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**PART 2A OF FORM ADV: FIRM BROCHURE**

**D1 CAPITAL PARTNERS L.P.**

**March 2019**

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This brochure (this “Brochure”) provides information about the qualifications and business practices of D1 Capital Partners L.P. (the “Investment Adviser”, “we”, “us”, and similar terms). If you have any questions about the contents of this Brochure, please contact us at [IR@d1capital.com](mailto:IR@d1capital.com) or 212.390.9100. 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.

This Brochure also relates to D1 Capital Partners GP LLC (the “Fund General Partner”), D1 Capital Partners GP Sub LLC (the “Master Fund General Partner”, and together with the Fund General Partner, the “Fund General Partners”), D1 Iconoclast Holdings GP LLC (the “Iconoclast General Partner”) and D1 Lion Holdings GP LLC (the “Lion General Partner”, and together with the Iconoclast General Partner, the “Co-Investment General Partners”); however, to the extent the qualifications and business practices of the Fund General Partners are substantially similar to those of the Investment Adviser, no specific mention of the Fund General Partners or the Co-Investment General Partners is made herein.

The Investment Adviser is registered as an investment adviser with the SEC. Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

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

## **ITEM 2**

### **MATERIAL CHANGES**

This is our first annual updating amendment. In the future, if our Brochure – when amended in conjunction with our annual update – contains material changes from our last annual update, we are required to identify and discuss those changes. We initially filed this Brochure in May 2018 and since then we filed an other-than-annual amendment in October 2018. Please note that our advisory business activities are more developed than was the case at the time we filed our initial Brochure. These changes and developments are reflected throughout the Brochure and reflect the changes to our advisory business since our initial Form ADV filing. While this update to our Brochure contains changes and updates to certain information since our initial Brochure, we believe that the following is the only material change since we filed our initial Brochure:

- Our original filing was made in reliance on the “newly-formed adviser” exemption from the prohibition on SEC registration available under SEC Rule 203A-2(c). This updated Brochure is filed as part of an overall amendment of our Form ADV confirming that we are eligible for SEC registration because we now qualify as a “large advisory firm” with more than \$100 million of regulatory assets under management.

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## **ITEM 4**

### **ADVISORY BUSINESS**

#### **A. General Description of Advisory Firm**

##### *1. D1 Capital Partners L.P.*

D1 Capital Partners L.P. (the “Investment Adviser”, “we”, “us”, and similar terms), is a Delaware limited partnership that was formed in 2018.

We have one office, which is located in New York City.

We are controlled by our principal owner, Daniel Sundheim (the “Principal Owner”), who is a limited partner of the Investment Adviser and wholly owns and controls, directly and indirectly, D1 Capital Management LLC, which serves as the Investment Adviser’s General Partner (the “Investment Adviser General Partner”). The Investment Adviser General Partner has ultimate responsibility for our management, operations and investment decisions.

##### *2. Fund General Partners*

Our registration on Form ADV also covers D1 Capital Partners GP LLC (the “Fund General Partner”) and D1 Capital Partners GP Sub LLC (the “Master Fund General Partner”, and collectively with the Fund General Partner, the “Fund General Partners”), which are both limited liability companies organized under the laws of the state of Delaware. The Fund General Partners are affiliates of the Investment Adviser and serve or may serve as the general partners of pooled investment vehicles that are U.S. or offshore partnerships. The Fund General Partners’ facilities and personnel are provided by the Investment Adviser.

The Principal Owner is the sole owner and the managing member of, and controls, the Fund General Partner. The Fund General Partner is the sole owner and managing member of the Master Fund General Partner.

##### *3. Co-Investment General Partners*

Our registration on Form ADV also covers D1 Iconoclast Holdings GP LLC (the “Iconoclast General Partner”) and D1 Lion Holdings GP LLC (the “Lion General Partner”, and collectively with the Iconoclast General Partner, the “Co-Investment General Partners”), which are both limited liability companies organized under the laws of the state of Delaware. The Co-Investment General Partners are affiliates of the Investment Adviser and serve or may serve as the general partners of pooled investment vehicles that are U.S. or offshore partnerships. The Co-Investment General Partners’ facilities and personnel are provided by the Investment Adviser.

The Fund General Partner is the sole owner and the managing member of, and controls, each Co-Investment General Partner.

## **B. Description of Advisory Services**

This Brochure generally includes information about us and our relationships with our clients. While much of this Brochure applies to all such clients, certain information included herein applies to specific clients only.

### *1. Advisory Services*

We serve as the investment adviser, with discretionary trading authority, to private pooled investment vehicles, the securities of which are offered to investors on a private placement basis (each, a “Fund” and collectively, the “Funds”). The Funds include:

- D1 Capital Partners Onshore LP, a Delaware limited partnership (the “Domestic Fund”);
- D1 Capital Partners Offshore LP, a Cayman Islands exempted limited partnership (the “Offshore Fund”, collectively with the Domestic Fund, the “Feeder Funds”);
- D1 Capital Partners Offshore Ltd., an exempted company incorporated under the laws of the Cayman Islands (the “Offshore Feeder Fund”), which invests substantially all of its assets into the Offshore Fund;
- D1 Capital Partners Intermediate LP, a Cayman Islands exempted limited partnership (the “Intermediate Fund”), into which the Offshore Fund invests substantially all of its assets; and
- D1 Capital Partners Master LP, a Cayman Islands exempted limited partnership (the “Master Fund”), which serves as the master fund into which the Domestic Fund and the Intermediate Fund invest substantially all of their assets through a “master feeder” structure (the assets of the Offshore Fund and the Offshore Feeder Fund are indirectly invested, through the Intermediate Fund, into the Master Fund).

The Fund General Partner serves as the general partner of the Domestic Fund, the Offshore Fund and the Intermediate Fund. The Offshore Feeder Fund is governed by its Board of Directors. The Master Fund General Partner serves as the general partner of the Master Fund.

In addition to the investment advisory services that we provide to the Funds, we have entered into, and may in the future enter into, co-investment arrangements with third parties (including, but not limited to, certain investors in the Funds), whereby we provide advisory services to vehicles that make investments alongside the Funds (“Co-Investment Vehicles”) (such Co-Investment Vehicles may include managed accounts or investment funds formed for a single investor or group of affiliated investors). Certain of the Co-Investment Vehicles are established and operated by the Investment Adviser or an affiliate. We also provide advisory services to Co-Investment Vehicles that are established and operated by third parties. Currently, the Co-Investment Vehicles established and operated by us and our affiliates are D1 Iconoclast Holdings LP (the general partner of which is the Iconoclast General Partner) and D1 Lion Holdings LP (the general partner of which is the Lion General Partner). Note that the term “Co-Investment Vehicles” as defined herein refers only to such vehicles to which we provide investment advisory services. In addition to such arrangements, we may cause our clients to invest in a vehicle in

which third parties are invested where we do not provide investment advisory services to either the third parties or the vehicle – such vehicles are not included within the definition of “Co-Investment Vehicles”.

As used herein, the term “client” generally refers to each Fund and to each Co-Investment Vehicle.

## *2. Investment Strategies and Types of Investments*

We will implement a global equity long-short strategy that will also seek to opportunistically pursue private investment opportunities for our clients, with flexibility to invest in opportunities that are perceived to offer the highest risk-adjusted returns. We expect to focus our research primarily on the technology, media and telecom (“TMT”), industrials, healthcare, consumer, real estate and financial services sectors. Geographically, our investments primarily will be in North America, Western Europe, Japan and China. There are no sector or geographic limitations on our investments, however, and we may invest in other sectors and geographic areas that we find attractive over time.

Our clients’ long portfolio generally will consist of securities of mid- and large-capitalization issuers that we believe meet certain criteria. These criteria will likely include, without limitation, excellent management teams, sustainable competitive advantages and/or strong growth prospects. The focus of our short portfolio generally will not be to minimize volatility or “hedge” the portfolio’s long positions. Rather, we generally will take short positions if we believe that such securities exhibit significant downside over the medium term.

With respect to public investments, we expect to primarily express our investment theses by investing in publicly traded equities. We may also invest in equity and credit derivatives, convertibles, other fixed income instruments and other financial instruments permitted under our clients’ governing documents. We may also use foreign exchange or other instruments for hedging and other purposes.

Our clients’ private investments will primarily, although not exclusively, be later-stage, minority stakes in companies. With respect to private investments, we generally will focus on investments that we believe are likely to offer liquidity within five years, but we may make investments with shorter or longer time horizons. We expect to pursue private investments across all of the sectors that we cover.

The descriptions set forth in this Brochure of specific advisory services that we offer to our clients, and investment strategies pursued and investments made by us on behalf of our clients, should not be understood to limit in any way our investment activities. We may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that we consider appropriate, subject to each client’s investment objectives and guidelines. The investment strategies we pursue are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any client will be achieved.

## **C. Availability of Customized Services for Individual Clients**

Our investment decisions and advice with respect to each client will be subject to each client’s investment objectives and guidelines, as set forth in its respective governing and offering documents.

**D. Wrap Fee Programs**

We do not currently participate in any Wrap Fee Programs.

**E. Assets Under Management**

We manage, on a discretionary basis, approximately \$8,060,660,534 of client regulatory assets under management. This figure for regulatory assets under management was determined as of December 31, 2018 for the Funds.



## ITEM 5 FEES AND COMPENSATION

### A. Advisory Fees and Compensation

#### 1. *The Funds*

The fees applicable to each Fund are set forth in detail in each Fund's offering documents. A brief summary of such fees is provided below.

##### (a) Management Fee

Generally, each Feeder Fund pays the Investment Adviser a fee for investment management services (the "Management Fee") for each month equal to one-twelfth of the product of the management fee rate applicable to the capital account of an investor (between 1-2% per annum) and the balance of such capital account of such investor as of the end of such month (without taking into account the estimated Incentive Allocation (see below), if any). The Management Fee generally is calculated and paid in arrears within 20-30 days of each month end. The Investment Adviser may, without the consent of Fund investors, cause the Management Fee to be charged to and paid at the level of the Intermediate Fund (in the case of the Offshore Fund) or the Master Fund rather than at the level of the Feeder Funds. For the purposes of calculating the Management Fee, certain investments of the Funds designated by the Investment Adviser as "private investments" will be valued at the lower of (i) initial cost of such investments, as adjusted for partial realizations (or deemed realizations), and (ii) fair value (which may be at cost) as of the end of the applicable month, as determined by the Investment Adviser.

Each Feeder Fund offers several classes of interests into which limited partners may invest, as detailed further in the applicable Funds offering documents. The management fee rate differs among such classes of interest and therefore the specific Management Fee amounts charged to investors will be determined by the specific investor's class of interests. Additional information regarding the fees paid by all classes of interests is contained in the applicable Fund's governing documents. In the sole discretion of the Fund General Partner, the Management Fee may be waived, reduced or calculated differently with respect to certain investors.

##### (b) Incentive Allocation

Generally, at the end of each fiscal year of the Funds, the Fund General Partner is entitled to an incentive allocation (the "Incentive Allocation") determined separately with respect to each capital account established for an investor. The Domestic Fund allocates to the Fund General Partner the Incentive Allocation directly and the Offshore Fund allocates to the Fund General Partner the Incentive Allocation indirectly, through the Intermediate Fund.

In the event that a Feeder Fund is terminated or an investor withdraws or is distributed amounts other than at the end of a fiscal year, then for purposes of determining the Incentive Allocation allocable at such time to the Fund General Partner, net capital appreciation will be determined as if such dates were the end of the fiscal year, subject to certain adjustments.

Each Feeder Fund offers several classes of interests into which limited partners may invest, as detailed further in the Fund's offering documents. The incentive allocation rate and manner of calculation

of the Incentive Allocation differs among such classes of interest and therefore the specific Incentive Allocation amounts charged to investors will be determined by the specific investor's class of interests and the investments of the Funds in which the capital account of the specific investor participates (which, for the avoidance of doubt, will differ among capital accounts as a result of variables including, without limitation, the timing of the specific investor's contribution to that capital account and the percentage of such contribution that is available from time to time for investments designated by the Investment Adviser as "private investments"). For example, for certain classes of interest, the Incentive Allocation allocated in respect of the specific investor's capital account will be an amount equal to the result of (i) the applicable incentive allocation rate multiplied by (ii) the amount of the net capital appreciation allocated to such capital account for such fiscal year reduced by the Management Fee debited to such capital account for such fiscal year taking into account any gains or losses from investments designated by the Investment Adviser to be "private investments" that have been realized or deemed realized and "private investment income", but reduced to the extent of any balance in such capital account's "loss recovery account". Certain other classes of interest are subject to a "progressive incentive allocation", pursuant to which the Incentive Allocation due in respect of such interests is calculated separately (and in a different manner) with respect to the portion of the capital account that is invested in public investments and the portion of the capital account that is invested in "private investments", and any losses are netted between such portions of the capital account, as described in more detail in the Fund's offering documents.

Additional details regarding the incentive allocation paid by all classes of interests are contained in the applicable Fund's governing documents. In the sole discretion of the Fund General Partner, the Incentive Allocation may be waived, reduced or calculated differently with respect to certain investors.

## *2. Co-Investment Vehicles*

All fees for Co-Investment Vehicles are subject to negotiation and established pursuant to each Co-Investment Vehicle's governing documents. To the extent that the advisory agreement for a Co-Investment Vehicle is terminated or an investor in a Co-Investment Vehicle withdraws from that vehicle, any unearned prepaid portion of fees will be returned to the Co-Investment Vehicle or its investors to the extent applicable.

## **B. Payment of Fees**

Fees and compensation paid to the Investment Adviser or its affiliates by its clients are generally deducted from the assets of such clients. As discussed above, Management Fees are generally deducted on a monthly basis and the Incentive Allocation is generally deducted on an annual basis. Certain Co-Investment Vehicles have the option of paying applicable fees in cash or in kind by making transfers of securities to the Investment Adviser.

## **C. Additional Fees and Expenses**

Each of the Feeder Funds will bear its own expenses and its pro rata share of the Master Fund's expenses and any trading subsidiary or special purpose vehicle's expenses, including, without limitation, the following: (i) the Management Fee; (ii) expenses related to the research, due diligence, financing (including all amounts borrowed pursuant to a subscription facility), monitoring and disposition of actual and prospective investments, whether or not such investment is consummated, including, without limitation, the following: third-party investment sourcing fees (including, without limitation,

performance-based fees); fees and expenses related to obtaining research and market data (including, without limitation, any information technology hardware, software or other technology incorporated into the cost of obtaining such research and market data, and including fees and expenses related to obtaining, processing and analyzing research or market data that may be considered “big data” or “alternative data”, including fees and expenses related to performing due diligence on potential providers of any of such research or market data services (including, without limitation, “big data” or “alternative data” services)); due diligence expenses including, without limitation, consulting and appraisal fees; travel expenses; brokerage, prime brokerage and futures commission merchant fees, commissions and expenses; expenses relating to block trades; expenses relating to short sales; clearing and settlement charges; custodial fees and expenses; bank service fees; interest expenses and fees related to financings or refinancings; financing costs related to investor commitment lines of credit; fees and expenses of proxy research and voting and class action-related services; and fees and expenses of third-party professionals, including, without limitation, consultants, investment bankers, attorneys and accountants; (iii) organizational and reorganizational expenses; (iv) the Funds’ direct or indirect *pro rata* share of any compensation payable in connection with the management of any private investment by an unaffiliated third party or management team, which may include both asset-based fees and performance-based fees or allocations (which, for the avoidance of doubt, will not reduce the Management Fee or Incentive Allocation payable by the applicable Fund unless the private investment is a Blind Pool (as defined below in Item 8)); (v) fees and expenses relating to information technology hardware, software or other technology (including, without limitation, costs of software licensing, implementation, data management and recovery services and custom development) used to research investments, evaluate and manage risk, facilitate valuations and/or facilitate compliance with the rules of any self-regulatory organization or applicable law (including, without limitation, reporting obligations), facilitate and manage the order execution of investments or otherwise manage the applicable Funds or any trading subsidiary or special purpose vehicle; (vi) fees and expenses of third-party professionals, including, without limitation, consultants, valuation service providers, attorneys, accountants and third-party administrative fees and expenses and including, without limitation, the costs of engaging or appointing a Money Laundering Reporting Officer, a Deputy Money Laundering Reporting Officer and an Anti-Money Laundering Compliance Officer; (vii) the costs of any litigation or investigation involving activities of the Funds or any trading subsidiary or special purpose vehicle; (viii) taxes and third-party audit and tax preparation expenses; (ix) 80% of insurance expenses, including, without limitation, premiums for cybersecurity insurance and liability insurance covering the Fund General Partners, the Investment Adviser and the members, partners, officers, employees and agents of any of them, and each member of the Investment Adviser’s advisory board (the “Advisory Board”); (x) fees and expenses (including, without limitation, director registration fees) of the independent members of the Advisory Board or any trading subsidiary’s or special purpose vehicle’s directors, and fees and expenses of directors of the Offshore Feeder Fund (the costs of which shall be borne solely by the investors of the Offshore Feeder Fund); (xi) costs of preparing and distributing reports and notices (including, without limitation, all costs incurred to audit such reports, provide access to a database or other internet forum and any other operational, legal, secretarial or postage expenses associated with distribution of the same); (xii) expenses incurred in connection with negotiating and complying with provisions of any side letter agreement, including, without limitation, complying with “most favored nations” election processes in connection therewith and expenses incurred in connection with any transfer of the applicable Fund’s interests or of a Fund investor’s admission or withdrawal, unless otherwise charged to or borne by the applicable transferee of the Fund investor; (xiii) fees and expenses related to compliance with the rules of any self-regulatory organization or applicable law in connection with the activities of the Funds or any trading subsidiary or special purpose vehicle,

including, without limitation, any governmental, regulatory, licensing, filing or registration fees or taxes (including, without limitation, fees and expenses incurred in connection with the preparation and filing of Form PF, Section 13 filings, Section 16 filings and other similar regulatory filings); (xiv) expenses incurred in connection with the offering and sale of Fund interests and other similar expenses related to the applicable Fund (excluding fees payable to any placement agent); (xv) expenses incurred in connection with any amendments, modifications, revisions or restatements to the constituent documents of the Funds or any trading subsidiary or special purpose vehicle (other than any such amendments, modifications, revisions or restatements related solely to affairs of the Fund General Partners, the Investment Adviser and their respective partners or members and not related to the affairs of such entity); (xvi) expenses incurred in connection with meetings with investors in Funds; (xvii) extraordinary expenses, including, without limitation, indemnification expenses and fees and expenses incurred in connection with any tax audit by any tax authority, including, without limitation, any related administrative settlement and judicial review; and (xviii) fees and expenses incurred in connection with the reorganization, dissolution, winding-up or termination of the Funds or any trading subsidiary or special purpose vehicle. The expenses borne by the Co-Investment Vehicles, to the extent that they differ from the expenses listed above, are detailed in the governing agreements applicable to each Co-Investment Vehicle.

