest rate, volatility, foreign currency, equity and equity index swaps, OTC options and forward contracts on securities, security indices and foreign currencies. There can be no assurance that a liquid secondary market will exist for any particular derivative instrument at any particular time. Although OTC derivative instruments are designed to meet particular financing needs and, therefore, typically provide more flexibility than exchange-traded products, the risk of illiquidity is also greater as these instruments can generally be closed out only by negotiation with the other party to the instrument. OTC derivative instruments, unlike exchange-traded instruments, are not guaranteed by an exchange or clearinghouse and thus are generally subject to greater credit risks and the possibility of non-performance by the counterparty. Derivative instruments that may be purchased or sold by the Master Fund may include instruments not traded on an exchange. The risk of nonperformance by the obligor on such an instrument may be greater than the risk associated with an exchange-traded instrument. The Master Fund may also not be able to dispose of, or enter into a closing transaction with respect to, such an instrument as easily as in the case of an exchange traded instrument. In addition, significant disparities may exist between “bid” and “asked” prices for derivative instruments that are not traded on an exchange. Although the Dodd-Frank Act has significantly increased the level of government regulation of OTC derivative transactions, derivative instruments not traded on exchanges are not subject to the same degree of government regulation as exchange-traded instruments, and many of the protections afforded to participants in a regulated environment may not be available in connection with the transactions with respect to these instruments. See “—*Changes to Derivatives Regulation*” below.

Further, the tax environment for derivatives is evolving and changes in the taxation of derivative instruments may affect the value of the derivative instruments held by the Master Fund and the implementation of the Master Fund’s strategy.

*Swap Trading Venues.* Inherent and/or the Master Fund may trade on a swap execution facility (“SEF”) through a broker or other intermediary, such trading would require Inherent and/or the Master Fund to consent to the SEF’s jurisdiction as a self-regulatory organization and to be subject to the SEF’s rulebook, which could adversely impact the Master Fund. Moreover, SEFs have only recently become subject to regulation by the CFTC, and many of the new trading, market surveillance, and technology requirements applicable to SEFs under CFTC regulations are based on new and untested rules and technology. SEFs could experience technological difficulties or regulatory lapses that could negatively impact the Master Fund’s swap transactions. Moreover, CFTC regulations, and interpretations of regulations governing SEFs and DCMs are evolving, and new or modified regulatory requirements for SEFs could also negatively impact the Master Fund.

*Changes to Derivatives Regulation.* Through its comprehensive regulatory regime for derivatives, the Dodd-Frank Act has imposed, or will impose, mandatory clearing, exchange-trading and margin requirements on many derivatives transactions (including formerly unregulated OTC derivatives) in which the Master Fund may engage. Currently, CFTC rules issued under the Dodd-Frank Act require central clearing and SEF trading of many common types of interest rate and index credit default swaps. In addition, margin rules adopted by the U.S. banking regulators and the CFTC are in effect and subject the Master Fund to new regulatory margin requirements for uncleared swaps and, in some cases, security-based swaps, with CFTC-registered swap dealers. CFTC-registered swap dealers with which the Master Fund may transact in derivatives are subject to significant swap recordkeeping, reporting, disclosure, business conduct, documentation, and other swap regulatory requirements. These requirements may increase the costs to the Master Fund for its derivatives transactions with CFTC-registered swap dealers. In

particular, margin requirements for swaps and security-based swaps, even if not directly applicable to the Master Fund, may cause an increase in the pricing of derivatives transactions sold by market participants to whom such requirements apply. Administrative costs, due to requirements such as registration, recordkeeping, reporting, and compliance for CFTC-registered swap dealers, even if not directly applicable to the Master Fund, may also be reflected in higher pricing of derivatives. Exchange-trading and trade reporting requirements may lead to reductions in the liquidity of derivative transactions or cause adverse pricing or reduced availability of certain derivatives.

The SEC's regulatory regime for security-based swaps and security-based swap dealers is not yet in effect and key portions of the SEC's implementing regulations have yet to be finalized. Once the SEC's regulatory regime is finalized and in effect, it may have similar consequences for security-based swap transactions entered into by the Master Fund as those under the CFTC's regime for swaps.

In parallel with the Dodd-Frank Act and other U.S. initiatives, steps are also being taken to regulate over-the-counter derivatives in the European Union. European Union Regulation No. 648/2012 (also known as the European Market Infrastructure Regulation or "EMIR"), which came into force on August 16, 2012, requires certain "eligible" over-the-counter derivative contracts to be submitted for clearing to regulated central clearing counterparties and mandates the reporting of certain details of over-the-counter derivative contracts to trade repositories. In addition, EMIR imposes requirements for appropriate procedures and arrangements to measure, monitor, and mitigate operational counterparty credit risk in respect of over-the-counter derivative contracts not subject to mandatory clearing. These requirements are likely to include the posting and segregation of collateral by certain financial market participants in relation to certain un-cleared derivative contracts (referred to as the "EMIR margin requirements"). As with the Dodd-Frank Act, the introduction of these clearing requirements and the EMIR margin requirements will likely increase the Master Fund's overall costs of entering into derivatives transactions with an EU bank counterparty. Regulatory changes arising from EMIR may in due course adversely affect the counterparties with which the Master Fund transacts or the Master Fund's ability to achieve its investment objectives.

### **Infrastructure Risks**

*Risks Related to B Corporation Designation.* Inherent is designated as a "Certified B Corporation" by B Lab, an independent non-profit organization. Certified B Corporations are for-profit companies that are certified by B Lab as meeting certain standards of social and environmental performance, accountability and transparency. The standards for Certified B Corporation certification are set by B Lab and may change over time. Inherent believes that adherence to such standards and the achievement and maintenance of B Corporation certification are in the best interests of, and will help in achieving the best long-term investment outcomes for, the Master Fund. However, it is possible that Inherent may take actions to remain in compliance with such standards that do not prioritize shorter-term financial results or other interests of the Master Fund or its other Clients. In addition, Inherent could select service providers for the Master Fund and the Feeder Funds that share Inherent's commitment to similar standards, even if such service providers were not the lowest cost providers. There can be no assurance that Inherent's status as a Certified B Corporation will result in the benefits that Inherent anticipates. In addition, there is a risk that Inherent's reputation could be harmed if it were to lose its status as a Certified B Corporation, whether by choice of failure to continue to meet the certification requirements, if that failure or change were to create a perception that Inherent was no longer as committed to the values shared by Certified B Corporations, and in such case such reputational harm could have a material adverse effect on the performance and/or prospects of the Master Fund and the Feeder Funds.