#### **D. Prepayment of Fees**

In general, the Management Fee and the Incentive Allocation are paid in arrears and clients do not pay fees in advance.

#### **E. Additional Compensation and Conflicts of Interest**

Neither the Investment Adviser nor any of its supervised persons accepts compensation (*e.g.*, brokerage commissions) for the sale of securities or other investment products.

**ITEM 6**  
**PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

We and our affiliates accept performance-based compensation from every client. As a result, we and our affiliates do not face certain conflicts of interest that may arise when an investment adviser accepts performance-based fees from some clients, but not from other clients.

**ITEM 7**  
**TYPES OF CLIENTS**

We provide investment advice to the Funds and the Co-Investment Vehicles, as described above.

## **ITEM 8**

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

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

The descriptions set forth in this Brochure of specific advisory services that we offer to clients, and investment strategies pursued and investments made by us on behalf of our clients, should not be understood to limit in any way our investment activities. We may offer any advisory services, engage in any investment strategy and make any investment, including any investment not described in this Brochure, that we consider appropriate, subject to each client's investment objectives and guidelines. The investment strategies we pursue are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any client will be achieved.

We will implement a global equity long-short strategy that will also seek to opportunistically pursue private investment opportunities for our clients, with flexibility to invest in opportunities that are perceived to offer the highest risk-adjusted returns. We expect to focus our research primarily on the TMT, industrials, healthcare, consumer, real estate and financial services sectors. Geographically, our investments primarily will be in North America, Western Europe, Japan and China. There are no sector or geographic limitations on our investments, however, and we may invest in other sectors and geographic areas that we find attractive over time.

Our clients' long portfolio generally will consist of securities of mid- and large-capitalization issuers that we believe meet certain criteria. These criteria will likely include, without limitation, excellent management teams, sustainable competitive advantages and/or strong growth prospects. The focus of our short portfolio generally will not be to minimize volatility or "hedge" the portfolio's long positions. Rather, we generally will take short positions if we believe that such securities exhibit significant downside over the medium term.

With respect to public investments, we expect to primarily express our investment theses by investing in publicly traded equities. We may also invest in equity and credit derivatives, convertibles, other fixed income instruments and other financial instruments permitted under our clients' governing documents. We may also use foreign exchange or other instruments for hedging and other purposes.

Our clients' private investments will primarily, although not exclusively, be later-stage, minority stakes in companies. With respect to private investments, we generally will focus on investments that we believe are likely to offer liquidity within five years, but we may make investments with shorter or longer time horizons. We expect to pursue private investments across all of the sectors that we cover.

This section summarizes key features of our investment program. Please refer to the applicable client's governing documents for additional details of the investment program.

#### **B. Material, Significant or Unusual Risks Relating to Investment Strategies**

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the clients that we advise. These risk factors include only those risks we believe to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis that we employ.

**The investment program that we pursue on behalf of our clients is speculative and entails substantial risks. There can be no assurance that our clients' investment objectives will be achieved.** The following risk factors and other relevant risks could have a material adverse effect on our clients. Prospective clients and Fund investors should carefully consider the risks involved in a client relationship with the Investment Adviser or an investment in the Funds, including those discussed below, and consult their own legal, tax and financial advisers with respect to such risks. The following list of risk factors cannot be and is not intended to be exhaustive. Additional or new risks not addressed below may affect client investments.

Client assets may be invested, directly or indirectly, on margin or otherwise, in: interests commonly referred to as securities and other financial instruments issued by, entered into by or referenced to U.S. or non-U.S. entities and other assets, including capital stock; shares of beneficial interest; partnership interests and similar financial instruments; interests in real estate and real estate-related assets, including real estate partnerships and real estate investment trusts ("REITs"); bonds, notes and debentures (whether subordinated, convertible or otherwise); currencies; commodities; physical and intangible assets; interest rate, currency, commodity, equity and other derivative products, including (i) futures contracts (and options thereon) relating to stock indices, currencies, U.S. government securities and securities of non-U.S. governments, other financial instruments and all other commodities, (ii) swaps, options, swaptions, warrants, caps, collars, floors and forward rate agreements, (iii) spot and forward currency transactions and (iv) agreements relating to or securing such transactions; repurchase and reverse repurchase agreements; loans; structured finance instruments; accounts and notes receivable and payable held by trade or other creditors; trade acceptances; contract and other claims; executory contracts; participations; mutual funds, exchange-traded funds and similar financial instruments; money market funds; Portfolio Funds (as defined below); obligations of the United States or any non-U.S. government, or any country, state, governmental agency or political subdivision thereof; commercial paper; certificates of deposit; bankers' acceptances; choses in action; trust receipts; and any other obligations and instruments or evidences of indebtedness of whatever kind or nature that exist now or are hereafter created (in our response to Item 8, all such items being called herein "Securities"); in each case, of any person, whether or not publicly traded or readily marketable.

#### *Risk of Loss*

No guarantee or representation is made that a client's investment program, including such clients' investment objective, diversification strategies or risk monitoring goals, will be successful. Investment results may vary substantially over time.

**No assurance can be made that profits will be achieved or that substantial or complete losses will not be incurred. Past investment results of the Investment Adviser (or investments made by the investment professionals of the Investment Adviser) are not necessarily indicative of future performance.**

#### *Long/Short*

The success of the long/short investment strategy that the Investment Adviser pursues for its clients depends upon the Investment Adviser's ability to identify and purchase Securities that are undervalued and identify and sell short Securities that are overvalued. The identification of investment opportunities in the implementation of the long/short investment strategies that we pursue on behalf of



our clients is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. In the event that the perceived opportunities underlying clients' positions were to fail to converge toward, or were to diverge further from values expected by the Investment Adviser, clients may incur a loss. In the event of market disruptions, significant losses can be incurred which may force the Investment Adviser to close out one or more client positions. Furthermore, the valuation models used to determine whether a position presents an attractive opportunity consistent with the Investment Adviser's long/short strategies may become outdated and inaccurate as market conditions change.

To the extent that the Investment Adviser employs "event-driven" investment strategies, the success of such strategy will depend upon the Investment Adviser's ability to make predictions about the likelihood that an event will occur and the impact such event will have on the value of a company's Securities. If the event fails to occur or does not have the effect foreseen, losses can result. For example, the adoption of new business strategies or completion of asset dispositions or debt reduction programs by a company may not be valued as highly by the market as the Investment Adviser had anticipated, resulting in losses. In addition, a company may announce a plan of restructuring which promises to enhance value, but fail to implement it, which can result in losses to investors. In liquidations and other forms of corporate reorganization, the risk exists that the reorganization either will be unsuccessful, will be delayed or will result in a distribution of cash or a new security, the value of which will be less than the purchase price to clients of the security in respect of which such distribution was made. The consummation of mergers and tender and exchange offers can also be prevented or delayed by a variety of factors.

### *Short Selling*

The success of the short selling investment strategy that the Investment Adviser pursues for its clients depends upon the Investment Adviser's ability to identify and sell short Securities that are overvalued. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying Security could theoretically increase without limit, thus increasing the cost to clients of buying those Securities to cover the short position. There can be no assurance that clients will be able to maintain the ability to borrow Securities sold short. In such cases, clients can be "bought in" (*i.e.*, forced to repurchase Securities in the open market to return to the lender). There also can be no assurance that the Securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing Securities to close out a short position can itself cause the price of the Securities to rise further, thereby exacerbating the loss. Short strategies can also be implemented synthetically through various instruments and be used with respect to indices or in the over-the-counter market and with respect to futures and other instruments. In some cases of synthetic short sales, there is no floating supply of an underlying instrument with which to cover or close out a short position and clients may be entirely dependent on the willingness of over-the-counter market makers to quote prices at which the synthetic short position may be unwound. There can be no assurance that such market makers will be willing to make such quotes. Short strategies can also be implemented on a leveraged basis. Lastly, even though the Investment Adviser causes its clients to secure a "good borrow" of the Security sold short at the time of execution, the lending institution may recall the lent Security at any time, thereby forcing clients to purchase the Security at the then-prevailing market price, which may be higher than the price at which the Investment Adviser originally caused clients to sell the Security short.

### *Long-Term*

The success of the Investment Adviser's long-term investment strategy depends upon the Investment Adviser's ability to identify and purchase Securities that are undervalued and hold such Securities so as to maximize value on a long-term basis. In pursuing any long-term strategy, the Investment Adviser may cause clients to forego value in the short-term or temporary investments in order to be able to avail clients of additional and/or longer-term opportunities in the future. Consequently, clients may not capture maximum available value in the short-term, which may be disadvantageous, for example, for Fund investors who withdraw all or a portion of their investments in the Funds before such long-term value may be realized by the applicable Fund.

### *Short-Term Market Considerations*

The Investment Adviser's trading decisions may, from time to time or in certain cases, be made on the basis of short-term market considerations, and the portfolio turnover rate could result in significant trading related expenses.

### *Leverage and Borrowing*

#### *Leverage for Investment Purposes*

The Investment Adviser has the authority to cause clients to borrow, trade on margin, utilize derivatives and otherwise obtain leverage from brokers, banks and others on a secured or unsecured basis. The Investment Adviser expects to cause clients to use leverage to the extent deemed appropriate by the Investment Adviser, and the amount of leverage that the Investment Adviser causes clients to utilize may be significant. Clients have no pre-determined limitations on the amount of leverage to be deployed in connection with the investment program. Clients' leverage amount will depend on the investment strategies employed by the Investment Adviser and specific market opportunities, among other things.

The use of leverage will allow the Investment Adviser to cause its clients to make additional investments, thereby increasing clients' exposure to assets, such that their total assets may be greater than their capital. However, leverage will also magnify the volatility of changes in the value of client portfolios. The effect of the use of leverage by the Investment Adviser on behalf of its clients in a market that moves adversely to clients' investments could result in substantial losses to clients, which would be greater than if clients were not leveraged.

#### *Borrowing for Cash Management Purposes*

The Investment Adviser also has the authority to cause its clients to borrow for cash management purposes, such as to satisfy withdrawal requests. The rates at and terms on which the Investment Adviser will cause its clients to borrow will affect such clients' operating results.

#### *Collateral*

The instruments and borrowings utilized by the Investment Adviser to leverage client investments will be collateralized by all or a portion of client portfolios. Accordingly, the Investment Adviser may cause a client to pledge its Securities in order to borrow or otherwise obtain leverage for

investment or other purposes. Should the Securities pledged to brokers to secure such clients' margin accounts decline in value, those clients could be subject to a "margin call", pursuant to which the Investment Adviser must cause those clients to either deposit additional funds or Securities with the broker or suffer mandatory liquidation of the pledged Securities to compensate for the decline in value. The banks and dealers that provide financing to clients can apply essentially discretionary margin, "haircut", financing and collateral valuation policies. Changes by counterparties in any of the foregoing may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous prices. Lenders that provide other types of asset-based or secured financing to clients may have similar rights. There can be no assurance that the Investment Adviser will be able to secure or maintain adequate financing for its clients.

#### *Costs*

Borrowings will be subject to interest, transaction and other costs, and other types of leverage also involve transaction and other costs. Any such costs may or may not be recovered by the return on client portfolios.

#### *Subscription Facility*

Clients may incur indebtedness under one or more credit facilities pursuant to which they will pledge investor capital commitments (each such facility, a "Subscription Facility"). The terms and obligations applicable to Fund investors or Co-Investment Vehicle investors arising from the use of Subscription Facilities are further detailed in the applicable governing documents for the Fund or Co-Investment Vehicle.

The Subscription Facilities (sometimes referred to as subscription credit lines, or capital call facilities) are utilized by private funds for various purposes, including to bridge the time between the closing of an investment and the receipt of capital called from a private fund's investors, and for broader cash management purposes. From the investor's perspective, such facilities can smooth cash flows and ease the administrative burden of responding to capital calls. In addition, such facilities permit the private fund to have ready access to cash in the event short-term funding obligations (e.g., margin requirements) arise, which fund sponsors consider allows for efficient cash management (as opposed to holding larger cash reserves). Certain bodies, including the SEC and the Institutional Limited Partners Association ("ILPA"), have suggested that investors, and the private fund industry generally, take into account a number of matters when considering the use of such facilities. In guidelines released by ILPA, some of the concerns and risks that are noted regarding such facilities include the following: (i) the use of such facilities can impact internal rates of return (i.e., if such facilities are drawn upon, the delay in calling capital can distort returns by shortening the period in respect of which the internal rate of return is calculated); (ii) because the use of such facilities is not universal among fund managers, the use of such facilities makes it more challenging for investors to compare reported returns across similar private funds; (iii) the use of such facilities creates the potential for general partners to receive performance-based compensation in cases where an unlevered investment may not result in compensation being payable; (iv) such facilities give rise to partnership expenses, which can

limit any positive leverage impacts on returns and decrease multiples on invested capital for investors; and (v) the terms and provisions that may apply to such facilities may pose legal risks for investors, including, without limitation, transfer restrictions, documentation requests and other requirements of lenders.

#### *Lending of Portfolio Securities*

The Investment Adviser expects to, and does, require clients to lend Securities on a collateralized and an uncollateralized basis from client portfolios to creditworthy securities firms and financial institutions. While a securities loan is outstanding, clients will continue to receive the equivalent of the interest or dividends paid by the issuer on the Securities, as well as interest on the investment of the collateral or a fee from the borrower. The risks in lending Securities, as with other extensions of secured credit, if any, consist of possible delay in receiving additional collateral, if any, or in recovery of the Securities or possible loss of rights in the collateral, if any, should the borrower fail financially.

#### *Diversification and Concentration*

The Investment Adviser causes its clients to invest across a broad array of sectors and strategies, including the TMT, industrials, healthcare, consumer, real estate and financial services sectors. Furthermore, the Investment Adviser expects to cause its clients to invest across a broad array of geographic regions: primarily in North America, Western Europe, Japan and China, and opportunistically in other areas. Nonetheless, the Investment Adviser expects that its clients' top ten largest public investments will typically comprise a majority of the clients' public portfolios and the Investment Adviser may select investments that are concentrated in a limited number or types of Securities. Similarly, client portfolios may become significantly concentrated in Securities related to a single or a limited number of issuers, industries, sectors, strategies, countries or geographic regions. This limited diversification may result in the concentration of risk, which, in turn, could expose clients to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in such Securities.

#### *Lack of Control*

The Investment Adviser will cause clients to invest in equity securities and debt instruments of companies that it does not control, which clients will acquire through market transactions or through purchases of Securities directly from the issuer or other shareholders. Such Securities will be subject to the risk that the issuer may make business, financial or management decisions with which the Investment Adviser does not agree or that the majority stakeholders or the management of the issuer may take risks or otherwise act in a manner that does not serve its clients' interests. Notwithstanding the foregoing, the Investment Adviser may engage with the management of companies in which it invests with a view to sharing ideas regarding the business and affairs of such companies. In addition, the Investment Adviser may cause clients to share control over certain investments with co-investors, which may make it more difficult for the Investment Adviser to implement its investment approaches or exit the investment when it would otherwise cause its clients to do so. The occurrence of any of the foregoing could have a material adverse effect on clients and the investors' investments therein.

#### *Hedging Transactions*

Notwithstanding that the Investment Adviser will generally not utilize short-selling as a strategy for hedging client transactions, the Investment Adviser may cause clients to utilize Securities for risk

management purposes in order to: (i) protect against possible changes in the market value of clients' investment portfolio resulting from fluctuations in the markets and changes in interest rates; (ii) protect clients' unrealized gains in the value of their investment portfolio; (iii) facilitate the sale of any Securities; (iv) enhance or preserve returns, spreads or gains on any Security in client portfolios; (v) hedge against a directional trade; (vi) hedge the interest rate, credit or currency exchange rate on any clients' Securities; (vii) protect against any increase in the price of any Securities the Investment Adviser anticipates causing clients to purchase at a later date; or (viii) act for any other reason that the Investment Adviser deems advisable. The Investment Adviser will not be required to cause clients to hedge any particular risk in connection with a particular transaction or portfolios generally. Moreover, the Investment Adviser may be unable to anticipate the occurrence of a particular risk and, therefore, may be unable to attempt to hedge against it. While the Investment Adviser may cause clients to enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for clients than if they had not engaged in any such hedging transaction. Moreover, client portfolios will always be exposed to certain risks that cannot be hedged.

#### *Discretion of the Investment Adviser; New Strategies and Techniques*

While the Investment Adviser will generally seek to employ the representative investment strategies and techniques discussed herein, the Investment Adviser (subject to the policies and control of the Fund General Partners, as applicable) has considerable discretion in the types of Securities that clients may trade and has the right to modify the investment strategies and techniques used to invest the assets of client portfolios without the consent of clients or Fund investors. New investment strategies and techniques may not be thoroughly tested in the market before being employed and may have operational or theoretical shortcomings which could result in unsuccessful trades and, ultimately, losses to clients. In addition, any new investment strategy or technique developed by the Investment Adviser may be more speculative than earlier investment strategies and techniques and may involve material and as-yet-unanticipated risks.

#### *Counterparty Risk*

The Investment Adviser expects to establish relationships for its clients to obtain financing, derivative intermediation and prime brokerage services that permit its clients to trade in a variety of markets or asset classes over time. However, there can be no assurance that the Investment Adviser will be able to establish or maintain such relationships on behalf of its clients. An inability to establish or maintain such relationships could limit clients' trading activities, create losses, preclude clients from engaging in certain transactions or prevent clients from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships could have a significant impact on the Investment Adviser's and the clients' business due to clients' reliance on such counterparties.

The Investment Adviser at times expects to, and has, caused clients to effect transactions in the "over-the-counter" or "OTC" derivatives markets. The stability and liquidity of OTC derivatives transactions depends in large part on the creditworthiness of the parties to the transactions. In the OTC markets, the Investment Adviser causes clients to enter into a contract directly with dealer counterparties which may expose such clients to the risk that a counterparty will not settle a transaction in accordance with its terms because of a solvency or liquidity problem with the counterparty. Delays in settlement may also result from disputes over the terms of the contract (whether or not bona fide). In addition, clients will

likely have, from time to time, a concentrated risk in certain counterparties, which may mean that if such counterparty were to become insolvent or have a liquidity problem, losses would be greater than if the Investment Adviser had caused its clients to enter into contracts with multiple counterparties. Certain OTC derivative contracts require that the clients post collateral.

If there is a default by a counterparty, clients will typically have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the net asset value of applicable client portfolios being less than if the Investment Adviser had not caused its clients to enter into the transaction. Furthermore, there is a risk that any of such counterparties could become insolvent and/or the subject of insolvency proceedings. In such case, the recovery of clients' Securities from such counterparty or the payment of claims in respect of such Securities may be significantly delayed and the Investment Adviser may recover substantially less for clients than the full value of the Securities entrusted to such counterparty. In addition, there are a number of proposed rules that, if they were to go into effect, may impact the laws that apply to insolvency proceedings and may impact whether the Investment Adviser may cause its clients to terminate their agreement with an insolvent counterparty.

Collateral that the Investment Adviser causes clients to post to their counterparties that is not segregated with a third party custodian may not have the benefit of customer-protected "segregation" of such clients. In the event that a counterparty were to become insolvent, clients may become subject to the risk that they may not receive the return of posted collateral or that such collateral may take some time to return.

In addition, the Investment Adviser may cause clients to use counterparties located in jurisdictions outside the United States. Such local counterparties usually are subject to laws and regulations in non-U.S. jurisdictions that are designed to protect customers in the event of their insolvency. However, the practical effect of these laws and their application to the clients' assets are subject to substantial limitations and uncertainties. Because of the range of possible factual scenarios involving the insolvency of a counterparty and the potentially large number of entities and jurisdictions that may be involved, it is impossible to generalize about the effect of such an insolvency on client portfolios and the assets of such portfolios. Clients should assume that the insolvency of any such counterparty would result in significant delays in recovering clients' Securities from or the payment of claims in respect of such Securities by such counterparty and a loss to the applicable clients, which could be material.

#### *Competition; Availability of Investments*

Certain markets in which the Investment Adviser causes clients to invest are extremely competitive for attractive investment opportunities. As a result, there can be no assurance that the Investment Adviser will be able to identify or successfully pursue attractive investment opportunities in such environments. Subject to the Investment Adviser's policies and procedures, the personnel of the Investment Adviser expect to, and do, discuss with other market participants (including other investment managers) information regarding existing and potential investments (including information that would otherwise be maintained confidentially). While these interactions are intended to benefit clients, there is a risk that the sharing of such ideas could result in increased competition for potential investments, and result in the Investment Adviser not being able to make certain investments for clients in the amounts or at the prices that would have been obtainable had the personnel not shared such information.

### *Volatility Risk*

The investment program that the Investment Adviser pursues on behalf of its clients will involve the purchase and sale of relatively volatile Securities and/or investments in volatile markets. Fluctuations or prolonged changes in the volatility of such Securities and/or markets can adversely affect the value of Securities held by clients.

### *Credit Ratings*

In general, the credit rating assigned by a nationally recognized rating agency to a Security represents such rating agency's opinion of the safety of the principal and interest payments of the rated instrument based on available information. Such ratings are relative and subjective; they are not absolute standards of quality and do not evaluate the market value risk of such Securities. Such ratings also do not reflect macroeconomic or systemic risk, including the risk of increased illiquidity in the credit markets. Further, credit ratings may change over time due to various factors, including changes in the creditworthiness of the issuer and/or changes in the rating agency's analytics and processes. It is possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events and, as a result, outstanding ratings may not reflect the issuer's current credit standing. Clients can be expected to incur losses if the Investment Adviser causes such clients to make investments based on credit ratings that subsequently change in a way not favorable to the clients' investment objective.

### *Co-Investments*

The Investment Adviser expects to cause the Funds to co-invest (and has previously caused the Funds to co-invest) with one or more Co-Investment Vehicles, investors in the Funds, investors in Co-Investment Vehicles, or other third parties (including affiliates of the Investment Adviser, the Fund General Partners, and their respective members, partners, officers or employees or affiliates of any of them), through joint ventures or other structures, and in particular, the Principal Owner and the Investment Adviser-Related Investors (as detailed further in Item 10, below) may co-invest with clients whether or not the particular co-investment opportunity is offered to investors, investors of certain clients or other third-party investors.

Third-party involvement with an investment may negatively impact the returns of such investment if, for example, the third-party co-investor has financial difficulties, has economic or business interests or goals that are inconsistent with those of clients or is in a position to take (or block) action in a manner contrary to clients' investment objectives. In circumstances where such third parties involve an external management group, such third parties may enter into compensation arrangements relating to such investments, including incentive compensation arrangements. Such compensation arrangements will reduce the returns to participants in the investments.

Co-investments could also involve certain other risks. For example, in certain circumstances, clients could be liable for the actions of co-investors, *e.g.*, if a co-investor fails to fund its portion of the co-investment, and co-investors may not bear (or may bear less than their proportionate share of) expenses incurred in relation to the sourcing, due diligence or negotiation of a co-investment, whether or not such co-investment is consummated. Such expenses that are not borne by such co-investors may increase expenses borne by clients and their investors.

### *Significant Positions in Securities; Regulatory Requirements*

In the event that the Investment Adviser causes clients to acquire a significant stake in certain issuers of Securities and such stake exceeds certain percentage or value limits, clients may be subject to regulation and regulatory oversight that may impose notification and filing requirements or other administrative burdens on clients and the Investment Adviser. Any such requirements may impose additional costs on clients and may delay the acquisition or disposition of the Securities or the Investment Adviser's ability to respond in a timely manner to changes in the markets with respect to such Securities.

In addition, "position limits" may be imposed by various regulators that may limit the Investment Adviser's ability to effect desired trades on behalf of its clients. Position limits are the maximum amounts of gross, net long or net short positions that any one person or entity may own or control in a particular issuer's Securities. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. To the extent that clients' position limits were aggregated with an affiliate's position limits, the effect on clients and resulting restriction on specific clients' investment activities may be significant. If at any time positions managed by the Investment Adviser were to exceed applicable position limits, the Investment Adviser would be required to liquidate positions, which might include positions held by clients, to the extent necessary to come within those limits. Further, to avoid exceeding any position limits, the Investment Adviser might have to forego or modify certain of its contemplated trades for its clients.

In addition, if the Investment Adviser causes clients, acting alone or as part of a group, to acquire 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 U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), such clients 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 clients will be prohibited from entering into a short position in such issuer's securities, and therefore have limited ability to hedge such investments. Similar restrictions and requirements may apply in non-U.S. jurisdictions.

The Investment Adviser may cause its clients, acting either alone or as part of a group, to acquire a "control" position in an issuer's Securities. This may subject clients to additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability in which the limited liability generally characteristic of business operations may be ignored.

#### *Exposure to Material Non-Public Information*

From time to time, the Investment Adviser may, in the course of its activities with respect to pursuing clients' investment program, receive material non-public information with respect to an issuer of publicly traded Securities. In addition, during the course of the research process, the Investment Adviser may share and receive information from other market participants, which could increase the likelihood that the Investment Adviser will receive material non-public information and be required to restrict trading in an issuer's securities. In such circumstances, the Investment Adviser may restrict a client, or the Investment Adviser (acting on behalf of its clients) may be prohibited, by law, policy or contract, for a period of time from (i) unwinding a position in such issuer, (ii) establishing an initial position or taking any greater position in such issuer, and (iii) pursuing other investment opportunities related to such issuer. If these restrictions or prohibitions apply to Securities in which the Investment Adviser is considering



causing a client to make an investment, such restrictions or limitations could prevent the Investment Adviser from accessing a profitable investment opportunity for its clients. If such restrictions or limitations apply to Securities in a client has an existing investment, then such restrictions or limitations could give rise to substantial investment losses, which losses, in the case of a Security in which a client has a short position, are theoretically unlimited.

#### *Commodity Interest Trading Limit*

The Investment Adviser currently operates the Funds subject to the CFTC Rule 4.13(a)(3) de minimis exemption (the “4.13(a)(3) Exemption”). While the 4.13(a)(3) Exemption provides relief from certain CFTC reporting and recordkeeping requirements, it generally requires the Funds to, among other things, have de minimis levels of commodity interest trading. Accordingly, the Funds will operate with significant restrictions upon their trading of the instruments that are restricted under the 4.13(a)(3) Exemption, such as commodity futures, security futures options thereon and certain swaps. As a substitute for such instruments, the Investment Adviser may cause the Funds to trade other instruments that are not restricted under the 4.13(a)(3) Exemption. As a result, a Fund may incur higher transaction costs or effect a less optimal hedge than it would otherwise be able to if it were not operated subject to the 4.13(a)(3) Exemption.

#### *Currency Exchange Exposure*

The Investment Adviser may cause clients to invest in Securities denominated in currencies other than the U.S. dollar. The Investment Adviser values its clients’ Securities in U.S. dollars. The Investment Adviser may or may not seek to hedge clients’ non-U.S. currency exposure by entering into currency hedging transactions. There can be no guarantee that Securities suitable for hedging currency or market shifts will be available at the time when the Investment Adviser wishes to use them, or that hedging techniques employed by the Investment Adviser on behalf of its clients will be effective. Furthermore, certain currency market risks may not be fully hedged or hedged at all. To the extent unhedged, the value of client positions denominated in currencies other than the U.S. dollar will fluctuate with U.S. dollar exchange rates as well as with the price changes of the investments in the various local markets and currencies.

#### *Investment and Due Diligence Process*

Due diligence generally entails evaluation of important and complex business, financial, tax, accounting, environmental and legal issues. Before making investments, the Investment Adviser will conduct due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence and making an assessment regarding an investment, the Investment Adviser will rely on the resources reasonably available to it. For example, outside consultants, legal advisors, accountants and other third parties may be involved in the due diligence process to varying degrees depending on the type of investment and the facts and circumstances related thereto, and the Investment Adviser may rely on the advice of such parties. However, whether or not known to the Investment Adviser at the time, such resources may not be sufficient, accurate, complete or reliable, and due diligence may not reveal or highlight matters that could have a material adverse effect on the value of an investment. For example, there can be no assurance that the Investment Adviser will be able to detect or prevent irregular accounting, employee misconduct or other fraudulent practices during the due diligence phase of an investment or during its efforts to monitor an investment on an ongoing basis.

At times, the investment opportunities pursued by the Investment Adviser on behalf of its clients can be expected to require rapid execution, and investment analyses, due diligence, negotiations and decisions by the Investment Adviser may be required to be undertaken on an expedited basis. In such cases, the information available to the Investment Adviser at the time of an investment decision may be limited, and the Investment Adviser may not have access to detailed information regarding the investment opportunity. Therefore, no assurance can be given that the Investment Adviser will have knowledge of all circumstances that may adversely affect an investment or be in a position to negotiate terms that appropriately address such risks. It frequently is difficult to obtain information as to the true condition of an issuer and the Investment Adviser may rely upon the accuracy and completeness of representations made by issuers and/or their owners in the due diligence process when it makes an investment. Moreover, there can be no assurance that attempts to obtain downside protection with respect to assets or companies in which the Investment Adviser causes clients to invest will achieve their desired effect, and in certain cases, depending on the type of Security or type of issuer, an opportunity may only be available on the basis of limited representations, warranties or covenants (e.g., “covenant lite” instruments), and the lack of robust covenants may increase the risk associated with the investment. The Investment Adviser generally, although not necessarily exclusively, pursues investment opportunities where clients will be a minority owner. As a result, the Investment Adviser may not have the same level of access to information in comparison to market participants pursuing controlling interests.

In countries where generally accepted accounting principles and practices differ significantly from those practiced in the United States, the evaluation of potential investments and the ability to perform due diligence may also be affected. The financial information appearing on the financial statements of a company operating in one or more non-U.S. countries may not reflect its financial position or results of operations in the way they would be reflected if the financial statements had been prepared in accordance with accounting principles generally accepted in the United States.

#### *Uncertainty of Financial Projections*

The Investment Adviser may use financial projections to help analyze a potential investment or future capital raises by, and financing for, portfolio companies or other transactions. Projected operating results will often be based on management judgments, with adjustments to such projections made by the Investment Adviser in its discretion. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. There can be no assurance that the projected results will be obtained, and actual results may vary significantly from the projections. General economic conditions, which are not predictable, can have a material adverse effect on the reliability of such financial projections.

#### *Fundamental Analysis*

Certain trading decisions made by the Investment Adviser will be based on fundamental analysis. Data on which fundamental analysis relies may be inaccurate or may be generally available to other market participants. To the extent that any such data are inaccurate or that other market participants have developed, based on such data, trading strategies similar to the Investment Adviser’s trading strategies (that it pursues on behalf of its clients), the Investment Adviser may not be able to realize its clients’ investment goals. In addition, fundamental market information is subject to interpretation. To the extent that the Investment Adviser misinterprets the meaning of certain data, clients may incur losses.

### *Alternative Data*

The Investment Adviser expects to obtain and use alternative data in its investment process. Alternative data may consist of datasets that have been culled from a variety of sources, such as internet usage, payment records, financial transactions, weather and other physical phenomena sensors, applications and devices (such as smartphones) that generate location and mobility data, data gathered by satellites, and government and other public records databases (this data is sometimes referred to as “big data” or “alternative data”). The Investment Adviser intends to apply this alternative data to better anticipate micro- and macro-economic trends and otherwise to develop or improve trading or investment themes.

The analysis and interpretation of alternative data involves a high degree of uncertainty and may entail significant expense, including technological efforts that are expected to be borne—in whole or in part—by clients. No assurance can be given that the Investment Adviser will be successful in utilizing alternative data in its investment process.

Moreover, there has been increased scrutiny from a variety of regulators regarding the use of alternative data in this manner, and its use or misuse under current or future laws and regulations could create liability for the Investment Adviser and clients in numerous jurisdictions. The Investment Adviser cannot predict what, if any, regulatory or other actions may be asserted with regard to alternative data, but any adverse inquiries or formal actions could cause reputational, financial, or other harm to the Investment Adviser or to its clients. Conversely, any future limitations on the use of alternative data could have a material adverse impact on the performance of client portfolios.

### *General Economic and Market Conditions*

The success of the Investment Adviser’s investment activities on behalf of its clients will be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of the clients’ investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations), among other factors. These factors may affect the level and volatility of the prices and the liquidity of client investments. Volatility or illiquidity could impair the profitability of client portfolios or result in losses. The Investment Adviser will likely cause its clients to maintain substantial trading positions that can be adversely affected by the level of volatility in the financial markets.

### *Governmental Interventions*

Extreme volatility and illiquidity in markets has in the past led to, and may in the future lead to, extensive governmental interventions in equity, credit and currency markets. Generally, such interventions are intended to reduce volatility and precipitous drops in value. In certain cases, governments have intervened on an “emergency” basis, suddenly and substantially eliminating market participants’ ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition, these interventions have typically been unclear in scope and application, resulting in uncertainty. It is impossible to predict when these restrictions will be imposed, what the interim or permanent restrictions will be and/or the effect of such restrictions on the clients’ strategies.

### *Potential Interest Rate Increases*

In recent years the United States has experienced historically low interest rate levels, but interest rate levels in the United States have recently begun to rise, and the continued recovery of the U.S. economy and recent and potential future changes in U.S. government policy, including the tapering of the U.S. Federal Reserve Board's quantitative easing program, increase the risk that interest rates will continue to rise in the near future. Any future interest rate increases may result in periods of volatility and cause the value of the fixed income securities held by clients to decrease, which may result in substantial withdrawals from Fund investors that, in turn, force the Investment Adviser to liquidate clients' holdings of such Securities at disadvantageous prices negatively impacting the performance of client portfolios.

### *Rise of High-Frequency Trading*

In recent years, high-frequency trading has increased, which has raised questions about the impact high-frequency trading has on financial markets generally. Though the increase in high-frequency trading has been correlated with increased market liquidity, this purported liquidity may be illusory and high-frequency trading may be the cause of reductions in true liquidity and certain instances of extreme volatility. Opponents of high-frequency trading argue that it exploits the work of active traders, has reduced the number of active traders and has resulted in increased execution costs. The effects of high-frequency trading on specific trades or markets generally may adversely affect the Investment Adviser's ability to effect the trading strategy that the Investment Adviser pursues on behalf of its clients.

### *MiFID II*

The package of European Union market infrastructure reforms known as "MiFID II", in effect from January 3, 2018, is expected to have a significant impact on the European capital markets.

MiFID II increases regulation of trading platforms and firms providing investment services in the European Union. Among its many market infrastructure reforms, MiFID II has resulted in: (i) significant changes to pre- and post-trade transparency obligations applicable to financial instruments admitted to trading on EU trading venues (including a new transparency regime for non-equity financial instruments); (ii) an obligation to execute transactions in shares and derivatives on an EU regulated trading venue; and (iii) a new focus on regulation of algorithmic and high frequency trading. These reforms may lead to a reduction in liquidity in certain financial instruments, as some of the sources of liquidity exit European markets, and may result in significant increases in transaction costs.

Other regulatory changes, such as an increase in the scope of commodities and commodity derivatives regulation, including position limits and position management powers, could similarly lead to liquidity reduction and/or an increase in costs and spreads in the European commodities markets.

Although the full impact of these reforms is difficult to assess at present, it is possible that the resulting changes in the available trading liquidity options and increases in transactional costs may have an adverse effect on the ability of the Investment Adviser to execute the clients' investment program.

### *TMT Sector*

The Investment Adviser may cause clients to invest in the Securities of issuers in the technology sector, which investments involve substantial risks. These risks include but are not limited to: (i) the fact

that certain companies in client portfolios may have limited operating histories; (ii) rapidly changing technologies and products which may quickly become obsolete; cyclical patterns in information technology spending which may result in inventory write-offs, cancellation of orders and operating losses; (iii) scarcity of management, engineering and marketing personnel with appropriate technological training; (iv) the possibility of lawsuits related to technological patents; (v) changing investors' sentiments and preferences with regard to technology sector investments (which are generally perceived as risky) with their resultant effect on the price of underlying Securities; and (vi) volatility in the U.S. stock markets affecting the prices of technology company Securities, which may cause the performance of client portfolios to experience substantial volatility. The Investment Adviser may also cause clients to invest in the Securities of issuers in the business services sector (such as providers of credit risk analysis and reporting, educators, payroll providers, merchant processors, staffing providers, among others), which investments generally involve a number of the risks associated with the technology sector.

Investing in Securities of media companies (which may engage in the production or distribution of television, film, radio, internet and other content) and telecommunications companies (which may provide traditional and wireless telephone services, paging, data transmission services, equipment retailing and internet services) also involves substantial risks. Whereas traditionally media and telecommunications companies were considered to be in different sectors, these sectors have increasingly converged and oftentimes overlap in the services they provide. Companies in the media and telecommunications sector may encounter distressed cash flows due to the need to commit substantial capital to meet increasing competition, particularly in formulating new products and services using new technology. In addition, media and telecommunications companies may be subject to greater price volatility than the overall market due to a variety of factors, including: changing government regulations, changing consumer tastes, intense competition, and strong market reactions to technological developments throughout the industry.