*Risk Control Framework.* Inherent implemented and maintains a risk control framework to help the Master Fund manage its risk exposure. No risk control system is fail-safe and no assurance

can be given that Inherent's risk control framework will achieve their objectives or reduce the risk of an investment in the Master Fund.

*Dependence on Service Providers.* Inherent relies on service providers for certain aspects of its business, including certain financial operations, trade related activity, IT infrastructure and systems and trade reconciliation. Inherent does not control or direct these service providers, and has limited transparency into such businesses' day-to-day operations. Any interruption or deterioration in the performance of such service providers could impair the quality of Inherent's operations, negatively impact its and the reputation of the Master Fund and the Feeder Funds and the investment strategies of the Master Fund, limit the Feeder Funds' potential to grow, and ultimately expose investors to losses.

*Operational Risk.* The Feeder Funds and the Master Fund depend on Inherent to develop and maintain the appropriate systems and procedures to control operational risk. Operational risks arising from mistakes made in the confirmation or settlement of transactions, from transactions not being properly booked, evaluated, or accounted for, or other similar disruption in the Feeder Funds' operations may cause the Feeder Funds and the Master Fund to suffer financial loss, the disruption of their business, liability to investors or third parties, regulatory intervention, or reputational damage. The Feeder Funds and the Master Fund rely heavily on Inherent, the Funds' administrator, Inherent's IT infrastructure provider and other service providers' financial, accounting, IT infrastructure systems and services and other data processing systems. A failure by any one, or more, of them could result in losses to the Feeder Funds and/or Master Fund.

*Systems Risks.* The Master Fund depends on Inherent to have appropriate systems for the Master Fund's activities. The Master Fund relies extensively on computer programs and systems to evaluate certain securities based on real-time trading information, to monitor its portfolio and net capital, and to generate risk management and other reports that are critical to oversight of the Master Fund's activities. In addition, certain of the operations of Inherent interface with or depend on systems operated by third parties, including market counterparties and other service providers, and the Master Fund or Inherent is not in a position to verify all of the risks or the reliability of such third party systems. These programs or systems may be subject to certain defects, failures, or interruptions, including, but not limited to, those caused by worms, viruses, and power failures. Any such defect or failure could have a material adverse effect on the Master Fund. For example, such failures could cause settlement of trades to fail, lead to inaccurate accounting, recording, or processing of trades, and cause inaccurate reports, which may affect the Master Fund's ability to monitor its investment portfolio and its risks. In addition, despite the security measures established by Inherent and third parties to safeguard its and their respective systems, including the information therein, such systems may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise these systems and result in the theft, loss or public dissemination of the information stored therein and could have a material adverse effect on the Master Fund and the Feeder Funds.

*Reliance on Technology.* Certain of the Master Fund's trading strategies and critical aspects of its and Inherent's operations are reliant on technology, including hardware, software and telecommunications systems. Significant parts of the technology used in the management of the Master Fund are provided by third parties and are therefore beyond Inherent's direct control. Forecasting, trade execution, data gathering, risk management, portfolio management, IT infrastructure and support, compliance and accounting systems all are designed to depend upon a high degree of automation and computerization. Although Inherent seeks to ensure adequate backups of software and hardware where possible and Inherent attempts to conduct adequate due diligence and monitoring of providers, if such efforts are unsuccessful or inadequate, software or hardware errors or failures may result in errors, data loss and/or failures in trade execution, risk management, portfolio management, compliance or accounting. Errors or failures may also result in the inaccuracy of data and reporting or the unavailability of data or vulnerability of data to the risk of loss or theft. Errors may occur gradually and once in the code may be very hard to detect and can potentially affect results over a long period of time. If an unforeseeable software

or hardware malfunction or problem is caused by a defect, virus or other outside force, the Master Fund may be materially adversely affected.

In particular, Inherent relies on cloud (including private and public cloud-based) technology for its daily operations, including data storage. Cloud-based technology, like any electronic data storage or processing technology, is not fail-safe. It may be subject to certain defects, failures or interruptions of service beyond Inherent's direct control. It is also possible that such technology could be compromised by a third-party, including through the use of malicious software or programs, such as viruses, which may expose Inherent, the Feeder Funds and the Master Fund to theft (of data or other assets) and/or significant business interruption. In addition, a software provider may cease operations or be relatively thinly capitalized and Inherent's and the Master Fund's ability to be made whole after any loss may be compromised as a result.

*Trade Execution Risk.* The Master Fund's investment and trading strategies may depend on its ability to establish and maintain an overall market position in a combination of financial instruments selected by Inherent. The Master Fund's trading orders may not be executed in a timely and efficient manner due to various circumstances, including, without limitation, trading volume surges or systems failures attributable to the Master Fund, Inherent, the Master Fund's counterparties, brokers, dealers, agents, or other market participants. In such event, the Master Fund might only be able to acquire or dispose of some, but not all, of the components of such position, or if the overall position were to need adjustment, the Master Fund might not be able to make such adjustment. As a result, the Master Fund would not be able to achieve the market position selected by Inherent, which may result in a loss.

*Trade Errors.* On occasion, errors may occur with respect to trades executed on behalf of the Master Fund. Trade errors can result from a variety of situations, including, for example, when the wrong security is purchased or sold, when the correct security is purchased or sold but for the wrong account and when the wrong quantity is purchased or sold (e.g., 1,000 shares instead of 10,000 shares are traded). Trade errors frequently result in losses but may, occasionally, result in gains.