### *Industrials Sector*

The Investment Adviser may cause clients to invest in the Securities of issuers in the industrials sector, such as those involved in construction and manufacturing, transportation (*e.g.*, rails and roads), aerospace and defense, industrial machinery and equipment and electrical components and equipment. The industrials sector can be significantly affected by general economic trends, including employment, economic growth, and interest rates; changes in consumer sentiment and spending; the supply of and demand for specific industrial and energy products or services; government regulation and spending; and global competition. For example, adverse changes in the prices of certain commodities and unit volume reductions resulting from an oversupply of materials used in industrials and energy equipment and services industries can adversely affect those industries. Furthermore, a company in the industrials sector can be subject to liability for environmental damage, depletion of resources and mandated expenditures for safety and pollution control.

### *Healthcare Sector*

The Investment Adviser may cause clients to invest in the Securities of issuers in the healthcare sector, which investments involve substantial risks, including: (i) the fact that certain companies in client portfolios may have limited operating histories; (ii) the fact that the scarcity of management and marketing personnel with appropriate scientific or medical training may result in slow or impeded growth of a company; (iii) the possibility of lawsuits related to patents or products; (iv) obsolescence of products;

(v) change in government policies; (vi) changes in investor sentiments and preferences with regard to healthcare sector investments (some of which are generally perceived as risky); (vii) volatility in the U.S. stock markets that affects the prices of healthcare company securities resulting in substantial volatility in the performance of client portfolios; (viii) the difficulty and burden of securing intellectual property rights in the field of medical devices, diagnostics, pharmaceuticals and biotechnology; and (viii) the fact that many companies in the healthcare sector are subject to extensive government regulation.

#### *Consumer Sector*

The Investment Adviser may cause certain clients to invest in the Securities of issuers in the consumer sector, which investments involve substantial risk. The success of consumer product manufacturers and retailers is tied closely to the performance of the overall domestic and global economy, interest rates, competition and consumer confidence. Success depends heavily on disposable household income and consumer spending. Also, companies in the consumer discretionary sector may be subject to severe competition, which may have an adverse impact on their respective profitability. Changes in demographics and consumer tastes can also affect the demand for, and success of, consumer products and services in the marketplace.

#### *Real Estate Sector*

The Investment Adviser may cause clients to invest in the real estate sector, including through investments in Securities issued by entities which invest in real estate, including real estate partnerships and REITs, which investments generally will be subject to the risks incident to the ownership and operation of real estate and/or risks incident to the making of nonrecourse mortgage loans secured by real estate. Such risks include the risks associated with both the domestic and international general economic climates; local real estate conditions; risks due to dependence on cash flow; risks and operating problems arising out of the absence of certain construction materials; changes in supply of, or demand for, competing properties in an area (as a result, for instance, of over-building); the financial condition of tenants, buyers and sellers of properties; changes in availability of debt financing; energy and supply shortages; changes in the tax, real estate, environmental, and zoning laws and regulations; various uninsured or uninsurable risks; natural disasters; and the ability of clients or third-party borrowers to manage the real properties. In addition, clients may own, or indirectly incur the burdens of ownership of, real property, which burdens include the paying of expenses and taxes, maintaining such property and any improvements thereon, and ultimately disposing of such property. Real estate investments are generally not as liquid as other types of investments and this lack of liquidity may limit the Investment Adviser's ability to react promptly to changes in economic or other conditions. In addition, expenditures associated with real estate investments, such as mortgage payments, real estate taxes and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investments. Clients may also need to comply with certain legal, tax and other requirements (for example, requirements of environmental laws) prior to liquidating real estate investments.

#### *Financial Services Sector*

The Investment Adviser may cause clients to invest in the Securities of issuers in the financial services sector, including investment and commercial banks, insurance companies, specialty finance firms, mortgage originators and other companies engaged in the financial services industry (collectively, "Financial Services Institutions"). Such investments involve substantial risk. In the course of conducting their business operations, Financial Services Institutions are exposed to a variety of risks that are inherent

to the financial services industry, including fluctuations in interest rates, exchange rates, equity and commodity prices and credit spreads caused by global and local market and economic conditions; credit-related losses that can occur as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations; the potential inability to repay short-term borrowings with new borrowings or assets that can be quickly converted into cash while meeting other obligations; operational failures or unfavorable external events; potential changes to the established rules and policies of various U.S. and non-U.S. legislative bodies and regulatory and exchange authorities, such as U.S. Federal and state securities, bank regulators and industry participants; risks associated with litigation, investigations or proceedings by private claimants and governmental and self-regulatory agencies arising in connection with a Financial Services Institution's activities; and its continuing ability to compete effectively in the market. While Financial Services Institutions seek to manage these and other risks through risk management policies and procedures, there can be no assurance that any such Financial Services Institution's risk management practices will be effective.

#### *Investment and Trading Out of Sector*

The Investment Adviser may cause clients to trade in other regions or sectors, including for hedging purposes and/or on an opportunistic basis. Although out-of-sector positions are not expected to represent core positions, the profit or loss from those positions could have a material impact on the performance of client portfolios.

#### *Micro-, Small- and Medium-Capitalization Companies*

While the Investment Adviser expects its clients to primarily invest in the Securities of medium- and large-capitalization companies, the Investment Adviser may cause clients to invest in micro- and small-capitalization companies. Investments in Securities of micro- and small-capitalization companies involve higher risks in some respects than do investments in Securities of larger "blue-chip" companies. For example, prices of Securities of micro- and small-capitalization and even medium-capitalization companies are often more volatile than prices of Securities of large-capitalization companies and may not be based on standard pricing models that are applicable to Securities of large-capitalization companies. Furthermore, the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) may be higher than for larger, "blue-chip" companies. Finally, due to thin trading in the Securities of some micro- and small-capitalization companies, an investment in those companies may be illiquid.

### **C. Risks Associated With Particular Types of Securities**

We do not limit our recommendations to clients to a particular type of investment instrument, but rather, we recommend and invest in multiple investment instruments. Given the broad discretion we have in managing our client portfolios, any one or more of the risks listed in the previous section may be incurred by our clients. While we do not limit our recommendations to clients to a particular type of investment instrument, we advise certain clients (e.g., Co-Investment Vehicles) with respect to an investment in a single security.

However, because it may be useful in understanding our investment program, set forth below is a non-exclusive list of certain risks related to securities and other instruments that may be utilized within our client portfolios:

### *Equity Securities Generally*

The value of equity securities of public and private, listed and unlisted companies and equity derivatives generally varies with the performance of the issuer and movements in the equity markets. As a result, clients may suffer losses if the Investment Adviser causes them to invest in equity instruments of issuers whose performance diverges from the Investment Adviser's expectations or if equity markets generally move in a single direction and the Investment Adviser has not hedged client portfolios against such a general move. Clients also may be exposed to risks that issuers will not fulfill contractual obligations such as, in the case of convertible securities or private placements, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale.

### *Illiquid Securities*

Certain Securities may be illiquid because, for example, they are subject to legal or other restrictions on transfer or there is no liquid market for such Securities. Valuation of such Securities may be difficult or uncertain because there may be limited information available about the issuers of such Securities. The market prices, if any, for such Securities tend to be volatile and may not be readily ascertainable and the Investment Adviser may not be able to sell them on behalf of its clients when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid Securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of Securities eligible for trading on national securities exchanges or in the over-the-counter markets. The Investment Adviser may not be able to readily dispose of such illiquid investments held in client portfolios and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. As a result, clients may be required to hold such Securities despite adverse price movements. Even those markets which the Investment Adviser expects to be liquid can experience periods, possibly extended periods, of illiquidity. Occasions have arisen in the past where previously liquid investments have rapidly become illiquid.

### *Initial Public Offerings*

Investments in initial public offerings (or shortly thereafter) may involve higher risks than investments issued in secondary public offerings or purchases on a secondary market due to a variety of factors, including the limited number of shares available for trading, unseasoned trading, lack of investor knowledge of the issuer and limited operating history of the issuer. In addition, some companies in initial public offerings are involved in relatively new industries or lines of business, which may not be widely understood by investors. Some of these companies may be undercapitalized or regarded as developmental stage companies, without revenues or operating income, or the near-term prospects of achieving them. These factors may contribute to substantial price volatility for such Securities and, thus, for the value of client portfolios.

### *Currencies*

A principal risk in trading currencies is the rapid fluctuation in the market prices of currency contracts. Prices of currency contracts traded by the Investment Adviser on behalf of its clients are affected generally by relative interest rates, which in turn are influenced by a wide variety of complex and difficult to predict factors such as money supply and demand, balance of payments, inflation levels, fiscal



policy, and political and economic events. In addition, governments from time to time intervene, directly and by regulation, in these markets, with the specific effect, or intention, of influencing prices which may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations.

### *Preferred Stock*

Investments in preferred stock involve risks related to priority in the event of bankruptcy, insolvency or liquidation of the issuing company and how dividends are declared. Preferred stock ranks junior to debt securities in an issuer's capital structure and, accordingly, is subordinate to all debt in bankruptcy. Preferred stock generally has a preference as to dividends. Such dividends are generally paid in cash (or additional shares of preferred stock) at a defined rate, but unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer's board of directors. Dividends on preferred stock may be cumulative, meaning that, in the event the issuer fails to make one or more dividend payments on the preferred stock, no dividends may be paid on the issuer's common stock until all unpaid preferred stock dividends have been paid. Preferred stock may also be subject to optional or mandatory redemption provisions.

### *Restricted Securities*

Restricted securities cannot be sold to the public without registration under the Securities Act of 1933 (the "Securities Act"). Unless registered for sale, restricted securities can be sold only in privately negotiated transactions or pursuant to an exemption from registration (*e.g.*, under Rule 144A of the Securities Act). Although these Securities may be resold in privately negotiated transactions, because there is often little liquidity for these Securities, they may be difficult and take a substantial amount of time to sell, and the prices realized from these sales could be less than those originally paid by clients. Restricted securities may involve a high degree of business and financial risk which may result in substantial losses.

### *Undervalued Securities*

The identification of investment opportunities in undervalued Securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued 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 clients' investments may not adequately compensate for the business and financial risks assumed.

### *Unlisted Securities*

Unlisted Securities may involve higher risks than listed Securities. Because of the absence of any trading market for unlisted Securities, it may take longer to liquidate (as compared to publicly traded Securities), or it may not be possible to liquidate, positions in unlisted Securities. Companies whose Securities are not publicly traded may not be subject to public disclosure and other investor protection requirements applicable to publicly traded Securities.

### *Convertible Securities*

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by a client is

called for redemption, the Investment Adviser, acting on behalf of its client, will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on the Investment Adviser's ability to achieve the client's investment objective.

#### *When-Issued and Forward Commitment Securities*

The purchase of Securities on a "when-issued" basis involves a commitment by clients to purchase or sell Securities at a future date (typically one or two months later). No income accrues on Securities that have been purchased on a when-issued basis prior to delivery to clients. When-issued Securities may be sold prior to the settlement date. If the Investment Adviser causes clients to dispose of the right to acquire a when-issued security prior to its acquisition, clients may incur a gain or loss. In addition, there is a risk that Securities purchased on a when-issued basis may not be delivered to clients. In those circumstances, such clients may incur a loss.

#### *Private Investments*

##### *Risk of Early-Stage Investments*

Clients' private investments will primarily be later-stage, minority stakes in companies. However, the Investment Adviser may also cause clients to make early-stage investments. Investments in the private equity of companies at an early stage of development involve a high degree of business and financial risk. Early-stage companies often experience unexpected problems in the areas of product development, manufacturing, marketing, financing and general management, which, in some cases, cannot be adequately solved. Early-stage companies with little or no operating history may require substantial additional capital to support expansion or to achieve or maintain a competitive position, may produce substantial variations in operating results from period to period or may operate at a loss. Client investments in start-ups or other early-stage companies may depend significantly on an entrepreneur or management team that the Investment Adviser has selected. Such companies may face intense competition, including competition from companies with greater financial resources, more extensive development, better marketing and service capabilities and a larger number of qualified management and technical personnel. Such risks may adversely affect the performance of such investments and result in substantial losses. There can be no assurance that such companies will ever be profitable or have assets or products that generate meaningful revenue.

Investments in companies in a later-stage of development also involve substantial risks. These companies typically have obtained capital in the form of debt and/or equity to expand rapidly, reorganize operations, acquire a business or develop new products and markets. These activities by definition involve a significant amount of change, which can give rise to significant problems in sales, manufacturing and general management of business activities.

Furthermore, the marketplace for such "venture capital investing" has become increasingly competitive. Involvement by financial intermediaries has increased, substantial amounts of funds have been dedicated to making investments in the private sector and the competition for investment opportunities is at high levels. There can be no assurances that the Investment Adviser will locate an adequate number of attractive investment opportunities. To the extent that clients experience increased competition for investments, returns to client portfolios may vary.

### *Control Issues*

Although the Investment Adviser may seek protective provisions, including, possibly, board representation, in connection with certain of its private investments, to the extent clients take minority positions in companies in which they invest, the Investment Adviser may not be in a position to exercise control over the management of such companies, and, accordingly, may have a limited ability to protect its position in such companies.

### *Highly Leveraged Companies*

Investments in private equity of highly leveraged companies involve a high degree of risk. The use of leverage may increase the exposure of such companies to adverse economic factors such as downturns in the economy or deterioration in the conditions of such companies or their respective industries. In using leverage, these companies may be subject to terms and conditions that include restrictive financial and operating covenants, which may impair their ability to finance or otherwise pursue their future operations or otherwise satisfy additional capital needs. Moreover, rising interest rates will, unless such rates are fixed pursuant to the terms of any such indebtedness, significantly increase such companies' interest expense, causing losses and/or the inability to service debt levels. In the event any such company cannot generate adequate cash flow to meet debt service, clients may suffer a partial or total loss of capital invested in the company, which, depending on the size of the applicable clients' investments, could adversely affect the return on the capital of client portfolios.

### *Fees*

Client investments in the private equity of companies may be subject to substantial fees charged by third-party investment advisers to manage such investments. Such fees may include management or asset-based fees (fees that compensate an investment adviser on the basis of a share of net assets under management) and performance-based fees or allocations (fees or allocations that compensate an investment adviser on the basis of a share of capital gains upon or capital appreciation of the assets under management). The payment of such fees may adversely affect the return of the capital of client portfolios. For example, considering that investments in the private equity of companies will only make up a portion of client portfolios, such third-party advisers may receive performance-based compensation in respect of such private equity investments during a period when a client's overall capital depreciated.

### *Debt Securities*

Debt securities of all types of issuers may have speculative characteristics, regardless of whether they are rated. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal in accordance with the terms of the obligations.

### *Market Making by Dealers*

The value of clients' fixed-income investments will be affected by general fixed income market conditions, such as the volatility and liquidity of the fixed income market, which are affected by the ability of dealers to "make a market" in fixed-income investments. In recent years, the market for bonds has significantly increased while dealer inventories have significantly decreased, relative to market size. This reduction in dealer inventories may be attributable to regulatory changes, such as

capital requirements, and is expected to continue. As dealers' inventories decrease, so does their ability to make a market (and, therefore, create liquidity) in the fixed income market. Especially during periods of rising interest rates, this could result in greater volatility and illiquidity in the fixed income market, which could impair the profitability of client portfolios or result in losses.

#### *Interest Rate Risk*

Changes in interest rates can affect the value of clients' investments in fixed-income instruments. Increases in interest rates may cause the value of clients' debt investments to decline. Clients may experience increased interest rate risk to the extent that the Investment Adviser causes such clients to invest, if at all, in lower-rated instruments, debt instruments with longer maturities, debt instruments paying no interest (such as zero-coupon debt instruments) or debt instruments paying non-cash interest in the form of other debt instruments.

#### *Prepayment Risk*

The frequency at which prepayments (including voluntary prepayments by the obligors and accelerations due to defaults) occur on debt instruments will be affected by a variety of factors including the prevailing level of interest rates and spreads as well as economic, demographic, tax, social, legal and other factors. Generally, obligors tend to prepay their fixed rate obligations when prevailing interest rates fall below the coupon rates on their obligations. Similarly, floating rate issuers and borrowers tend to prepay their obligations when spreads narrow.

In general, "premium" securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since many fixed rate obligations will be discount instruments when interest rates and/or spreads are high, and will be premium instruments when interest rates and/or spreads are low, such debt instruments may be adversely affected by changes in prepayments in any interest rate environment.

The adverse effects of prepayments may impact client portfolios in two ways. First, particular investments may experience outright losses, as in the case of an interest-only instrument in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that the Investment Adviser may have constructed for these investments, resulting in a loss to clients' overall portfolios. In particular, prepayments (at par) may limit the potential upside of many instruments to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

#### *Zero-Coupon and Deferred Interest Bonds*

Zero-coupon bonds and deferred interest bonds are debt obligations issued at a significant discount from face value. The original discount approximates the total amount of interest the bonds will accrue and compound over the period until maturity or the first interest accrual date at a rate of interest reflecting the market rate of the security at the time of issuance. While zero-coupon bonds do not require the periodic payment of interest, deferred interest bonds generally provide for a period of delay before the regular payment of interest begins. Such investments experience greater volatility in

market value due to changes in interest rates than debt obligations that provide for regular payments of interest.

### *High-Yield*

Bonds or other fixed-income securities that are “higher yielding” (including non-investment grade) debt securities are generally not exchange-traded and, as a result, these Securities trade in the over-the-counter marketplace, which is less transparent and has wider bid/ask spreads than the exchange-traded marketplace. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions, which could lead to the issuer’s inability to meet timely interest and principal payments. High-yield securities are generally more volatile and may or may not be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured by substantially all of the issuer’s assets. High-yield securities may also not be protected by financial covenants or limitations on additional indebtedness. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities may be highly leveraged and may not have available to them more traditional methods of financing. In addition, the Investment Adviser may cause clients to invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments.

The Investment Adviser may cause clients to invest in obligations of issuers that are generally trading at significantly higher yields than had been historically typical of the applicable issuer’s obligations. Such investments may include debt obligations that have a heightened probability of being in covenant or payment default in the future or that are currently in default and are generally considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments. Typically such workout or bankruptcy proceedings result only in partial recovery of cash payments or an exchange of the defaulted security for other debt or equity securities of the issuer or its affiliates, which may in turn be illiquid or speculative.

### *Corporate Debt*

Bonds, notes and debentures issued by corporations may pay fixed, variable or floating rates of interest, and may include zero-coupon obligations. Corporate debt instruments may be subject to credit ratings downgrades. Other instruments may have the lowest quality ratings or may be unrated. In addition, clients may be paid interest in kind in connection with its investments in corporate debt and related financial instruments (*e.g.*, the principal owed to clients in connection with a debt investment may be increased by the amount of interest due on such debt investment). Such investments may experience greater market value volatility than debt obligations that provide for regular payments of interest in cash and, in the event of a default, clients may experience substantial losses.

### *Mezzanine Debt*

Mezzanine debt is typically junior to the obligations of a company to senior creditors, trade creditors and employees. To the extent that the Investment Adviser causes clients to acquire mezzanine debt, the ability of the Investment Adviser (acting on behalf of its clients) to influence a company's affairs, especially during periods of financial distress or following an insolvency, will be substantially less than that of senior creditors. Mezzanine debt instruments are often issued in connection with leveraged acquisitions or recapitalizations in which the issuers incur a substantially higher amount of indebtedness than the level at which they had previously operated. Default rates for mezzanine debt instruments have historically been higher than for investment-grade instruments. In the event of the insolvency of a portfolio company of a client or similar event, the client's debt investment therein will be subject to fraudulent conveyance, subordination and preference laws.

### *Stressed Debt*

Stressed issuers are issuers that are not yet deemed distressed or bankrupt and whose debt securities are trading at a discount to par, but not yet at distressed levels. An example would be an issuer that is in technical default of its credit agreement, or undergoing strategic or operational changes, which results in market pricing uncertainty. The market prices of stressed and distressed instruments are highly volatile, and the spread between the bid and the ask prices of such instruments is often unusually wide.

### *Non-Performing Nature of Debt*

Certain debt instruments may be non-performing or in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to such debt instruments.

### *Troubled Origination*

When financial institutions or other entities that are insolvent or in serious financial difficulty originate debt, the standards by which such instruments were originated, the recourse to the selling institution, or the standards by which such instruments are being serviced or operated may be adversely affected.

### *Sovereign Debt*

Several factors may affect (i) the ability of a government, its agencies, instrumentalities or its central bank to make payments on the debt it has issued ("Sovereign Debt"), including securities that the Investment Adviser believes are likely to be included in restructurings of the external debt obligations of the issuer in question, (ii) the market value of such debt and (iii) the inclusion of Sovereign Debt in future restructurings, including such issuer's (x) balance of trade and access to international financing, (y) cost of servicing such obligations, which may be affected by changes in international interest rates, and (z) level of international currency reserves, which may affect the amount of non-U.S. exchange available for external debt payments. Significant ongoing uncertainties and exposure to adverse conditions may undermine the issuer's ability to make timely payment of interest and principal, and issuers may default on their Sovereign Debt.

### *Equitable Subordination*

Under common law principles that in some cases form the basis for lender liability claims, if a lender (i) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called “equitable subordination”). If the Investment Adviser (acting on behalf of its clients) engages in such conduct, certain clients may be subject to claims from creditors of an obligor that debt held by the applicable clients should be equitably subordinated.

### *Structured Notes*

Structured notes, variable rate mortgage-backed securities and asset-backed securities each have rates of interest that vary based on a designated floating rate formula or index. The value of these investments is closely tied to the absolute levels of such rates or indices, or the market’s perception of anticipated changes in those rates or indices. The movements in specific indices or interest rates may be difficult or impossible to hedge.

### *American Depositary Receipts and Global Depositary Receipts*

American Depositary Receipts (“ADRs”) are receipts issued by a U.S. bank or trust company evidencing ownership of underlying Securities issued by non-U.S. issuers. ADRs may be listed on a national securities exchange or may be traded in the over-the-counter market. Global Depositary Receipts (“GDRs”) are receipts issued by either a U.S. or non-U.S. banking institution representing ownership in a non-U.S. company’s publicly traded Securities that are traded on non-U.S. stock exchanges or non-U.S. over-the-counter markets. Holders of unsponsored ADRs or GDRs generally bear all the costs of such facilities. The depository of an unsponsored facility frequently is under no obligation to distribute investor communications received from the issuer of the deposited security or to pass through voting rights to the holders of depositary receipts in respect of the deposited Securities. Investments in ADRs and GDRs pose, to the extent not hedged, currency exchange risks (including blockage, devaluation and non-exchangeability), as well as a range of other potential risks relating to the underlying shares, which could include expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains, other income or gross sale of disposition proceeds, political or social instability or diplomatic developments that could affect investments in those countries, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding the underlying shares of ADRs and GDRs, and non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to, or as uniform as, those of U.S. companies. Such risks may have a material adverse effect on the performance of such investments and could result in substantial losses.

### *Bankruptcy Claims*

Clients’ investments may include debt and equity of financially distressed companies. In the event that such an issuer files for bankruptcy protection, the Investment Adviser will likely be unable to

sell clients' claims without realizing a significant loss and may be unable to recover current interest on such claims during the course of the bankruptcy case. The markets in U.S. bankruptcy claims are generally not regulated by U.S. federal securities laws or the SEC. To the extent debt investment is unsecured (i.e., has no collateral securing repayment), such claims may have a lower priority than secured claims (which have first recourse to the collateral securing such claim). In addition, the debt of an issuer in bankruptcy may be adversely affected by an erosion of the issuer's business and overall value. Accordingly, there can be no guarantee that a debtor will be able to satisfy all of its liabilities or that the Investment Adviser will be able to recover the entire amount of the clients' bankruptcy claim.

Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to appear and be heard, there can be no assurance that a bankruptcy court would not approve actions that may be contrary to the interests of the clients (in its role as a creditor). Furthermore, there are instances where creditors lose their priority under Title 11 of the United States Code (the "Bankruptcy Code") (i.e., are equitably subordinated) if, for example, they have engaged in misconduct that harms other creditors. In those cases where clients are found to have engaged in such misconduct, such clients may lose their priority.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, the approval of the plan by creditors and confirmation of the plan by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and the Investment Adviser's clients; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the issuer may not be able to reorganize and may be required to sell its assets either as a going concern or as part of a liquidation. As a result, even in those circumstances where clients may recover the entire amount of their bankruptcy claim, clients may be adversely impacted by any costs incurred by clients in representing their interests in a debtor's bankruptcy case.

U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for the purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that clients' influence with respect to a class of securities can be lost by virtue of the size of their claim relative to the claims of the entire class. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors (for example, claims for certain taxes) may impair the recovery of an investment in a bankruptcy claim.

The Investment Adviser expects to cause clients to invest some of their assets in Securities of issuers domiciled, or assets located, globally. Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

The Investment Adviser, on behalf of its clients, may elect to serve on creditors' committees, equityholders' committees or other groups to ensure preservation or enhancement of clients' positions as



a creditor or equityholder. A member of any such committee or group may owe a fiduciary duty and be subject to certain obligations to all members the committee represents and/or to other similarly situated parties. The Investment Adviser may resign from that committee or group for any reason, including, for example, if the Investment Adviser concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to clients. In such case, clients may not realize the benefits, if any, of participation on the committee or group. In addition, if clients are represented on a committee or group, the Investment Adviser may be restricted or prohibited under applicable law from disposing of or increasing such clients' investments in such company while such clients continue to be represented on such committee or group.

The Investment Adviser may cause clients to purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser. Additionally, the claim may be disallowed or subordinated if the bankruptcy court determines that the seller engaged in inequitable conduct that harmed other creditors.

Reorganizations can be contentious and adversarial, and it is by no means unusual for participants to use the threat of litigation and to engage in litigation as a negotiating technique. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by clients.

### *Business Development Companies*

Investments in closed-end funds that elect to be treated as business development companies ("BDCs") may be subject to a high degree of risk. BDCs typically invest in small and medium-sized private and certain public companies that may not have access to public equity markets for capital raising. As a result, a BDC's portfolio typically will include a substantial amount of securities purchased in private placements, and its portfolio may carry risks similar to those of a private equity or venture capital fund. Securities that are not publicly registered may be difficult to value and may be difficult to sell at a price representative of their intrinsic value. Small and medium-sized companies also may have fewer lines of business so that changes in any one line of business may have a greater impact on the value of their stock than is the case of a larger company. Some BDCs invest substantially, or even exclusively, in one sector or industry group and therefore carry risk of that particular sector or industry group. To the extent a BDC focuses its investments in a specific sector, the BDC will be susceptible to adverse conditions and economic or regulatory occurrences affecting the specific sector or industry group, which tends to increase volatility and result in higher risk. Investments in BDCs are subject to various risks, including management's ability to meet the BDC's investment objective, and to manage the BDC's portfolio when the underlying securities are redeemed or sold, during periods of market turmoil and as investors' perceptions regarding a BDC or its underlying investments change. BDC shares are not redeemable at the option of the BDC shareholder and, as with shares of other closed-end funds; they may trade in the secondary market at a discount to their net asset value. BDCs generally qualify as "regulated investment companies" under the U.S. federal tax laws and, provided they distribute all of their income in the time and manner as required by the tax law and satisfy certain diversification and source of income requirements, generally will not pay U.S. federal income taxes.

Certain BDCs in which the Investment Adviser may cause clients to invest may employ the use of leverage in their portfolios through borrowings or the issuance of preferred stock. While leverage often serves to increase the yield of a BDC, this leverage also subjects the BDC to increased risks, including the likelihood of increased volatility and the possibility that the BDC's common share income will fall if the dividend rate on any preferred shares or the interest rate on any borrowings rises.

The Investment Adviser may be limited by provisions of the Investment Company Act of 1940 that generally limit the amount clients can invest in any one BDC to 3% of the BDC's total outstanding stock. As a result, clients may be required to hold a smaller position in a BDC than they would absent this restriction. Clients will indirectly bear their proportionate share of any management and other operating expenses, and of any performance based or incentive fees, charged by the BDCs in which it invests, in addition to the expenses paid by clients.

#### *Closed-End Funds*

Investments in closed-end funds are non-redeemable and are subject to the same risks as other publicly traded equity securities. There may be no public market for units of closed-end funds, which often trade at a discount from their net asset values.

#### *Derivative Instruments*

Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, credit risk, legal risk and operations risk. The regulatory and tax environment for derivative instruments in which the Investment Adviser may cause clients to participate is evolving, and changes in the regulation or taxation of such instruments may have a material adverse effect on clients.

#### *Regulation in the Derivatives Industry*

There are many rules related to derivatives that may negatively impact clients, such as requirements related to recordkeeping, reporting, portfolio reconciliation, central clearing, minimum margin for uncleared OTC instruments, mandatory trading on electronic facilities, and other transaction-level obligations. Parties that act as dealers in swaps are also subject to extensive business conduct standards, additional "know your counterparty" obligations, documentation standards and capital requirements. Such requirements are operationally and technologically burdensome, add to the legal, operational and compliance obligations of the Investment Adviser and clients, require employee training, additional technology and the development of internal procedures, and increase the amount of time that the Investment Adviser spends on non-investment-related activities. Such requirements also increase the costs of derivative transactions and these increased costs will be passed on to clients unless absorbed by such clients' counterparties (which is unlikely).

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

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

The following describes derivatives regulations that may have the most significant impact on client portfolios:

#### *Reporting*

Most swap transactions have become subject to anonymous “real time reporting” requirements, meaning that information relating to transactions entered into by clients will become visible to the market in ways that may impair the Investment Adviser’s ability to cause clients to enter into additional transactions at comparable prices or could enable competitors to “front run” or replicate the Investment Adviser’s strategies.

#### *Central Clearing*

In order to mitigate counterparty risk and systemic risk in general, various U.S. and international regulatory initiatives are underway to require certain derivatives to be cleared through central clearinghouses. In the United States, clearing requirements have been implemented as part of the Dodd-Frank Act. On December 13, 2012 the CFTC imposed its first clearing mandate affecting certain interest rate and credit default swaps. The CFTC and the SEC may introduce clearing requirements for additional classes of derivatives in the future. EMIR also requires OTC derivatives contracts meeting specific criteria to be cleared through central counterparties.

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

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

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

#### *Swap Execution Facilities*

In addition to the central clearing requirement, certain swap transactions are required to trade on regulated electronic platforms such as swap execution facilities ("SEFs"), which require clients to subject themselves to regulation by these venues and subject clients to the jurisdiction of the CFTC.

The EU regulatory framework governing derivatives is set not only by EMIR but also MiFID II. Among other things, MiFID II requires transactions in derivatives to be executed on regulated trading venues. The SEC has yet to finalize rules related to security-based swap execution facilities.

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

### *Margin Requirements for Non-Cleared Swaps*

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

### *Call and Put Options*

Clients may incur risks associated with the sale and purchase of call options and put options. Under a conventional cash-settled option, the purchaser of the option pays a premium in exchange for the right to receive upon exercise of the option (i) in the case of a call option, the excess, if any, of the reference price or value of the underlier (as determined pursuant to the terms of the option) above the option’s strike price or (ii) in the case of a put option, the excess, if any, of the option’s strike price above the reference price or value of the underlier (as so determined). Under a conventional physically-settled option structure, the purchaser of a call option has the right to purchase a specified quantity of the underlier at the strike price, and the purchaser of a put option has the right to sell a specified quantity of the underlier at the strike price.

A purchaser of an option may suffer a total loss of premium (plus transaction costs) if that option expires without being exercised. An option’s time value (*i.e.*, the component of the option’s value that exceeds the in-the-money amount) tends to diminish over time. Even though an option may be in-the-money to the purchaser at various times prior to its expiration date, the purchaser’s ability to realize the value of an option depends on when and how the option may be exercised. For example, the terms of the transaction may provide for the option to be exercised automatically if it is in-the-money on the expiration date. Conversely, the terms may require timely delivery of a notice of exercise, and exercise may be subject to other conditions (such as the occurrence or non-occurrence of certain events, such as knock-in, knock-out or other barrier events) and timing requirements, including the “style” of the option.

Uncovered option writing (*i.e.*, selling an option when the seller does not own a like quantity of an offsetting position in the underlier) exposes the seller to potentially significant loss. The potential loss of uncovered call writing is unlimited. The seller of an uncovered call may incur large losses if the reference price or value of the underlier increases above the exercise price by more than the amount of any premiums earned. As with writing uncovered calls, the risk of writing uncovered put options is substantial. The seller of an uncovered put option bears a risk of loss if the reference price or value of the underlier declines below the exercise price by more than the amount of any premiums earned. Such loss could be substantial if there is a significant decline in the value of the underlier.

### *Index or Index Options*

The value of an index or index option fluctuates with changes in the market values of the assets included in the index. Because the value of an index or index option depends upon movements in the

level of the index rather than the price of a particular asset, whether clients will realize appreciation or depreciation from the purchase or writing of options on indices depends upon movements in the level of instrument prices in the assets generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular assets.

### *Index Futures*

The price of index futures contracts may not correlate perfectly with the movement in the underlying index because of certain market distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, participants may close futures contracts through offsetting transactions that would distort the normal relationship between the index and futures markets. Second, from the point of view of speculators, the deposit requirements in the futures market are less onerous than margin requirements in the securities market. Therefore, increased participation by speculators in the futures market also may cause price distortions. Successful use of index futures contracts by clients also is subject to the Investment Adviser's ability to correctly predict movements in the direction of the market.

### *Credit Default Swaps*

Credit default swaps can be used to implement the Investment Adviser's view that a particular credit, or group of credits, will experience credit improvement or deterioration. In the case of expected credit improvement, the Investment Adviser may cause clients to sell credit default protection in which clients receive a premium to take on the risk. In such an instance, the obligation of clients to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. The Investment Adviser may also cause its clients to buy credit default protection with respect to a referenced entity if, in the Investment Adviser's judgment, there is a high likelihood of credit deterioration. In such instance, clients will pay a premium regardless of whether there is a credit event.

### *Futures Contracts*

The value of futures contracts depends upon the price of the Securities, such as commodities, underlying them. The prices of futures contracts are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, as well as national and international political and economic events and policies. In addition, investments in futures contracts are also subject to the risk of the failure of any of the exchanges on which clients' positions trade or of their clearing houses or counterparties. 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 taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Investment Adviser from promptly liquidating clients' unfavorable positions and subject clients to substantial losses or prevent them from entering into desired trades. Also, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a

disproportionately larger profit or loss. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

#### *Non-U.S. Futures Transactions*

Foreign futures transactions involve executing and clearing trades on a foreign exchange. This is the case even if the foreign exchange is formally “linked” to a domestic exchange, whereby a trade executed on one exchange liquidates or establishes a position on the other exchange. No domestic organization regulates the activities of a foreign exchange, including the execution, delivery, and clearing of transactions on such an exchange, and no domestic regulator has the power to compel enforcement of the rules of the foreign exchange or the laws of the foreign country. Moreover, such laws or regulations will vary depending on the foreign country in which the transaction occurs. For these reasons, clients may not be afforded certain of the protections which apply to domestic transactions, including the right to use domestic alternative dispute resolution procedures. In particular, funds received from customers to margin foreign futures transactions may not be provided the same protections as funds received to margin futures transactions on domestic exchanges. In addition, the price of any foreign futures or option contract and, therefore, the potential profit and loss resulting therefrom, may be affected by any fluctuation in the foreign exchange rate between the time the order is placed and the time the foreign futures contract is liquidated or the time the foreign option contract is liquidated or exercised.

#### *Forward Contracts*

The Investment Adviser may cause clients to enter into forward contracts and options thereon, including non-deliverable forwards, which are currently not traded through clearinghouses, although this is expected to change. The principals who deal in the forward contract market are not required to continue to make markets in such contracts. There have been periods during which certain participants in forward markets have refused to quote prices for forward contracts or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. The imposition of credit controls or price risk limitations by governmental authorities may limit such forward trading to less than that which the Investment Adviser would otherwise recommend, to the possible detriment of client portfolios. In causing clients to engage in forward trading, the Investment Adviser will subject clients to the risk of the failure of, or the inability or refusal to perform with respect to its forward contracts by, the principals with which the Investment Adviser causes clients to trade. Client assets on deposit with such principals will also generally not be protected by the same segregation requirements imposed on certain regulated brokers in respect of customer funds on deposit with them. The Investment Adviser may order trades for clients in such markets through agents. Accordingly, the insolvency or bankruptcy of such parties could also subject clients to the risk of loss.

#### *Contracts for Differences*

Contracts for differences (“CFDs”) are privately negotiated contracts between two parties, buyer and seller, stipulating that the seller will pay to or receive from the buyer the difference between the nominal value of the underlying instrument at the opening of the contract and that instrument’s value at the end of the contract. The underlying instrument may be a single security, stock basket or index. A CFD can be set up to take either a short or long position on the underlying instrument. The buyer

and seller are both required to post margin, which is adjusted daily. The buyer will also pay to the seller a financing rate on the notional amount of the capital employed by the seller less the margin deposit. As is the case with trading any financial instrument, there is the risk of loss associated with trading a CFD. There may be liquidity risk if the underlying instrument is illiquid because the liquidity of a CFD is based on the liquidity of the underlying instrument. A further risk is that adverse movements in the underlying security will require the posting of additional margin. CFDs also carry counterparty risk, *i.e.*, the risk that the counterparty to the CFD transaction may be unable or unwilling to make payments or to otherwise honor its financial obligations under the terms of the contract. If the counterparty were to do so, the value of the contract may be reduced. Entry into a CFD transaction may, in certain circumstances, require the payment of an initial margin and adverse market movements against the underlying stock may require additional margin payments. CFDs may be considered illiquid. To the extent that there is an imperfect correlation between the return on clients' obligation to the applicable counterparties under the CFDs and the return on related assets in such clients' portfolios, the CFD transactions may increase clients' financial risk.