*Cyber Security, Other Breaches and Identity Theft.* Cyber security incidents and cyber-attacks have been occurring globally at a more frequent and severe level and will likely continue to increase in frequency in the future. Inherent's and its service providers' information and technology systems may be vulnerable to damage or interruption from computer viruses and other malicious code, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches (by physical or electronic means), usage errors by their respective users or service providers, power, communications or other service outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. If unauthorized parties gain access to such information and technology systems, they may be able to steal, publish, delete or modify private and sensitive information. Although Inherent has implemented, and service providers may implement, various measures to manage risks relating to these types of events, such systems could be inadequate and, if compromised, could become inoperable for extended periods of time, or cease to function properly or fail to adequately secure private information. Breaches such as those involving covertly introduced malware, impersonation of authorized users and industrial or other espionage may not be identified even with sophisticated prevention and detection systems, potentially resulting in further harm and preventing it from being addressed appropriately. Inherent may have to make a significant investment to fix or replace any inoperable or compromised systems. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in Inherent's operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors) and the intellectual property and trade secrets of Inherent. Such a failure could harm Inherent's reputation, subject Inherent and its affiliates (including the Master Fund and the Feeder Funds) to legal claims and otherwise affect their business and financial performance.

## Other Risk Factors

*Expenses May Be a High Percentage of Assets.* Operating expenses that are necessary for the Master Fund's proper operation may be a high percentage of the Master Fund's net asset value and, even if the Master Fund's strategy is successful, the Master Fund may still not be profitable. For example, it is possible that the Master Fund may have trading gains while the Master Fund's net asset value may not increase or may even decrease due to fees and expenses, which could have the effect of increasing the Master Fund's expense ratio

*Master Fund Turnover.* The turnover rate of the Master Fund's investment portfolio may be significant, involving substantial brokerage commissions and fees and other transaction costs.

*Trading Limitations.* For all securities listed on a securities exchange, including options listed on a public exchange, the exchange generally has the right to suspend or limit trading under certain circumstances. Such suspensions or limits could render certain strategies difficult to complete or continue and subject the Feeder Funds and/or the Master Fund to loss. Also, such a suspension could render it impossible for Inherent to liquidate positions and thereby expose the Feeder Funds and/or the Master Fund to potential losses.

*Use of the "Master Fund/Feeder Fund" Structure.* The Feeder Funds invest all or substantially all of their investable assets directly or indirectly through a "master fund/feeder fund" structure in the Master Fund. While Inherent will be permitted to designate investments, the Master Fund generally does not enter into separate transactions or make different investment decisions with respect to the Feeder Funds. Accordingly, all transactions entered into and investment decisions made by the Master Fund affect the Feeder Funds notwithstanding that the limited partners of the Onshore Feeder and the shareholders of the Offshore Feeder may have different tax concerns. The "master fund/feeder fund" structure may therefore result in transactions and investment decisions that are less tax-efficient for the investors than they would be if the Feeder Funds were "parallel funds" that directly engaged in transactions and made investment decisions.

*The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in the Feeder Funds and in turn the Feeder Funds' investment in the Master Fund. Prospective investors should read the offering memoranda of the Feeder Funds and consult with their own advisors before deciding whether to invest in the Feeder Funds. In addition, as the Master Fund's investment program develops and changes over time, an investment in the Feeder Funds may be subject to additional and different risk factors.*

## Conflicts of Interest

There are certain inherent and potential conflicts of interest among Inherent, its affiliates and their respective members, officers, directors, employees and principals on the one hand, and the Feeder Funds and the Master Fund on the other. Among the factors that should be considered by each prospective investor are the following:

*Conflicts with Other Clients.*

*Side-by-Side Investments, Managed Accounts and Side Letter Arrangements.* Inherent and/or Mr. Davis may in the future manage assets for one or more Clients through a managed account or similar arrangement employing an investment strategy investing in parallel with, or similar to, the strategy of the Master Fund, and currently manages the assets of the Other Investment Entities as described more fully in the section entitled "*Methods of Analysis and Investment Strategy*" in this Item 8 above. Such arrangements may afford those Clients different terms from the terms of the Feeder Funds with respect to liquidity, fees and expenses, subscription rights and the content and frequency of reports. Clients that have been granted additional access to portfolio information or enhanced transparency may be able to make investment decisions,

including, without limitation, making additional capital contributions, making withdrawals and entering into hedging transactions designed to offset such Client's exposure to investment positions taken by the managed account (which may be the same investment positions taken by the Master Fund), based on information not generally available to other investors, including investors in the Feeder Funds. In addition, as described in more detail below, certain investors in the Feeder Funds have and may in the future negotiate side letter arrangements that provide similar benefits to such persons. Any such investment decisions made by these Clients on the basis of such information, including any substantial withdrawals/redemptions, could adversely affect the market value of the Master Fund's portfolio and therefore the value of the interests in the Feeder Funds.

*Agreements with Certain Investors.* Certain investors in the Feeder Funds may invest pursuant to agreements that have the effect of altering or supplementing the material terms of such investors' investments causing them to differ from the terms of other investors' investments. The investors in the Feeder Funds that are party to such agreements may be granted rights not otherwise afforded to other investors, including, without limitation, with respect to the right to purchase additional interests, the right to withdraw/redeem interests/shares with limited notice to the Feeder Funds or the Master Fund, or on a more frequent basis or in different amounts than other investors, the right to receive reports on a more frequent basis or to receive reports that include information not provided to other investors (including valuation and other information relating to the Master Fund's investments), the right to bear or pay a reduced management fee, the right to receive a share of the management fees earned by Inherent, and/or such other more favorable terms as may be negotiated between the Feeder Funds or the Master Fund and such investors. The Feeder Funds are not required to disclose any such agreements to other investors. Investors that are granted such rights may include, without limitation, individuals affiliated with Inherent. To the extent that compliance with any of the provisions of any such agreement would cause the Feeder Funds, the Master Fund, Inherent or any of their respective affiliates to violate their respective fiduciary obligations to other Clients or to violate any applicable laws, the Feeder Funds, the Master Fund or Inherent will not comply with any such provision and any such non-compliance will not be deemed to be a breach of such agreement.