#### *Failure to Enter into Offsetting Trade*

To the extent that the Investment Adviser causes a client to invest in a futures contract or long option, unless an offsetting trade is made, the client would be required to take physical delivery of the commodity underlying the future or option. To the extent the Investment Adviser fails to enter into such offsetting trade prior to the expiration of the contract, a client may suffer a loss since neither the client nor the Investment Adviser has the operational capacity to accept physical delivery of commodities.

#### *Exotic Options*

Exotic options are typically, but not always, traded over-the-counter. OTC contracts may not trade in a liquid market and pricing may be opaque. The illiquidity of these markets can be exacerbated in times of market stress. The clients may incur substantial costs entering into and exiting positions that could have a material impact on performance. Exotic options may be subject to a higher degree of pricing risk as demonstrated by instances in which different counterparties in the market employ different valuation and pricing methodologies to the same exotic option. Because exotic options can often be highly customised, there is lower visibility with respect to the pricing and valuation of these instruments. Exotic options may be subject to high levels of price volatility. For example, in the case of barrier options, as the price of the asset underlying the option trades closer to a barrier level, the delta of the option (*i.e.*, the ratio of the change in the price of the underlying asset to the corresponding change in the price of the option) and the gamma of the option (*i.e.*, the rate of change of the delta with respect to the underlying asset's price) may become very high. Exotic options may be subject to higher levels of model risk than commonly traded options because standard models are not able to adequately capture or predict the risks associated with the exotic options. Exotic options may be "path dependent". This means that their terminal value (at exercise or expiration) depends upon the value of the underlying asset, not only at the time of exercise or expiration, but also at prior points in time. In this sense, the option's terminal value depends upon the "path" taken by the underlying asset over the life of the option. For example, a barrier option's value at expiration depends upon both the value of the underlying asset at expiration and whether the past value of the underlying asset ever satisfied a barrier condition. In contrast, a vanilla option (*e.g.*, a call option) is not path dependent. Its value at exercise or expiration depends on the value of the underlying asset



only at that point in time. The additional features incorporated by exotic options require additional judgments regarding the likelihood of certain conditions being satisfied, any one of which can result in loss if actual events differ. An OTC option may be closed out only with the counterparty, although either party may engage in an offsetting transaction that puts that party in the same economic position as if it had closed out the option with the counterparty; however, the exposure to counterparty risk may differ. OTC options generally involve greater credit and counterparty risk than exchange-traded options.

### *Distressed Obligations*

The obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems (including companies involved in bankruptcy or other reorganization and liquidation proceedings) are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the risk that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate, recharacterize debt as equity or disenfranchise particular claims. Such companies' obligations may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to clients' investments in any Security. Obligations in which the Investment Adviser causes clients to invest may be less than investment grade. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the value of the assets collateralizing clients' investments will be sufficient or that prospects for a successful reorganization or similar action will become available. In any reorganization or liquidation proceeding relating to a company in which the Investment Adviser causes clients to invest, clients may lose the entire investment, may be required to accept cash or securities with a value less than clients' original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from clients' investments may not compensate the investors adequately for the risks assumed. In addition, under certain circumstances, payments and distributions may be disgorged if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

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

### *Exchange-Traded Funds*

Exchange-Traded Funds ("ETFs") are publicly traded unit investment trusts, open-end funds or depository receipts that seek to track the performance and dividend yield of specific indexes or companies in related industries. These indexes may be either broad-based, sector, or international. However, ETF

shareholders are generally subject to the same risk as holders of the underlying Securities they are designed to track. ETFs are also subject to certain additional risks, including the risk that their prices may not correlate perfectly with changes in the prices of the underlying Securities they are designed to track, and the risk of trading in an ETF halting due to market conditions or other reasons, based on the policies of the exchange upon which the ETF trades. Generally, each shareholder of an ETF bears a pro rata portion of the ETF's expenses, including management fees. Accordingly, in addition to bearing their proportionate share of clients' expenses (*e.g.*, Management Fees and operating expenses), investors may also indirectly bear similar expenses of an ETF.

### *Insurance-Related Risks*

Investments in public and private insurance and reinsurance companies, catastrophe bonds, weather derivatives, life insurance policies and annuities, and other Securities linked to insurance and reinsurance risks and similar factors, are subject to all of the numerous inherent risks of the insurance and reinsurance industry, such as weather-related and other natural or man-made catastrophes, which are unpredictable and may result in significant losses. A significant natural disaster, such as a hurricane or earthquake, or terrorist incident, or a series of such events, could have a material, adverse effect on clients.

### *Loan Investments*

The Investment Adviser's success in the area of loan investing on behalf of its clients will depend, in part, on the Investment Adviser's ability to obtain loans on advantageous terms. In purchasing loans, clients will compete with a broad spectrum of investors and institutions. Increased competition for, or a diminution in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to investors.

#### *Leveraged Loans*

"Leveraged loans" are loans made to companies with a below investment-grade rating from any nationally recognized rating agency. Such loans may be performing poorly when the Investment Adviser causes clients to acquire them. There is no assurance that the Investment Adviser will correctly evaluate the value of the assets collateralizing such loans or the prospects for distribution on or repayment of such loans. Clients may lose their entire investment or may be required to accept cash, property or securities with a value less than the applicable clients' original investment and/or may be required to accept payment over an extended period of time.

#### *Hung Loans*

The term "hung loan" commonly refers to a loan that has been made (or has been committed to be made), and the lender is not able to syndicate the loan on the originally anticipated terms. Hung loans are illiquid and lack readily ascertainable market values; there is no assurance that the price to be paid for hung loans by clients will reflect a discounted price that should allow clients to achieve a positive return on such loans or avoid losses. Since the price of the loans to be purchased is expected to continue to be significantly impacted by, in addition to the specific circumstances relating to each loan (*e.g.*, in the case of a loan relating to a leveraged buyout ("LBO"), the financial condition of the target), global and macro-economic conditions (*e.g.*, monetary policy, changes to currency exchange rates, governmental intervention or changes to existing laws, international geo-political events, etc.)

as well as other systemic factors, it is possible that loans that the Investment Adviser causes its clients to purchase will suffer significant impairments in value as a result of events not predicted by the Investment Adviser. The Investment Adviser may also face difficulties in disposing of or leveraging such loans on its clients' behalf, or in doing so without incurring losses. The markets in which hung loans are purchased and sold have been volatile and are likely to continue to be volatile in the future.

#### *Bank Loans*

Bank loans are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of clients to directly enforce its rights with respect to participations. Successful claims by third parties arising from these and other risks will be borne by clients.

As secondary market trading volumes increase, new loans are frequently adopting standardized documentation to facilitate loan trading, which may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue. Because of the provision to holders of such loans of confidential information relating to the borrower, the unique and customized nature of the loan agreement, and the private syndication of the loan, loans are not as easily purchased or sold as a publicly traded security, and historically the trading volume in the loan market has been small relative to the high-yield debt market.

#### *Second Lien Loans*

The Investment Adviser may cause clients to invest in loans that are secured by a second lien on assets. Second lien loans have been a developed market for a relatively short period of time, and there is limited historical data on the performance of second lien loans in adverse economic circumstances. In addition, second lien loan products are subject to intercreditor arrangements with the holders of first lien indebtedness, pursuant to which the second lien holders have waived many of the rights of a secured creditor, and some rights of unsecured creditors, including rights in bankruptcy that can materially affect recoveries. While there is broad market acceptance of some second lien intercreditor terms, no clear market standard has developed for certain other material intercreditor terms for second lien loan products. This variation in key intercreditor terms may result in dissimilar recoveries across otherwise similarly situated second lien loans in insolvency or distressed situations. While uncertainty of recovery in an insolvency or distressed situation is inherent in all debt instruments, second lien loan products carry more risks than certain other debt products. Beginning in August 2007, the market for many loan products, including second lien loans, contracted significantly which made virtually all leveraged loan products, particularly second lien loan products, less liquid or illiquid. Many participants ceased underwriting and purchasing certain second lien loan products. There can be no assurance that the market for second lien loans will not contract further.

### *Bridge Loans*

It is a common practice for financial institutions to commit to providing bridge loans to facilitate acquisitions, including LBOs, where they serve as advisers to the purchaser. Bridge loans are frequently made because, for timing or market reasons, longer-term financing is not available at the time the funds are needed, which is often at the time of the closing of an acquisition. In the past, these commitments were not frequently drawn upon due to the availability of other sources of financing; however, due to market conditions affecting the availability of these other sources of financing (principally high-yield bond transactions), bridge loan commitments have been and may be drawn upon more regularly. Since these commitments were not regularly drawn upon in the past, there is little history for investors to rely upon in evaluating investments in bridge loans. Bridge loans often have shorter maturities. Borrower and lenders typically agree to shorter maturities based on the anticipation that the bridge loans will be replaced with other forms of financing within such shorter time period. However, the source and timing of such replacement financing may be uncertain and can be affected by, among other things, market conditions and the financial condition of the borrower at the maturity date of the bridge. If the borrower is unable to obtain replacement financing and repay the bridge loan at maturity, the terms of the bridge loan may provide for the bridge loan to be converted to a longer term loan. If bridge loans are not repaid (or cannot be disposed of on favorable terms) on the dates projected by the Investment Adviser, there may be an adverse effect upon the ability of the Investment Adviser to manage the assets of its clients in accordance with its models and projections or an adverse effect upon clients' performance and ability to make distributions.

### *Debtor-in-Possession ("DIP") Loans*

Loans to companies that have filed for protection under Chapter 11 of the Bankruptcy Code are most often asset-based, revolving working-capital facilities put into place at the outset of a Chapter 11 case to provide the debtor with both immediate cash and the ongoing working capital that will be required during the reorganization process. While such loans are generally less risky than many other types of loans as a result of their seniority in the debtor's capital structure and because their terms have been approved by a U.S. federal bankruptcy court order, it is possible that the debtor's reorganization efforts may fail and the proceeds of the ensuing liquidation of the DIP lender's collateral might be insufficient to repay in full the DIP loan.

### *Fraud Associated with Loans*

Of paramount concern in loan investments is the possibility of material misrepresentation or omission on the part of the borrower or loan seller. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of the Investment Adviser (acting on its clients' behalf) to perfect or effectuate a lien on the collateral securing the loan. The Investment Adviser will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to clients may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

### *Municipal Securities*

Various factors may adversely affect the value and yield of municipal securities. These factors include political or legislative changes and uncertainties related to the tax status of municipal securities or the rights of investors in these Securities. To the extent that the Investment Adviser causes clients to invest heavily in a particular state's municipal securities, such clients will be more vulnerable to factors affecting that state. Clients' investments in revenue securities, where principal and interest payments are made from the revenue of a specific project or facility, and not general tax revenues, may have increased risks. Factors affecting the project or facility, such as local business or economic conditions, could have a significant impact on the project's ability to make payments of principal and interest on these Securities.

### *Mutual Fund Investments*

Investments in open-end as well as closed-end mutual funds generally involve the payment of duplicative fees through the indirect payment of a portion of the expenses, including advisory fees, of such mutual funds. Investments in mutual funds will be valued at the net asset values provided by those funds (which may in certain circumstances be unaudited valuations). Such investments may cause the expense of investing in clients to be greater than an investment in other investment vehicles.

### *PIPE Transactions*

Private investments in public companies whose stocks are quoted on stock exchanges or which trade in the over-the-counter securities market, a type of investment commonly referred to as a "PIPE" transaction, may be entered into with smaller capitalization public companies, which will entail business and financial risks comparable to those of investments in the publicly-issued securities of smaller capitalization companies. Such companies may also be less likely to be able to weather business or cyclical downturns than larger companies and are more likely to be substantially hurt by the loss of a few key personnel. In addition, PIPE transactions will generally result in the Investment Adviser causing clients to acquire either restricted stock or an instrument convertible into restricted stock. As with investments in other types of restricted securities, such an investment may be illiquid. The Investment Adviser's ability to dispose of Securities acquired by clients in PIPE transactions may depend on the registration of such Securities for resale. Any number of factors may prevent or delay a proposed registration. Alternatively, it may be possible for Securities acquired in a PIPE transaction to be resold in transactions exempt from registration in accordance with Rule 144 under the Securities Act, or otherwise under the U.S. federal securities laws. There can be no guarantee that there will be an active or liquid market for the stock of any small capitalization company due to the possible small number of stockholders. As a result, even if the Investment Adviser is able to have Securities acquired by clients in a PIPE transaction registered or sell such Securities through an exempt transaction, clients may not be able to sell all the Securities on short notice, and the sale of the Securities could lower the market price of the Securities. There is no guarantee that an active trading market for the Securities will exist at the time of disposition of the Securities, and the lack of such a market could hurt the market value of client investments.

### *Reinsurance Transactions*

Reinsurance transactions include insurance-linked securities and insurance-linked derivatives. Insurance-linked securities are fixed income or equity securities for which the return of principal or invested capital and payment of interest or dividends are contingent on the occurrence or non-occurrence

of specific natural or man-made perils such as hurricanes, earthquakes or other physical or weather-related catastrophic events, aviation or marine disasters and similar events. Insurance-linked derivatives are financial contracts the returns on which are linked to the same types of events as insurance-linked securities. In addition, reinsurance transactions may include life insurance-based financial instruments, the returns on which are linked to mortality risks or other performance-based measures of a portfolio of life insurance policies.

Insurance-linked investments are subject to relatively infrequent but severe losses resulting from the occurrence of one or more catastrophic events, such as hurricanes, windstorms, hailstorms, earthquakes, fires, explosions, severe winter weather, tsunamis, floods, riots, aviation disasters, or other physical or weather-related or man-made catastrophic events. The occurrence or non-occurrence of such catastrophic events can be expected to result in volatility with respect to clients' assets.

In connection with its investment diligence process related to insurance-linked investments, the Investment Adviser may rely on models and analysis performed by third parties (including the sponsors of such insurance-linked investments). Actual loss experience can materially differ from that generated by such models. These models rely on various assumptions, some of which are subjective and some of which vary between the different catastrophe risk modeling firms. The loss probabilities generated by such models are not predictive of future catastrophic events, or of the magnitude of losses that may occur. Actual frequency of catastrophic events and their attendant losses could materially differ from those estimated by such models.

An investment in insurance-linked investments will expose clients to the credit risk of several parties involved in the reinsurance product chain. For example, clients will have exposure to the reinsurer that is buying the reinsurance from the issuer of the insurance-linked investments in respect of such reinsurer's obligation to make premium payments to the issuer. The issuers of insurance-linked investments may also be exposed to the credit risk of reinsurance brokers and other service providers with whom the sponsoring reinsurer conducts business related to the reinsurance policies to which such insurance-linked investments have exposure.

Certain insurance-linked investments may permit clients to acquire such investments with one or more deliveries or pledges of securities in lieu of a one-time cash purchase payment, but such investments may also obligate clients to post additional collateral if the value of securities delivered by clients fall below certain levels. Such margin call requirements expose clients to the risk that the securities delivered by clients to secure such clients' obligations to the issuer of the related insurance-linked investments or the sponsoring reinsured company may fall below certain specified levels and cause the Investment Adviser to use the applicable clients' most liquid assets to meet margin calls.

U.S. state insurance laws and regulations and the laws of many non-U.S. jurisdictions contain broad definitions of the activities that may constitute the conduct of the business of insurance or reinsurance in such jurisdictions. Insurance regulatory authorities have broad discretionary powers in administering insurance laws, including the authority (subject to appeal in court or otherwise) to determine whether a party is conducting the business of insurance or reinsurance within their applicable jurisdictions. Because insurance-linked investments have certain features and an investment return that may be based on the occurrence of events that traditionally are the subject of insurance, it is possible that such instruments may be structured in a manner where insurance regulatory authorities or courts would

determine that the purchase or holding of such securities, or the Investment Adviser causing clients to write such derivatives, constitutes the conduct of the business of insurance and reinsurance. In the event such a determination was made, clients may be subject to regulatory and legal action.

#### *Repurchase and Reverse Repurchase Agreements*

In a reverse repurchase transaction, the Investment Adviser causes clients to “buy” Securities issued from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such Securities at the price paid by clients, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by the Investment Adviser on behalf of its clients involves certain risks. For example, if the seller of Securities to clients under a reverse repurchase agreement defaults on its obligation to repurchase the underlying Securities, as a result of its bankruptcy or otherwise, any alternative measures taken by the Investment Adviser to dispose of such Securities on behalf of its clients could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, the Investment Adviser’s ability to dispose of clients’ underlying Securities may be restricted. It is possible, in a bankruptcy or liquidation scenario, that the Investment Adviser may not be able to substantiate the applicable clients’ interest in the underlying Securities. Finally, if a seller defaults on its obligation to repurchase Securities under a reverse repurchase agreement, clients may suffer a loss to the extent that the Investment Adviser is forced to liquidate such clients’ position in the market, and proceeds from the sale of the underlying Securities are less than the repurchase price agreed to by the defaulting seller. Similar elements of risk arise in the event of the bankruptcy or insolvency of the buyer.

#### *Special Purpose Acquisition Companies*

A special purpose acquisition company (a “SPAC”) is a publicly traded company formed for the purpose of raising capital through an initial public offering to fund the acquisition, through a merger, capital stock exchange, asset acquisition or other similar business combination, of one or more undervalued operating businesses. Following the acquisition of a target company, a SPAC typically would exercise control over the management of such target company in an effort to increase the value of such target company. Capital raised through the initial public offering of securities of a SPAC is typically placed into a trust until the target company is acquired or a predetermined period of time elapses. Investors in a SPAC would receive a return on their investment in the event that a target company is acquired and such target company’s value increased. In the event that a SPAC is unable to locate and acquire target companies by the deadline, the SPAC would be forced to liquidate its assets, which may result in losses due to the expenses and liabilities of the SPAC. Investors in a SPAC are subject to the risk that, among other things, (i) such SPAC may not be able to locate or acquire target companies by the deadline, (ii) assets in the trust may be subject to third-party claims against such SPAC, which may reduce the per share liquidation price received by the investors in the SPAC, (iii) such SPAC may be exempt from the rules promulgated by the SEC to protect investors in “blank check” companies, such as Rule 419 promulgated under the Securities Act, so that investors in such SPAC may not be afforded the benefits or protections of those rules, (iv) such SPAC may only be able to complete one business combination, which may cause it to be solely dependent on a single business, (v) the value of any target company may decrease following its acquisition by such SPAC, (vi) the value of the funds invested and held in the trust decline, (vii) the inability to redeem due to the failure to hold the securities in the SPAC on the record date or the failure to vote against the acquisition and (viii) if the SPAC is unable to consummate a business combination, public stockholders will be forced to wait until the deadline before

liquidating distributions are made. In addition, most SPACs are illiquid and have a concentrated shareholder base that tends to be comprised of hedge funds (at least at inception). The Investment Adviser may cause clients to invest in a SPAC that, at the time of investment, has not selected or approached any prospective target businesses with respect to a business combination. In such circumstances, there may be limited basis for the Investment Adviser to evaluate the possible merits or risks of such SPAC's investment in any particular target business. To the extent that a SPAC completes a business combination, it may be affected by numerous risks inherent in the business operations of the acquired company or companies. For these and additional reasons, investments in SPACs are speculative and involve a high degree of risk.