*Conflicts with Other Funds.* Inherent, Mr. Davis or any of their respective members, officers, directors, employees, principals or affiliates currently manage Other Investment Entities, and may in the future manage other alternative investment funds and/or separate accounts (collectively, including Other Investment Entities, the "Other Funds"). Other Investment Entities hold personal investments of Mr. Davis through wholly owned investment vehicles and investments of the Foundation of which Mr. Davis and Mr. Ellis are trustees. While the investment strategies pursued by the Other Investment Entities generally differ from the investment strategy that will be pursued by the Master Fund, and the investments appropriate for Other Funds, more broadly, are generally expected to differ (e.g., have different risk profiles and/or belong to different asset classes) from investment opportunities appropriate for the Master Fund, certain investment opportunities may nevertheless be appropriate for both the Master Fund and certain Other Funds. The allocation of investment opportunities among the Master Fund and the Other Funds with investment objectives similar to or overlapping with the Master Fund may reduce the number, size and type of investment opportunities available to the Master Fund. While the Other Funds may have investment parameters that are somewhat different from those of the Master Fund, in situations where the investment in question may be deemed to satisfy the investment objectives of the Other Funds and the Master Fund, there will be conflicts of interests between the Other Funds and the Master Fund regarding which of such entities will be given the opportunity to make such investment and, if such investment is to be made by the Other Funds and the Master Fund, the proportions in which such investment will be allocated between the Other Funds and the Master Fund. See the section entitled "*Methods of Analysis and Investment Strategy*" in this Item 8 above and the section entitled "*Relationships or Arrangements with Third Parties*" in Item 10 below for a further discussion of the investment strategies and management of potential conflicts concerning the Other Investment Entities.

Inherent or any of its members, officers, directors, employees, principals or affiliates will attempt to allocate investment opportunities in a manner that they determine is fair and equitable as measured over time. Where there are conflicts of interest in allocating a particular investment between any of the Other Funds and the Master Fund, there can be no assurance that the Master Fund will make such investment, even if the investment satisfies the Master Fund's investment objectives. An investment may be allocated (i) wholly or primarily to an Other Fund, with the Master Fund being unable to participate in such investment opportunity or participating only on a limited basis or (ii) wholly or primarily to the Master Fund, with any Other Fund not sharing the risks of such investment. In addition, in circumstances in which the Master Fund may make an investment that the Other Funds already have made, or concurrently will make or seek to make, liquidity and concentration considerations may limit the Master Fund's participation in such investment or its ability to dispose of the investment readily. Furthermore, in such circumstances, the Master Fund, on the one hand, and the Other Funds, on the other hand, may have conflicting interests and investment objectives, including with respect to the targeted returns from the investment and the timeframe for disposing of the investment, and therefore, Inherent or its affiliates may take action with respect to an investment on behalf of one of the Other Funds and the Master Fund that differs from the action taken with respect to the investment on behalf of any other of the Other Funds and the Master Fund. If an Other Fund participates in a particular investment, there can be no assurance that the returns on such investment by the Master Fund will be equivalent to or better than the returns obtained by such Other Fund on such investment.

The Master Fund may, from time to time, make an investment in an issuer in which one or more Other Funds invest in a different part of the issuer's capital structure. There may be instances in which such issuer may become insolvent or bankrupt and where the Master Fund's and/or the Other Fund's interests in such issuer may conflict. To the extent that the Master Fund holds securities in an issuer with rights, preferences and privileges that are different from those held by one or more Other Funds in the same issuer, Inherent and its affiliates may be presented with decisions in which the interests of the Master Fund and such Other Funds are in conflict. It is possible that in a bankruptcy proceeding, the Master Fund's interests may be subordinated or otherwise adversely affected by virtue of the Other Fund's involvement and actions relating to its investment.

While it is currently intended that the Feeder Funds will invest substantially all of its investible assets in the Master Fund, it is possible that, in the future, Inherent may determine that it is appropriate for the Feeder Funds to make certain investments directly. Similarly, in the future it may be determined that the Offshore Feeder should make investments directly instead of investing all of its investible assets in the Master Fund. Such investments are referred to herein as "Direct Feeder Fund Investments." In such cases, it is possible that the Feeder Funds would make Direct Feeder Fund Investments in different classes of the debt or equity of the same issuer, or invest in other ways that present conflicts between the interests of the Feeder Funds. For example, the Onshore Feeder may invest in the equity of a target company while the Offshore Feeder may invest in such target company's debt and, in such case, it is possible that in a bankruptcy proceeding the interests of the Onshore Feeder will be subordinated or otherwise adversely affected by virtue of the Offshore Feeder's investment. In such cases, Inherent will seek to resolve any conflicts in good faith and with a view to the best interests of all parties, but given the nature of such conflicts and applicable legal constraints (including bankruptcy laws), there can be no assurance that Inherent will resolve such conflicts in a manner that is beneficial to one or any Feeder Fund.

*Directorships or Similar Roles of Issuers.* Officers, members, partners and employees of Inherent and its affiliates may serve as directors of certain investments or other companies and, in that capacity, will be required to make decisions that they consider to be in the best interest of such companies. In certain circumstances, for example in situations involving the bankruptcy or near-insolvency of a company, actions that may be in the best interest of the issuer may not be in the best interest of the Master Fund, and vice versa. In these situations, there may be conflicts



between an individual's duties as an officer or employee of Inherent and such individual's duties as a director of the issuer.

*Restrictions Arising under the Securities Laws.* The activities of Inherent and its affiliates (including, without limitation, the holding of securities positions or having one of its personnel on the board of directors of a company) could result in securities law restrictions on transactions in securities held by the Master Fund, affect the prices of the investments or the ability of the Master Fund to purchase, retain or dispose of such investments, or otherwise create conflicts of interest for the Master Fund, any of which could have an adverse impact on the performance of the Master Fund and the Feeder Funds, and thus the return to investors.

*Possible Future Activities.* Inherent and its affiliates may expand the range of services that it provides over time. Inherent and its affiliates will not be restricted in the scope of its business or in the performance of any such services (whether now offered or undertaken in the future) even if such activities could give rise to conflicts of interest, and whether or not such conflicts are described herein. Inherent has, and will continue to develop, relationships with a significant number of companies, financial sponsors, pooled investment vehicles and their senior managers, including relationships with Clients who may hold or may have held investments similar to those intended to be made by the Master Fund. These Clients may themselves represent appropriate investment opportunities for the Master Funds or may compete with the Master Fund for investment opportunities.

*Conflicts Arising from Expense Allocations.* Inherent is required to decide whether certain costs and expenses are to be borne by the Master Fund, the Onshore Feeder and/or the Offshore Feeder, on the one hand, or Inherent, on the other hand, and/or whether certain costs and expenses should be allocated between or among the Master Fund, the Onshore Feeder and/or the Offshore Feeder, on the one hand, and Other Funds, on the other hand. Certain costs and expenses may be related only to one entity and borne only by such entity or, more often, costs and expenses may be allocated among the Master Fund and other entities. Inherent may face a conflict of interest when making such allocations due to its affiliates' varying equity interests in the various entities. Inherent implements expense allocation review and approval policies and procedures in order to supervise the allocation of expenses in accordance with the disclosure pertaining to expenses set forth herein and to help to ensure that expenses allocated to the Feeder Funds and the Master Fund comport with what is permitted by the respective Feeder Fund's offering documents, and will make such judgments in its fair and reasonable discretion while taking into account factors it considers relevant and appropriate, notwithstanding its interest in the outcome, and may make corrective allocations should it determine that such corrections are necessary or advisable.

*Management.* Inherent and its affiliates, employees, officers, directors, principals and members are not obligated to devote their full time to the Funds, but will devote such time as they, in their respective sole discretion, deem necessary to carry out the operations of the Funds effectively.

Mr. Davis and other employees, officers, directors, principals or members of Inherent and its affiliates may conduct any other business including any business with respect to securities and will manage and advise Other Funds in addition to the Master Fund, including the Other Investment Entities. Certain of the members, officers, directors, employees and principals of Inherent, including Mr. Davis, (i) currently own and may in the future acquire substantial investments in certain other investment funds managed by Inherent and (ii) may perform the same management services and functions for an Other Fund as they perform for the Funds. As a result, conflicts of interest will arise, including with respect to allocating management time, services and functions between the Funds and Other Funds and accounts in which Inherent's affiliates, employees, officers, directors, principals or members (including Mr. Davis) have a significant interest, including accounts in which such persons have a greater financial interest.

*Incentive Allocation.* The incentive allocation received by Inherent creates an incentive for Inherent (including Mr. Davis) to make or advise more speculative investments for the Master

Fund than in the absence of such performance-based compensation. In addition, the method of calculating the incentive allocation may result in conflicts of interest between Inherent and the Funds' investors, with respect to the management and disposition of investments.

*Material Nonpublic Information.* Inherent, its members, officers, directors, employees, principals or affiliates and Mr. Davis may come into possession of material nonpublic information (including in connection with managing their own or other Clients' accounts or serving as directors to other companies). The possession of such information may limit the ability of the Funds to buy or sell a security or otherwise to participate in an investment opportunity.

*Transactions with Affiliates.* The Funds may participate in transactions in which Inherent, any of its affiliates, members, officers, directors, employees and principals or any investor in the Feeder Funds is directly or indirectly interested. In connection with such transactions, the Feeder Funds and/or the Master Fund, on the one hand, and Inherent, its affiliates, members, officers, directors, employees and principals or investors in the Feeder Funds, on the other hand, may have conflicting interests. Inherent and its members, officers, directors, employees, principals or affiliates may also face conflicts of interest in connection with purchase or sale transactions (involving an investment by the Feeder Funds and/or the Master Fund) with an affiliate of the Feeder Funds and/or Master Fund (including any other fund managed by Inherent), including with respect to the consideration offered by, and the obligations of, Inherent and such other affiliate.

*Principal and Cross Transactions.* The Master Fund may enter into transactions and other arrangements with Other Funds that may be viewed as related party or principal transactions (*i.e.*, transactions between the Master Fund and an affiliate of Inherent acting for its own account) or cross transactions (*i.e.*, transactions where an affiliate of Inherent acts as agent on behalf of the Master Fund and the other party to the transaction or trades between the Master Fund and funds or accounts advised by Inherent or an affiliate).

Inherent may, on behalf of the Master Fund, for liquidity, portfolio rebalancing or other reasons, enter into agreements with Other Funds (*i.e.*, "cross transactions"). The terms of any such cross transactions will be commercially reasonable and will not be materially less favorable to the Master Fund than those available in the market. None of Inherent or its affiliates will receive special fees or other compensation in connection with cross transactions. Expenses incurred in such transactions will be allocated equitably in the sole discretion of Inherent between the Master Fund and the other party to the cross transaction. Similarly, if a transaction is cancelled, any costs incurred will be allocated equitably in the sole discretion of Inherent between the Master Fund and the other party to the cross transaction.

The Master Fund will only consider engaging in a cross transaction with an affiliate of Inherent to the extent permitted by applicable law, including, if required or appropriate, the making of appropriate disclosure to and receipt of consent from the limited partners and shareholders of the applicable Feeder Fund, the Master Fund, or the Advisory Committee. The Master Fund or the Feeder Funds may indemnify an Advisory Committee member for any losses incurred in serving in such capacities.