### *Portfolio Funds*

The Investment Adviser may cause the Funds to invest a portion of their assets in other private funds, such as venture capital or private equity funds (each such fund in which an investment is made, a "Portfolio Fund") if the Investment Adviser considers that such investment represents a compelling opportunity or is otherwise potentially beneficial to the Funds. However, the impact of such risks is likely to be limited given the Portfolio Fund Limitations, as described below. Additional detail regarding the risks associated with investment in Portfolio Funds is available in the offering documents for each Feeder Fund.

There are certain restrictions in place regarding client investments in Portfolio Funds. The Investment Adviser will not cause clients to invest in the following Portfolio Funds:

- a Blind Pool (as defined below), if such investment would cause more than 1% of the net asset value of the Fund, calculated by reference to the most-recent valuation at the time of such investment, to be invested in Portfolio Funds; or
- a Blind Pool or D1 Capital Fund that, in either case, charges incentive compensation or a management fee to the Fund, unless such compensation reduces dollar-for-dollar the Management Fee payable to the Investment Adviser and the Incentive Allocations allocable to the Fund General Partner, as applicable.

For such purposes, "Blind Pool" means a pooled investment vehicle that is intended to invest less than a majority of its assets in a fixed pool of investments, but will exclude (i) any D1 Capital Fund, (ii) any investment vehicle that is only permitted to acquire assets with the approval of the General Partner or its Affiliates, and (iii) any investment vehicle that is controlled by an entity that constitutes all or a portion of a portfolio investment of the Fund. The limitations described herein are referred to elsewhere as the "Portfolio Fund Limitations".

Investments in Portfolio Funds present several risks, including: (i) the compensation of third-party advisers who manage the Portfolio Funds is not correlated to the Fund's performance, (ii) the Fund could receive any withdrawal proceeds from Portfolio Funds as an in-kind contribution, (iii) the Investment Adviser and the Fund General Partners rely upon the valuations provided by the third-party adviser, (iv) the third-party adviser may use investment strategies not fully disclosed to the Investment Adviser, (v) the Funds do not have a concentration limits and so therefore may invest a large amount of the Funds' capital in a small number of investments through Portfolio Funds, (vi) multiple third-party advisers will invest wholly independently of one another and may at times hold economically offsetting



positions, (vii) the Funds may invest in Portfolio Funds during the early stages of formation and such Portfolio Funds (and their managers) may have difficulty attracting talent, and (viii) operational risks associated with the use of a third-party manager. Additional detail regarding the risks associated with investment in Portfolio Funds is available in the offering documents for each Feeder Fund.

#### *Non-U.S. Exchanges*

The Investment Adviser may cause its clients to trade on exchanges or markets located outside the U.S. Trading on such exchanges or markets is not regulated by the SEC and the CFTC and may, therefore, be subject to more risks than trading on U.S. exchanges, such as the risks of exchange controls, expropriation, burdensome taxation, moratoria and political or diplomatic events. Risks of investments in non-U.S. Securities may also include reduced and less reliable information about issuers and markets, less stringent accounting standards, illiquidity of Securities and markets, higher brokerage commissions and custody fees.

#### *Non-U.S. Investments*

Investing in the Securities of companies (and, from time to time, governments) outside of the United States involves certain considerations not usually associated with investing in Securities of U.S. companies or the U.S. government, including political and economic considerations, such as greater risks of expropriation, nationalization, confiscatory taxation, imposition of withholding or other taxes on interest, dividends, capital gains, other income or gross sale or disposition proceeds, limitations on the removal of assets and general social, political and economic instability; the relatively small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; the evolving and unsophisticated laws and regulations applicable to the securities and financial services industries of certain countries; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the Fund's investment opportunities. In addition, accounting and financial reporting standards that prevail outside of the U.S. generally are not as high as U.S. standards and, consequently, less information is typically available concerning companies located outside of the U.S. than for those located in the U.S. As a result, the Investment Adviser may be unable to structure client transactions to achieve the intended results or to mitigate all risks associated with such markets. It may also be difficult to enforce clients' rights in such markets. For example, Securities traded on non-U.S. exchanges and the non-U.S. persons that trade these instruments are not subject to the jurisdiction of the SEC, the CFTC or the securities and commodities laws and regulations of the U.S. Accordingly, the protections accorded to clients under such laws and regulations are unavailable for transactions on non-U.S. exchanges and with non-U.S. counterparties.

#### *Investment in Emerging Markets*

Investing in the Securities of companies (and, from time to time, governments) in emerging markets, specifically, involves additional risks and special considerations not typically associated with investing in more established economies or markets. Such risks may include, in addition to the risks listed above in connection with non-U.S. investments generally, some if not all of which are heightened in the case of investments in emerging markets: higher dependence on exports and the corresponding importance of international trade; greater risk of substantial inflation; greater controls on foreign investment and preferential treatment for particular domestic industries or companies or other protectionist acts; increased likelihood of governmental involvement in and control over the economy;

governmental decisions to cease support of economic reform programs or to impose centrally planned economies; longer settlement periods for transactions and less reliable clearance and custody arrangements; and less developed corporate laws regarding fiduciary duties of officers and directors and the protection of investors. In addition, both the independence of judicial systems and their immunity from economic, political or nationalistic influences remain largely untested in many emerging markets countries, and the tax systems of some emerging market economies have been marked by rapid change, which has sometimes occurred without warning and has been applied with retroactive effect, and in some cases, there is widespread non-compliance with tax laws, insufficient personnel to deal with the problem and inconsistent enforcement of the laws by inexperienced tax inspectors. All of such risk factors could potentially affect the Investment Adviser's ability to conduct effective due diligence in connection with clients' investments and to monitor investments or otherwise impact returns on any such investment.

**ITEM 9**  
**DISCIPLINARY INFORMATION**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

## **ITEM 10**

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

#### **A. Broker-Dealer Registration Status**

The Investment Adviser and its management persons are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

#### **B. Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Adviser Registration Status**

The Investment Adviser and its management persons are not registered as, and do not have any application to register as, futures commission merchants, commodity pool operators, commodity trading advisors or associated persons of the foregoing entities.

#### **C. Material Relationships or Arrangements with Industry Participants**

The Principal Owner, individually, on behalf of members of his family, through or on behalf of trusts, partnerships, companies and other entities formed for his benefit and the benefit of members of his family, and/or through or on behalf of trusts, partnerships, foundations, companies and other entities which may from time to time include other philanthropic, charitable, civic, social or other organizations (collectively, along with the Principal Owner, the Principal Owner's family, and such trusts, partnerships and other entities, the "Principal Entities") expects to continue to make, hold and dispose of investments outside of, and separate and apart from, his interests in the Funds. These investments by the Principal Entities may include equity and other investments in pooled investment vehicles, and such vehicles may from time to time invest in securities in which our clients have also invested, invest in the Funds themselves, or receive investments from the Funds. It is also possible that any such pooled investment vehicles may bring ideas to the Investment Adviser that are appropriate for client investments, or that such pooled investment vehicles may be offered co-investment opportunities by the Investment Adviser or its affiliates. The investments made by the Principal Entities will generally be investments that, at the time of investment, are opportunities that are determined by the Investment Adviser to be inappropriate for investment by clients (for example, if such investments were originally considered for investment by clients and subsequently determined to be inappropriate for investment by clients (including due to the relatively small size of the investment opportunity), or in situations where clients have already invested in such securities the amount the Investment Adviser or its affiliates believe should be invested by clients). As it pertains to real estate investments, the Investment Adviser expects that the Principal Owner and the Principal Entities will permit clients a priority right over any single real estate investment opportunity presented to the Principal Owner that involves an equity investment of greater than \$20 million; however, a single real estate investment opportunity that is of a smaller size generally will be considered too small to be appropriate for clients.

In making determinations about the investment activities of the Principal Entities, the Investment Adviser, acting consistent with its fiduciary duties, will consider a number of factors, which may include: clients' investment strategies, clients' return parameters, and the risks associated with such investment activities. However, there can be no assurance that all relevant factors will be identifiable or fully considered at the time.

The Principal Entities' investments in other pooled investment vehicles (*e.g.*, hedge funds, private equity funds or venture capital funds) may mean that the Principal Owner indirectly holds interests, through such vehicles, in securities that are also owned by clients. In such a case, the Principal Owner may have a conflict of interest with respect to decisions taken by our clients with respect to such securities.

The Principal Owner is permitted to take actions in respect of the investments of the Principal Entities that he considers to be in the best interests of the Principal Entities, however the Investment Adviser's policies require that no action will be permitted to be taken unless the Principal Owner or such Principal Entities believe in good faith that such action is consistent with our fiduciary duty to our clients. The Investment Adviser will seek to resolve all conflicts in a fair and equitable manner consistent with its duties to our clients.

Although the Investment Adviser will consider any conflicts prior to granting investment approval to the Principal Entities, no assurances can be made that all conflicts will be identifiable or fully considered at the time such approval, if any, is granted. For example, although the Investment Adviser could, in its discretion, determine to withhold approval for an investment by the Principal Entities on the basis that, at the time of acquisition, the entity is, or reasonably could be expected to become, directly competitive with client portfolios and/or any portfolio companies held in client portfolios (for purposes of clarity, the Investment Adviser will not be required to withhold approval under such circumstances), it is possible that approval could be granted for an investment in an entity that subsequently becomes competitive with such client portfolios and/or any portfolio companies held in client portfolios.

The Investment Adviser has adopted policies and procedures to prevent and/or mitigate the actual conflicts of interest that arise from the investment activities of the Principal Entities. These policies address the methods and processes for identifying, reporting, mitigating and monitoring such conflicts of interest.

#### **D. Material Conflicts of Interest Relating to Other Investment Advisers**

We do not recommend or select other investment advisers for our clients.

**ITEM 11**  
**CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND**  
**PERSONAL TRADING**

**A. Code of Ethics**

We strive to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. In seeking to meet these standards, we have adopted a Code of Ethics (the “Code”). The Code incorporates the following general principles that all employees are expected to uphold:

- employees must at all times place the interests of clients first;
- all personal securities transactions must be conducted in a manner consistent with the Code;
- employees must not take any inappropriate advantage of their positions;
- information concerning the identity of securities and financial circumstances of clients, including the Funds’ investors, must be kept confidential (unless we permit otherwise); and
- independence in the investment decision-making process must be maintained at all times.

The Code places restrictions on personal trades by employees and mandates that employees disclose their personal securities holdings and transactions to the Investment Adviser on a periodic basis. The Code also requires that employees pre-clear certain types of personal securities transactions.

Generally, and subject to certain exceptions, our employees may not engage in personal trading in single-name, publicly-traded stocks and bonds and may only dispose of any such securities held in their respective personal trading accounts subject to pre-clearance. Employees are not required, however, to obtain pre-clearance for personal investments in certain other asset classes and goods, including certain investments in residential real estate and mutual funds, whether or not our clients have invested in the same or similar assets. We have the ability to permit, and have permitted, certain employees, including the Principal Owner, to maintain various personal investments that were acquired prior to their association with the Investment Adviser, including investments in private issuers that may subsequently conduct public offerings of securities, and may grant similar permissions in the future and/or permit personnel to sell such previously acquired securities.

Clients may request to review the Code by contacting us at the address or telephone number listed on the first page of this document.

## **B. Securities in which the Investment Adviser or a Related Person Has a Material Financial Interest**

### *1. Cross Trades*

To the extent that we determine that it would be in the best interests of certain clients to engage in a Cross Trade (which can happen for a variety of reasons, including tax purposes, liquidity purposes, to rebalance client portfolios, or to reduce transaction costs that may arise in an open market transaction), we will follow a policy whereby we determine that the trade is in the best interests of both of the clients involved and take steps to ensure that the transaction is consistent with the duty to obtain best execution for each of those clients.

We generally intend to execute Cross Trades, if at all, with the assistance of a broker-dealer that executes and books the transaction at the close of the market on the day of the transaction. Alternatively, a cross transaction between two clients may occur as an “internal cross”, where we instruct the custodian for the clients to book the transaction at the price determined in accordance with our valuation policies and procedures. If we effect an internal cross, we will not receive any fee in connection with the completion of the transaction.

### *2. Principal Transactions*

To the extent that Cross Trades may be viewed as principal transactions (as such term is used under the Investment Advisers Act of 1940 (the “Advisers Act”)) due to the ownership interest in a client by the Fund General Partners or otherwise, the Investment Adviser or its personnel, the Fund General Partners and the Investment Adviser will comply with the requirements of Section 206(3) of the Advisers Act. For the avoidance of doubt, the Fund General Partners and the Investment Adviser will comply with the requirements of Section 206(3) of the Advisers Act for any principal transactions.

We have established an advisory board for the Domestic Fund, the Offshore Fund, the Intermediate Fund and the Master Fund (the “Advisory Board”). To the extent required by applicable law or that we deem advisable, the Advisory Board may be asked to review and approve or disapprove, certain transactions or conflicts of interest, including in connection with any principal transactions, Cross Trades, related-party transactions and other transactions and relationships involving potential conflicts of interest. We will not cause the Domestic Fund, the Offshore Fund, the Intermediate Fund or the Master Fund to enter into any transaction that would constitute a principal transaction (as such term is used under the Advisers Act) without (i) the consent of the Advisory Board or (ii) the aggregate consent of a majority-in interest of the investors in the applicable Fund(s) (or if the decision relates to the Master Fund, a majority-in interest of the investors in the Feeder Funds). Any decision of the Advisory Board will be binding on our clients and their partners. The members of the Advisory Board may be exculpated and indemnified by the Domestic Fund, the Offshore Fund, the Intermediate Fund or the Master Fund, as applicable. We will not cause the Offshore Feeder Fund to enter into any transaction that would constitute a principal transaction (as such term is used under the Advisers Act) without (i) the consent of the Offshore Feeder Fund’s Board of Directors or (ii) the aggregate consent of a majority-in interest of the investors in the Offshore Feeder Fund.

In no event will any principal transaction, Cross Trade, related-party transaction or other transaction or relationship involving actual conflicts of interest, be entered into unless it complies with applicable law.

### **C. Investing in Securities that the Investment Adviser or a Related Person Recommends to Clients**

To the extent that the Investment Adviser, or any of its affiliates or employees transact in or hold securities that are also held by clients, the Investment Adviser, its affiliates and its employees may give advice or take action for their own accounts that may differ from, conflict with or be adverse to advice given or action taken for our clients. These activities may adversely affect the prices and availability of other securities held by or potentially considered for purchase by our clients.

Personnel of the Investment Adviser, including the Principal Owner and other members of the investment team, may have, and may acquire more, directly or indirectly (*e.g.*, through an investment in another pooled investment vehicle), investments in securities in which a client is, or may be, invested, and may benefit from market or investment activity by clients (*e.g.*, an investment made by a client in the same securities may lead to an increase in or reduce a decrease in the value of such securities or diminish the volatility of such securities). Furthermore, there may be instances, including a proposed business relationship (*e.g.* merger, acquisition or joint venture) between an issuer in which any such person has a personal investment and an issuer in which a client has invested, where the applicable person will have an incentive to take an action for clients that benefits the personal investment. Personal investment activities of personnel of the Investment Adviser may also increase the likelihood of the Investment Adviser gaining possession of material non-public information about an issuer that leads to a restriction or limitation being imposed on clients and/or one or more other apparent or actual conflicts of interest, including the fact that a client's investment in the public securities may benefit the personal investment.

One of our affiliates has, and may in the future, enter into arrangements with a client that may result in such affiliate receiving performance-based compensation in the form of an in-kind distribution. If one of our affiliates at any time receives a distribution in-kind from a client, or any investment vehicle established by a third-party investor in connection with investment management or consulting services provided to it by us or our affiliates, in lieu of our affiliate receiving performance-based compensation in the form of a cash distribution or payment, such affiliate may elect to hold the securities distributed in-kind or dispose of the securities distributed in-kind at such time as we deem appropriate in our sole discretion, irrespective of whether the same securities are held at such time in our client portfolios.

We have established policies and procedures to monitor and resolve conflicts with respect to investment opportunities in a fair and equitable manner, including through the implementation of personal trading restrictions in the Code, as described above, and regular monitoring of employee transactions for actual or potential conflicts of interest.

We and our affiliates, from time to time, have offered, and expect to continue to offer, one or more Fund investors, Co-Investment Vehicle investors, and/or other third-party investors (including the Investment Adviser, the Fund General Partners, and any affiliated entities, including all such entities' respective members, partners, officers or employees, and including the "Investment Adviser-Related



Investors”,<sup>1</sup> and investment vehicles in which Investment Adviser-Related Investors may hold an interest) the opportunity to co-invest with clients in particular investments. We may, for example, offer such co-investment opportunities when the size of the opportunity exceeds the amount of capital that we or our affiliates believe should be invested by our clients.

We are not required to offer co-investment opportunities to any Fund investor or Co-Investment Vehicle investor and no Fund investor or Co-Investment Vehicle investor will be entitled (or obligated) to participate in such an opportunity by reason of being an investor in one or more of the Funds or Co-Investment Vehicles. Our decision to offer (or not offer) co-investment opportunities to any Fund investor or Co-Investment Vehicle investor will be made in our sole discretion, as applicable. We and our affiliates may also offer co-investment opportunities to Fund investors, Co-Investment Vehicle investors and/or other third-party investors (including portfolio companies of our clients) based on factors such as, but not limited to, the nature of the opportunity, speed of execution required, tax considerations, such persons’ familiarity with, capability and history of making similar investments, such person’s prior expressions of interest in making similar investments (including, in the case of Fund investors, the level of private investment participation selected by such investor in subscribing to the applicable Fund), the ability of such persons to generate future investment opportunities or provide other benefits to clients and/or the Investment Adviser and/or to provide analytical and market advice or other expertise that may be valuable to clients, and other factors deemed by the Investment Adviser and its affiliates to be relevant. In addition, the Principal Owner and other Investment Adviser-Related Investors may co-invest with our clients whether or not the particular co-investment opportunity is offered to Fund investors or other third-party investors.

If we determine to offer any co-investment opportunity to a Fund investor or Co-Investment Vehicle investor, we will provide the details of such opportunity at the time the offer is communicated to such Fund investor or Co-Investment Vehicle investor.