*Execution with Broker-Dealers and Financing Sources.* Inherent may face conflicts relating to its selection of broker-dealers and financing sources for execution of transactions by the Master Fund. When engaging the services of broker-dealers and financing sources, Inherent takes into consideration a variety of factors, including, to the extent applicable, the broker or dealer's quality of execution, including its ability to follow and accurately execute specific transfer instructions, access liquidity and execute the trade within Inherent's desired timing, the broker or dealer's and its personnel's overall experience, reputation and trustworthiness, the broker or dealer's willingness to commit capital, the commission rate and overall cost of trade, the quality of the broker or dealer's relationship with Inherent, including its responsiveness to requests, reliability, understanding of Inherent's strategy and interests, ability to provide market intelligence regarding trading activities in securities that Inherent trades and the nature and quality of investment ideas it generates, the broker or dealer's ability to execute trades in difficult markets, the broker or

dealer's access to underwritten offerings and secondary markets, the financial strength and stability of the broker or dealer, the broker or dealer's ability to evaluate market information across asset classes and sectors, the ability of the broker or dealer to provide research and trading services on a global basis across asset classes, the broker or dealer's ability to provide access to company management and to access deal flow, and the receipt of brokerage or research products and services which are of benefit to the Master Fund, as well as other factors that Inherent deems appropriate to consider under the circumstances. Broker-dealers and financing sources provide other services that are beneficial to Inherent and its affiliates, but that are not necessarily beneficial to the Master Fund, including, without limitation, capital introductions, other marketing assistance, Client and personnel referrals and research-related services. Inherent also receives consulting assistance services from the prime brokers, including consulting assistance with facilities, technology, real estate, service providers, operations, finance, compliance and human resources. These other services and items may influence Inherent's selection of broker-dealers and financing sources.

**Item 9                      Disciplinary Information**

Neither Inherent nor any of its supervised persons have been the subject of any legal or disciplinary events that would be material to a prospective investor's evaluation of Inherent or the integrity of Inherent's management.

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

**Financial Industry Activities**

Inherent does not engage in any other financial industry activities other than its activities as an investment adviser. None of Inherent's management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer. No management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

Inherent does not recommend or select other investment advisers for the Funds, but may for the Other Investment Entities.

**Relationships or Arrangements with Third Parties**

Inherent's management persons do not have any material relationships or arrangements with broker-dealers, municipal securities dealers, government securities brokers or dealers, other investment advisers, financial planning firms, registered investment companies, commodity pool operators, commodity trading advisers or futures commission merchants, banks or thrift institutions, accountants or accounting firms, law firms, insurance companies or agencies, pension consultants, real estate brokers or dealers, or entities that create or package limited partnerships.

As noted above, Inherent currently provides discretionary investment management services to the Other Investment Entities, which are currently two investment vehicles wholly owned by Mr. Davis, and the Foundation, a charitable organization of which Mr. Davis and Mr. Ellis are trustees. While the investment strategies of the Other Investment Entities (which are described in the section entitled "*Methods of Analysis, Investment Strategies and Risk of Loss – Method of Analysis and Investment Strategy*" in Item 8 above) are generally different from the investment strategy of the Master Fund, there may be overlap in the investment opportunities that are appropriate for the Master Fund and Other Investment Entities, and this could create a conflict of interest. See the sections entitled "*Methods of Analysis, Investment Strategies and Risk of Loss – Risk of Loss – Conflicts of Interest – Conflicts with Other Clients*" and "*– Conflicts with Other Funds*" in Item 8 above for a description of such potential conflicts of interest. Inherent has allocation

policies and procedures that are designed to address these conflicts of interest and are disclosed to Clients. See the section entitled “*Allocation and Aggregation of Orders*” in Item 12 below for a description of how Inherent may address such conflicts of interest.

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

Pursuant to Rule 204A-1 promulgated under the Advisers Act, Inherent has adopted a Code of Ethics for all of its supervised persons describing its high standard of business conduct, and fiduciary duty to its Clients. The Code of Ethics includes provisions relating to the confidentiality of Client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal accounts securities trading procedures, among other things. All supervised persons at Inherent must acknowledge the terms of the Code of Ethics annually and whenever the Code of Ethics is amended.

The Code of Ethics requires all supervised persons to provide the Chief Compliance Officer (“CCO”) with certain securities holdings reports and periodic transaction statements. In their personal accounts, supervised persons generally may not initiate a position in any single-corporate issuer debt and/or equity security or derivative thereof and must obtain pre-clearance to close out of any such positions that they already hold. Pre-clearance is also required with respect to certain other investments listed in the Code of Ethics.

From time to time, Inherent employees or persons associated with Inherent may hold legacy investments in the same securities as those that are held by, or that are being considered for purchase on behalf of, Clients. The manner in which these legacy investments are dealt with could create the potential for the appearance of impropriety, and will be brought to the attention of Inherent’s CCO for review. Non-adherence to the Code of Ethics by any supervised person will subject such person to disciplinary action by Inherent, up to and including termination of employment.

A copy of Inherent’s Code of Ethics is available for review by Clients and prospective Clients upon request.

#### **Principal and Cross Transactions**

Inherent may engage in or effect any principal or cross securities transactions with or between Clients’ accounts. In the event Inherent decides to engage in principal transactions with respect to a Client’s account, Inherent will obtain such Client’s prior consent. In the event Inherent decides to engage in cross transactions, it is Inherent’s policy when purchasing a security for one of its Clients from the account of another of its Clients, for purposes of “rebalancing” its Clients investments or any other purpose, to determine independently for each Client that such purchase or sale would be appropriate based upon the Client’s investment/risk parameters, assets under management, liquidity and portfolio exposure. Such a transaction between Clients will only be done in a manner that is equitable to the Clients involved and only in the absence of any opportunity for Inherent to earn any additional compensation (other than its customary advisory fees) as a result of the transaction. See the section entitled “*Methods of Analysis, Investment Strategies and Risk of Loss – Risk of Loss – Conflicts of Interest – Principal and Cross Transactions*” in Item 8 above for information about potential “rebalancing” transactions on behalf of Clients.

## **Item 12            Brokerage Practices**

### **Selecting Broker-Dealers**

Inherent places all orders for the purchase or sale of securities with the primary objective of seeking to obtain best execution. Inherent has a high standard of quality regarding execution services and deals only with broker-dealers that can meet that standard. Inherent maintains a list of approved broker-dealers through whom its portfolio managers and traders may execute Client transactions. Portfolio managers and traders may only utilize a broker-dealer that is not on the approved list with the prior written approval of the CCO.