To the extent that we advise a committed co-investment vehicle, such vehicle may be offered a co-investment opportunity before such opportunity is offered to any Fund investor or other third-party investor, and no Fund investor or other third-party investor will be entitled (or obligated) to participate in such an opportunity by reason of being a Fund investor. To the extent that we offer a co-investment opportunity in a security to one or more of our clients, investors in the Funds or Co-Investment Vehicles, or third parties, we are not required to offer subsequent additional co-investment opportunities in that security to such co-investors unless otherwise specified in applicable agreements. We may extend additional co-investment opportunities in such securities in our sole discretion.

We and our affiliates expect to receive fees and/or allocations from co-investors, which may differ as among co-investors, and which also may differ from the fees and/or allocations borne by our clients. Additionally, co-investors may not bear certain expenses (e.g., broken deal expenses) that are

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<sup>1</sup> “Investment Adviser-Related Investors” include the Principal Owner and any other member, partner, officer or employee of the Fund General Partners, the Investment Adviser or an affiliate thereof, any member of the immediate family of such a person, and any trust or other entity for the benefit of such a person that invests directly or indirectly in one of our Funds.

borne by our clients (and correspondingly, Fund investors). Co-investors may have rights in addition to, and be subject to terms that are different than, the rights and terms applicable to Fund investors. For example, co-investors may receive minority protections, board seats or other control rights, and may have different or advantageous rights with respect to their ability to exit the co-investment. In addition, we may be subject to additional duties with respect to the management of vehicles through which co-investors may invest (including, but not limited to, the Co-Investment Vehicles that we have established and operate such as D1 Iconoclast Holdings LP and D1 Lion Holdings LP). To the extent that we advise a committed co-investment vehicle, the fees, allocations and other terms and rights applicable to the committed co-investment vehicle (and its investors) may differ from the fees, allocations and other terms and rights applicable to the Funds (and their investors) or to other Co-Investment Vehicles.

We will seek to fairly allocate expenses among our clients and any co-investors. Generally, our clients and co-investors that own an investment will share in expenses relating specifically to such investment, however, in certain circumstances, co-investors may not share in certain investment-related expenses. It is not always possible or reasonable to allocate or re-allocate expenses to a co-investor, depending upon the circumstances surrounding the applicable investment (including the timing of the investment), the financial and other terms governing the relationship of the co-investor to any of our clients with respect to the investment and the nature of the expense (e.g., (i) research expenses that are not specifically related to an investment (but may benefit one or more such investments), (ii) research expenses that are subscription-based, aggregated or otherwise paid for as a single bill or lump sum payment and (iii) other similar expenses that are difficult to divide and allocate specific amounts to a single investment, generally will not be allocated to co-investors, and research products or services obtained with soft dollars generated by the Fund that are specific to, and benefit one or more such investments will be paid for with soft dollars and not allocated to co-investors). As a result, there may be occasions where co-investors do not bear a proportionate share of such expenses as compared to a expenses borne by clients. In addition, where a potential investment is contemplated but ultimately not consummated, potential co-investors generally will not share in any expenses related to such potential investment, including expenses borne by any of our clients with respect to such potential investment (e.g., broken deal expenses).

#### **D. Conflicts of Interest Created by Contemporaneous Trading**

To the extent that we have multiple clients that are both investing in the same securities, we will allocate investment opportunities to those clients on a fair and equitable basis, to the extent practical and in accordance with clients' applicable investment strategies, over a period of time. With respect to co-investment opportunities, we are not required to offer co-investment opportunities to any co-investor, including our clients or investors in the Funds or Co-Investment Vehicles. To the extent that we offer a co-investment opportunity in a security to one or more of our clients, investors in the Funds or Co-Investment Vehicles, or third parties, we are not required to offer subsequent additional co-investment opportunities in that security to such co-investors unless otherwise specified in applicable agreements. We may extend additional co-investment opportunities in such securities in our sole discretion.

Investment opportunities will generally be allocated among those clients for which participation in the respective opportunity is considered appropriate, taking into account applicable considerations, which may include (but are not limited to): (i) potentially adverse tax consequences; (ii) the potential for the proposed investment to create an imbalance in a client's portfolio; (iii) the liquidity requirements of a client; (iv) whether the risk-return profile of the proposed investment is consistent with a client's

objectives; (v) regulatory restrictions that would or could limit a client's ability to participate in a proposed investment; (vi) whether a client's governing documents contemplate the allocation of a specific investment opportunity to that client; (vii) the need to re-size risk in a client's portfolio; or (viii) each client's available capital.

We have no obligation to purchase or sell a security for, enter into a transaction on behalf of, or provide an investment opportunity to, certain clients solely because we purchase or sell the same security for, enter into a transaction on behalf of, or provide an opportunity to, another client if, in our reasonable opinion, such security, transaction or investment opportunity does not appear to be suitable, practicable or desirable for the client.

One client may have investment objectives, programs, strategies and positions that are similar to or that conflict with those of another client, or may compete with or have interests adverse to another client. Such conflicts could affect the prices and availability of securities in which one or more clients invest. Even if clients have similar investment objectives, programs or strategies, we may give advice or take action with respect to the investments held by, and transactions of, one or more clients that may differ from the advice given or the timing or nature of any action taken with respect to the investments held by, and transactions of, one or more other clients for a variety of reasons, including differences between clients regarding each client's investment strategy, financing terms, regulatory treatment and tax treatment. As a result, clients with similar investment strategies may have substantially different portfolios and investment returns. Conflicts of interest may also arise when we make decisions on behalf of a client with respect to matters where our interests or other clients' interests differ from those of the one or more clients.

Investment management services provided by us or our affiliates to Co-Investment Vehicles that have investment objectives, programs or strategies that are similar to those of the Funds could result in significant overlapping positions among the Funds and any such Co-Investment Vehicles. Any such Co-Investment Vehicles may have different or additional terms than those of Funds (or Fund investors), including different fees, information rights and liquidity rights, or the right to wind down and terminate governing agreements for Co-Investment Vehicles without cause. Additional information obtained pursuant to an information right may affect an investor's decision to invest additional capital in, to remain invested in, to withdraw from a Co-Investment Vehicle or to terminate the governing agreements of a Co-Investment Vehicle. Any such withdrawals or terminations could cause any such Co-Investment Vehicle to liquidate its positions ahead of other clients, which could operate to the detriment of such other clients (including in certain material respects).

We may cause one or more clients to invest in different parts of the capital structure of an issuer than other clients, which could give rise to potential conflicts of interest. For example, the Funds may own an equity investment in an issuer while a Co-Investment Vehicle owns a debt investment in the same issuer. If a Co-Investment Vehicle made a debt investment in an issuer in which the Funds held an equity investment, we could be required to take actions for the Co-Investment Vehicle that are adverse to the interests of the Funds, or vice versa (for instance, if the applicable portfolio company underwent a reorganization or other major corporate event, conflicts could arise between the interests of debt holders and equity holders, and, accordingly, between the interests of the Fund and such Co-Investment Vehicle). Likewise, we may cause the Funds and Co-Investment Vehicles to invest in different debt instruments or

series of preferred equity of a company, giving rise to conflicts concerning their respective entitlements or priority in a bankruptcy proceeding or other transaction.

## **ITEM 12**

### **BROKERAGE PRACTICES**

#### **A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions**

As noted previously, we have discretionary authority to manage the Funds' portfolios, including authority to make decisions with respect to which securities to buy or sell, the amount and price of those securities, the brokers or dealers to be used for a particular transaction, and commissions or markups and markdowns paid, among other things. Our authority is limited by our own internal policies and procedures and each client's investment guidelines. For certain Co-Investment Vehicles, we may not select the brokers or dealers to be utilized to buy or sell securities for such Co-Investment Vehicles.

Portfolio transactions for each client will be allocated to brokers and dealers on the basis of numerous factors; such allocations will not necessarily correlate to lowest available pricing. Brokers and dealers may provide other services that are beneficial to us and/or certain clients, but not beneficial to all clients. Subject to best execution, in selecting brokers and dealers (including prime brokers) to execute transactions, provide financing and securities on loan, hold cash and short balances and provide other services, we may consider, among other things, the following:

- the ability of the brokers and dealers to effect the transaction;
- the brokers' or dealers' facilities, reliability and financial responsibility;
- the quality of research provided by the brokers; and
- the provision by the brokers of capital introduction, talent introduction, marketing assistance, consulting with respect to technology, operations and equipment, commitment of capital, access to company management and access to deal flow.

Accordingly, the commission rates (or dealer markups and markdowns) charged to clients by brokers or dealers in the foregoing circumstances may be higher than those charged by other brokers or dealers who may not offer such services. We need not solicit competitive bids and do not have an obligation to seek the lowest available commission cost or spread. Generally, neither we nor our clients separately compensate any broker or dealer for any of these other services.

We maintain policies and procedures to review the quality of executions, including periodic reviews by our investment professionals.

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

We may pay commissions (or markups or markdowns with respect to certain types of riskless principal transactions) to a broker-dealer for effecting client transactions in excess of that which another broker-dealer might have charged for effecting the same transaction in recognition of the value of the brokerage and research services provided by a particular broker-dealer. We will effect such transactions, and receive such brokerage and research services, only to the extent that they fall within the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934, as amended, and subject to prevailing

guidance provided by the SEC regarding Section 28(e). We believe that it is important to our investment decision-making processes to have access to independent research.

We may use research products or services obtained with “soft dollars” generated by one or more clients to service one or more other clients, including clients that may not have paid for the soft dollar benefits. We do not seek to allocate soft dollar benefits to client accounts in proportion to the soft dollar credits the client accounts generate. Where a product or service obtained with soft dollars provides both research and non-research assistance to us (*i.e.*, a “mixed use” item), we will make a good faith allocation of the cost which may be paid for with soft dollars. In making good faith allocations of costs between administrative benefits and research and brokerage services, a conflict of interest may exist by reason of our allocation of the costs of such benefits and services between those that primarily benefit us and those that primarily benefit our clients.

When we use client brokerage commissions (or markups or markdowns) to obtain research or other products or services, we receive a benefit because we do not have to produce or pay for such products or services. As such, we may have an incentive to select or recommend a broker-dealer based on our interest in receiving research or other products or services, rather than on our clients’ interest in receiving most favorable execution.

At least annually, we consider the amount and nature of research and research services provided by broker-dealers, as well as the extent to which such services are useful and/or relied upon, and attempt to allocate a portion of the brokerage business of our clients on the basis of that consideration. Broker-dealers sometimes suggest a level of business they would like to receive in return for the various products and services they provide. Actual brokerage business received by any broker-dealer may be less than the suggested allocation, but can (and often does) exceed the suggested level, because total brokerage is allocated on the basis of all of the considerations described above. In no case will we make binding commitments as to the level of brokerage commissions that we will allocate to a broker-dealer, nor will we commit to pay cash if any informal targets are not met. A broker-dealer is not excluded from receiving business because it has not been identified as providing research products or services.

## *2. Brokerage for Client Referrals*

Neither we nor any related person receives client referrals from any broker-dealer or third party. However, from time to time, brokers (including our Funds’ prime brokers) may assist the Funds in raising additional capital from investors. Additionally, brokers may provide capital introduction and marketing assistance services, and our representatives may speak at conferences and programs sponsored by the brokers for investors interested in investing in private investment funds. Through such events, prospective investors in a Fund may encounter our representatives. Brokers may also provide other services, including consulting services relating to technology and office space. Although neither we nor our clients compensate brokers for such assistance, events or services, or for any investments ultimately made by prospective investors attending such events, such activities may influence us in deciding whether to use such broker in connection with brokerage, financing and other activities for a client. Subject to our obligation to seek best execution, we may consider referrals of investors to a Fund in determining our selection of brokers. However, we will not commit to an investor or a broker to allocate a particular amount of brokerage in any such situation.

### 3. *Directed Brokerage*

We do not recommend, request or require that a client direct us to execute transactions through a specified broker-dealer.

### 4. *Trade Errors*

The Investment Adviser's traders may on occasion experience errors with respect to trades made on behalf of the Fund (each such error, a "Trade Error"). Trade Errors may include, for example, (i) the placement of orders (either purchases or sales) in excess of the amount of Securities the Investment Adviser intended to trade; (ii) the sale of a security when it should have been purchased; (iii) the purchase of a security when it should have been sold; and (iv) the purchase or sale of the wrong security. Trades implemented as a result of faulty data, systems, coding, modeling or analysis, trades that are properly executed but result in losses, errors committed by other persons (including brokers and custodians), or which are otherwise caused by human error other than those specifically described in the trade error policy contained in the Investment Adviser's compliance manual, are not considered Trade Errors. Errors that do not result in transactions in an investor's account (such as transactions that result in loss of an investment opportunity) will not be viewed as Trade Errors. Trade Errors may result in losses or gains. The Investment Adviser will endeavor to detect Trade Errors prior to settlement and correct them in an expeditious manner.

Pursuant to the exculpation and indemnification provided by clients to the Investment Adviser and its affiliates and personnel, the Investment Adviser and its affiliates and personnel will generally not be liable to clients for any act or omission, absent bad faith, gross negligence, willful misconduct or actual fraud of such person, and clients will generally be required to indemnify such persons against any losses they may incur by reason of any act or omission related to clients absent bad faith, gross negligence, willful misconduct or actual fraud of such person. As a result of these provisions, clients (and not the Investment Adviser) will benefit from any gains resulting from Trade Errors and will be responsible for any losses (including additional trading costs) resulting from Trade Errors, absent bad faith, gross negligence, willful misconduct or actual fraud of the relevant person. The Investment Adviser will reimburse the Fund for losses for which the Investment Adviser is responsible under the exculpation provisions. Given the potentially large volume of transactions executed by the Investment Adviser on behalf of its clients, investors should assume that Trade Errors will occur and that, to the extent permitted by applicable law, clients will be responsible for any resulting losses, even if such losses result from the negligence (but not gross negligence) of the Investment Adviser's personnel.

## **B. Order Aggregation**

If we determine that the purchase or sale of a security is appropriate with regard to multiple clients, we may, but are not obligated to, purchase or sell such a security on behalf of such clients with an aggregated order, for the purpose of reducing transaction costs, to the extent permitted by applicable law. When an aggregated order is filled through multiple trades at different prices on the same day, each participating client will receive the average price, with transaction costs generally allocated pro rata based on the size of each client's participation in the order (or allocation in the event of a partial fill) as determined by us. In the event of a partial fill, allocations may be modified on a basis that we deem to be appropriate, including, for example, in order to avoid odd lots or de minimis allocations. When orders are not aggregated, trades generally will be processed in the order that they are placed with the broker or

counterparty selected by us. As a result, certain trades in the same security for one client (including a client in which we and our personnel may have a direct or indirect interest) may receive more or less favorable prices or terms than another client, and orders placed later may not be filled entirely or at all, based upon the prevailing market prices at the time of the order or trade. In addition, some opportunities for reduced transaction costs and economies of scale may not be achieved.



## **ITEM 13**

### **REVIEW OF ACCOUNTS**

#### **A. Frequency and Nature of Review of Client Accounts or Financial Plans**

We perform various daily, weekly, monthly, quarterly and periodic reviews of each client's portfolio. Such reviews are conducted by various employees throughout the firm, depending upon the review being conducted, including the Principal Owner, the Chief Operating Officer, the Chief Financial Officer and the Chief Compliance Officer.

#### **B. Factors Prompting Review of Client Accounts Other than a Periodic Review**

A review of a client account may be triggered by any unusual activity or special circumstance.

#### **C. Content and Frequency of Account Reports to Clients**

We generally provide annual audited financial statements to the Funds within 120 days of the applicable client's fiscal year end.

**ITEM 14**  
**CLIENT REFERRALS AND OTHER COMPENSATION**

**A. Economic Benefits for Providing Services to Clients**

We do not receive economic benefits from non-clients for providing investment advice and other advisory services.

**B. Compensation to Non-Supervised Persons for Client Referrals**

Neither we nor any of our related persons directly or indirectly compensates any person who is not a supervised person, including placement agents, for client referrals.

## **ITEM 15**

### **CUSTODY**

We are deemed to have custody of client funds and securities where we have the authority to obtain client funds or securities, for example, by deducting advisory fees from a client's account or otherwise withdrawing funds from a client's account. Account statements related to clients are sent by qualified custodians to us.

We are subject to Rule 206(4)-2 under the Advisers Act (the "Custody Rule"). We are not required, however, to comply (or we are deemed to have complied) with certain requirements of the Custody Rule with respect to each Fund because we comply with the provisions of the so-called "Pooled Vehicle Annual Audit Exception", which, among other things, requires that each Fund i) be subject to an audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and ii) distribute its audited financial statements to all investors within 120 days of the end of its fiscal year.

## **ITEM 16**

### **INVESTMENT DISCRETION**

We serve as the management company with discretionary trading authority for each Fund. We, or one of our affiliates, have entered into an investment management agreement, or similar agreement, with each Fund, pursuant to which we (or any applicable affiliate) have been granted discretionary trading authority. We have entered into, and expect to continue to enter into, agreements with Co-Investment Vehicles, the terms of which with respect to investment discretion will vary according to each agreement.

Our investment decisions and advice with respect to each client are subject to each client's investment objectives and guidelines, as set forth in its offering documents.

## **ITEM 17**

### **VOTING CLIENT SECURITIES**

#### **A. Policies and Procedures Relating to Voting Client Securities**

In compliance with Advisers Act Rule 206(4)-6, we have adopted proxy voting policies and procedures. Our general policy is to vote proxy proposals, amendments, consents or resolutions (collectively, “Proxies”) in a prudent and diligent manner that will serve our clients’ best interests and is consistent with each client’s investment objectives.

We will take into account various relevant factors, as determined by us in our discretion, which may include:

- the impact on the value of the securities or instruments owned by the relevant client and the returns on those securities;
- the anticipated associated costs and benefits;
- the continued or increased availability of portfolio information; and
- industry and business practices.

In limited circumstances, we may refrain from voting Proxies where we believe that voting would be inappropriate, taking into consideration the cost of voting the Proxies and the anticipated benefit to our clients. Generally, clients may not direct our vote in a particular solicitation.

We use independent Proxy voting services to provide Proxy analysis, voting recommendations and voting services. We will review these recommendations and will determine how to vote in accordance with our Proxy policies and procedures.

Conflicts of interest may arise between the interests of our clients and us or our affiliates. If we determine that we may have, or be perceived to have, a conflict of interest when voting Proxies, we will vote in accordance with our Proxy voting policies and procedures. Investors may review a copy of our Proxy voting policies and our Proxy voting record upon request.

**ITEM 18**  
**FINANCIAL INFORMATION**

We are not required to include a balance sheet for our most recent fiscal year. We are not aware of any financial condition reasonably likely to impair our ability to meet contractual commitments to clients, and we have not been the subject of a bankruptcy petition at any time during the past ten years.