The factors Inherent may evaluate when selecting and reviewing broker-dealers for the Approved Broker List, any members of which may be used to execute trades for Client accounts, include the following (it being understood that Inherent may place varying levels of importance on such factors from time to time as market, trade-specific, or other circumstances warrant):

- the broker-dealer's quality of execution, including its ability to follow and accurately execute specific trade instructions, access liquidity, execute the trade within Inherent's desired timing and otherwise achieve Inherent's objectives;
- the financial strength and stability of the broker-dealer, including its credit-worthiness;
- the quality of the broker-dealer's relationship with Inherent, including its responsiveness to requests, reliability, understanding of Inherent's strategy and interests, ability to provide market intelligence regarding trading activity in securities that Inherent trades and the nature and quality of investment ideas it generates;
- the receipt of brokerage or research products and services which are of benefit to the Funds and/or other Clients;
- the broker-dealer's overall costs of a trade (i.e., net price paid or received) including competitive commissions, mark-ups, mark-downs or spreads in the context of Inherent's knowledge of negotiated commission rates currently available and other current transaction costs;
- the broker-dealer's willingness to commit capital and provide liquidity;
- the broker-dealer's overall experience, reputation and trustworthiness;
- the broker-dealer's ability to execute trades in difficult markets;
- the broker-dealer's capabilities with capital markets, syndicate and block trading;
- the broker-dealer's ability to evaluate market information across asset classes and sectors;
- the ability and willingness of the broker-dealer to provide research and trading services on a global basis across asset classes;
- the broker-dealer's ability to provide access to company management and to access deal flow;
- the receipt of other services that are beneficial to Inherent and its affiliates, but that are not necessarily beneficial to the Funds or other Clients;

- the broker-dealer's ability to access to underwritten offerings and secondary markets;
- the broker-dealer's professional expertise and competence given the nature of the security and the available market makers; and
- the broker-dealer's confidentiality with respect to the Clients' trading activity.

See the section entitled “– *Research and Other Soft Dollar Benefits*” in this Item 12 below.

In selecting a broker-dealer for a specific Client transaction, subject to its consideration of soft dollar benefits discussed below, Inherent uses its best judgment to choose the broker-dealer most capable of providing “best execution.” Inherent views best execution as obtaining the best overall execution for the Client at the time the order is placed. In some cases, factors such as brokerage commissions, spreads and other transaction-related costs are Inherent's primary considerations. In other cases, however, factors such as the size and type of the transaction, the nature and character of the markets for the security to be purchased or sold, the desired timing of the trade and the activity existing and expected in the market for the particular security may determine what Inherent considers “best execution” for Clients.

### **Research and Other Soft Dollar Benefits**

Inherent may use Client commissions or “soft dollars,” in its discretion, to pay for research and brokerage-related products and services, but only to the extent that such research other services fall within the scope of the Section 28(e) safe harbor of the Securities Exchange Act. In obtaining research or other products and services with soft dollars, Inherent receives a benefit because it does not have to separately produce or pay for the research, products or services. Additionally, soft dollar practices may result in commissions or other charges higher than those charged by other broker-dealers in return for soft dollar benefits. Furthermore, Inherent may have an incentive to select or recommend a broker-dealer based on its interest in receiving the research or other products or services, rather than our Clients' interest in minimizing brokerage costs. Inherent does receive proprietary research reports, analyses, and/or recommendations from broker-dealers with whom it places Client transactions and in return for such benefits, may choose to direct order flow to that broker-dealer for execution.

Research products or services provided to Inherent by broker-dealers that qualify for the “safe harbor” under Section 28(e) may include:

- research reports regarding the economy, industries, specific securities, groups of securities and/or individual companies;
- financial, economic and market data; statistical information; accounting and tax law interpretations (related to the investment process);
- research related to relevant legal and political developments (related to the investment process);
- technical market advice; pricing and appraisal services (used in the investment process); credit analysis;
- discussions with research analysts and meetings with corporate executives and consultants;
- fees to attend conferences or seminars that provide substantive content regarding issuers, industries and or securities;

- research related to the market for securities, such as trade analytics (including analytics available through order management systems), and advice on market color and execution strategies;
- market, financial, economic and similar data;
- pre-trade and post-trade analytics used during the investment decision-making process; and
- proxy services that Inherent may use during the investment decision making process, as opposed to services used to satisfy Inherent's own voting, recordkeeping and disclosure obligations.

The research obtained through one Client's brokerage allocations, whether or not directly useful to it, may be useful to Inherent in connection with services Inherent renders to other Clients it manages. Similarly, research Inherent obtains for commissions paid to brokers in the course of managing such other Clients may be useful to such one Client. Since any particular research Inherent obtains may be useful to any Clients, in considering the reasonableness of brokerage commissions paid by an account, Inherent will not attempt to allocate the relative costs or benefits of research as between one Client and the other Clients Inherent manages, except in limited circumstances where Inherent deems appropriate.

### **Allocation and Aggregation of Orders**

Inherent will act in a fair and reasonable manner in allocating investment and trading opportunities, including initial public offerings and private placements, among the Clients. In furtherance of the foregoing, Inherent will consider participation in all appropriate opportunities within the purpose and scope of each Client's objectives which are under consideration, and Inherent will evaluate such factors as it considers relevant in determining whether a particular situation or strategy is suitable and feasible for each Client (as described below in this section). Inherent is not obligated to purchase or sell for each Client every security which Inherent may purchase or sell for the accounts of other Clients. For example, Inherent may decide not to allocate a security to a particular Client if such a transaction or investment appears unsuitable, impractical or undesirable for the Client.

Client accounts may or may not be traded in *pari passu*. If traded in *pari passu*, allocation of a trade may be made based on the net asset value of the Clients' accounts at the beginning of each month. See the section entitled "*Methods of Analysis, Investment Strategies and Risk of Loss – Methods of Analysis and Investment Strategy*" in Item 8 above for a description of the differences between the investment strategies of the Funds and the Other Investment Entities.

Clients may have different mandates, which may result in different allocation processes and non-*pari passu* results for such Clients' accounts. Such mandates might include, among other things, strict investment guidelines, guidelines on the drawdown of cash accounts, etc. The factors that Inherent may consider in making such determination include (but are not limited to): the relative amounts of capital in each Client's account available for new positions of the type at issue; the mandate of each Client account; Inherent's perception of the appropriate risk/reward ratio for each Client account; the intended trading strategy of each Client account; the liquidity of each Client account at the time of trading and thereafter; the ability to add positions to a Client account on a leveraged basis; whether the position is an "odd lot"; whether the position is being added in a "de minimis" amount; and the overall portfolio composition of each Client account.

Inherent's "Trade Aggregation Policy" provides that, for multiple Client accounts, the firm will aggregate trades only in accordance with the SEC's guidance in SMC Capital, Inc. In addition, trades shall only be aggregated if by doing so Inherent is facilitating best execution, including negotiating more favorable prices, obtaining more timely or equitable execution, or reducing overall commission charges.

Inherent employs the following procedures in connection with the Trade Aggregation Policy:

- Each Client that participates in an aggregated order will participate at the average share price for all the firm's transactions in that security on a given business day, with transaction costs shared pro rata based on each such Client's participation in the transaction, except as otherwise may be determined and memorialized by the CCO.
- Inherent will prepare, before entering an aggregated order, a written statement specifying the participating Client accounts and how it intends to allocate the order among such clients.
- Notwithstanding the foregoing, an order may be aggregated on a basis different from that specified in the written statement if all Client accounts receive fair and equitable treatment and the reason for the different aggregation is documented and is approved in writing by the CCO promptly after the order was executed.
- No additional compensation or remuneration will be due to the Firm as a result of an aggregation.

To the extent that the firm does not aggregate trades but has the opportunity to do so, Clients may pay higher brokerage costs.

## **Item 13            Review of Accounts**

### **Periodic Reviews**

Inherent informally reviews the Master Fund's portfolio daily to assess whether the account is being managed according to its stated investment objectives, policies, restrictions and risk tolerances, and to evaluate whether the portfolio's asset allocation, exposure and performance appears to be in line with expectations. Reviews are performed by Mr. Davis and/or Nikhil Mirchandani, Portfolio Manager.

### **Regular Reports**

Inherent provides regular reports to the Foundation, but does not provide regular reports to the other Clients; however, such other Clients do receive statements from their custodians and other reports from their administrator.

The Funds' administrator also delivers capital statements to investors, generally monthly. Additionally, investors of the Feeder Funds receive audited financial statements describing the results of such Feeder Fund based on its pro rata share of the Master Fund's trading activities within 120 days of the end of such Feeder Fund's fiscal year. Investors also receive any other information necessary to enable such investor to prepare their individual income tax returns.

Although not required, Inherent provides Feeder Fund investors with quarterly investor letters. Upon specific request, Inherent may provide Feeder Fund investors with various written portfolio-related information including, but not limited to, profit and loss estimates.



**Item 14                    Client Referrals and Other Compensation**

Inherent presently does not compensate third-parties for referrals to Inherent. Additionally, Inherent does not receive any economic benefits from non-clients as a result of our provision of investment advice or advisory services to Clients, with the exception of research or execution-related products or services that may be provided by the broker-dealers that Inherent uses to execute Client transactions. Please refer to the section entitled “*Brokerage Practices*” in Item 12 above for additional information on these products or services.

**Item 15                    Custody**

Except in the case of certain private equity and private debt holdings of the Other Investment Entities that are not required to be custodied, all other Client funds and securities are held at “qualified custodians” who make account statements available to Inherent daily via their websites. The Funds’ administrator also provides account statements to Inherent and sends official statements on behalf of the Feeder Funds to their respective investors on a monthly basis. Additionally, the Feeder Funds and the Master Fund are audited annually by an independent public accountant that is registered with, and subject to regular inspection by the Public Company Accounting Oversight Board, and audited financial statements prepared in accordance with generally accepted accounting principles are sent to all investors within 120 days of the end of the respective Feeder Fund’s fiscal year. Investors are urged to carefully review such audited financial statements and to compare them to any reports received by Inherent. The Foundation is subject to an annual surprise audit.

**Item 16                    Investment Discretion**

Pursuant to written investment management agreements with Clients, Inherent has discretionary authority to determine, without obtaining specific Client consent, the securities and amounts of such securities to be bought or sold, the broker-dealer(s) through which transactions will be executed and the amount of commissions or mark ups or mark downs paid. Any restrictions or limitations on Inherent’s discretionary authority must be made in writing and contained in the Feeder Funds’ or the Master Fund’s offering memorandum, memorandum and articles of association, limited partnership agreement and/or investment management agreement between Inherent and the Client, as applicable. At this time, Inherent’s Clients have not imposed any limitations on Inherent’s discretionary authority.

**Item 17                    Voting Client Securities**

Inherent has adopted proxy voting policies and procedures designed to prevent conflicts of interest from influencing proxy voting decisions it makes on behalf of Clients and to help ensure that such decisions are made in accordance with Inherent’s fiduciary obligation to act in Clients’ best interests.

Prior to making any proxy voting decisions or introducing any such items for shareholder consideration, Inherent’s CCO (or a designee) will evaluate whether there is any potential conflict of interest related to such matters between Inherent and its Clients or among its Clients. This examination generally will include (but will not be limited to) an evaluation of whether Inherent (or any of its affiliates) has any relationship with the company (or an affiliate of the company) to which the proxy relates outside an investment in such company by a Client. Clients do not have the ability to direct how Inherent votes proxies, but Clients (and investors in the Feeder Funds) can obtain information on how their proxies were voted by contacting the firm at 646-494-0202 or michael@inherentgroup.com. Inherent’s proxy

voting policies and procedures are available to any Client, prospective Client, and Feeder Fund investor upon request.

**Item 18            Financial Information**

Inherent does not require or solicit prepayment of advisory fees six months or more in advance. Inherent does not have any financial commitments that might impair the firm's current or future ability to meet our contractual commitments to Clients and the firm has not been the subject of a bankruptcy petition at any time during the past ten years.