

# SilverArc Capital Management, LLC

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## **Part 2A of Form ADV: Firm Brochure**

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**May 24, 2019**

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This brochure (the “Brochure”) provides information about the qualifications and business practices of SilverArc Capital Management, LLC (the “Adviser”). If you have any questions about the contents of this brochure, please contact us at (617) 855-6196. 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.

The Adviser is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training.

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

## **Item 2 - Material Changes**

The Adviser filed its initial application to register as an investment adviser with the SEC on May 24, 2019. Accordingly, pursuant to disclosure rules under the Advisers Act, this is the first Brochure compiled by the Adviser to provide new and prospective advisory clients with clearly written, meaningful, current disclosure of its business practices, conflicts of interest, and the background of its advisory personnel. All recipients of this Brochure are encouraged to read it carefully in its entirety.

In the future, this section of the Brochure will identify, address, and discuss only the material changes since the last delivery or posting of this Brochure on the SEC's public disclosure website (IAPD) to assist and make you aware of certain information that has changed since the prior year's Brochure.

The Adviser will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, the Brochure may be requested by contacting Devesh Gandhi, the Adviser's Chief Compliance Officer at (617) 855-6196.

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#### Item 4 - Advisory Business

- A. The Adviser, an investment advisory firm located in Boston, Massachusetts, advises on investing in and actively manages primarily a long-short equity and equity derivatives investment portfolios.

The Adviser's principal investment objective is to seek to maximize total return for the Clients primarily through the capital appreciation of their investments.

In attempting to achieve this investment objective, the Adviser expects to invest in, hold, sell, short and trade equity securities, equity derivatives, exchange traded funds ("ETFs"), ETF derivatives and PIPEs (private investment in public equities). The Adviser may also engage in other financial instruments including, but not limited to, currency swaps for hedging purposes.

The Adviser was formed in 2019 and is a Delaware limited liability company but the Adviser has been operating the advisory business through certain affiliates since 2012. Devesh Gandhi is the sole principal owner of the Adviser.

- B. The Adviser provides investment advisory services to pooled investment vehicles operating as private funds for sophisticated, qualified investors, including high net worth individuals, retirement plans, trusts, partnerships, corporations, or other businesses (each, the "Fund" and, collectively, the "Funds") and separately managed accounts (each an "SMA," Funds and SMAs collectively referred to as "Clients"). The governing documents of each Fund may also provide for the establishment of parallel or other alternative investment vehicles in certain circumstances. Fund investors may participate in such vehicles for the purposes of certain investments, and if formed, such vehicles would also become Clients of the Adviser.

The Adviser's investment objective is to seek to maximize total return primarily through the capital appreciation of its investments. In attempting to achieve this investment objective, the Adviser expects to invest in, hold, sell, and trade equity securities, equity derivatives, exchange traded funds, and other related financial instruments, although the Adviser also expects that it may invest in a number of other asset classes and/or financial instruments, as further described below.

The Adviser primarily expects to take long positions in equity securities, or in other assets it believes are undervalued, and short positions in equity securities, or in other assets the Adviser believes are overvalued. The Adviser expects the majority of its investments will be focused in the United States, but also expects to invest in other developed markets. The Adviser may consider investments in companies in less developed markets on an opportunistic basis.

- C. While each of its Clients generally follows the strategy stated above, the Adviser may tailor the specific advisory services with respect to each Client based on the particular investment objectives and strategies described in the applicable Client's confidential offering memorandum, if any, and governing documents, including Fund's operating agreement, or the investment management agreement of the SMA (referred to collectively as "Governing Documents").

**All discussion of the Clients in this Brochure, including but not limited to their investments, the strategies used in managing the Clients, and conflicts of interest faced by the Adviser in connection with the management of the Clients are qualified in their entirety by reference to each Client's respective Governing Documents.**

- D. The Adviser does not participate in wrap fee programs.

E. As of May 24, 2019, the Adviser manages \$0 in discretionary and non-discretionary assets.

## Item 5 - Fees and Compensation

- A. Below is a discussion of how the Adviser is compensated in connection with providing advisory services to its Clients. The Adviser may enter into different fee arrangements on a client-by-client basis. It is critical that all Clients, and investors in the Funds, refer to the applicable Client's governing documents for a complete understanding of how the Adviser and its affiliates are compensated for advisory services. The information contained herein is a summary only and is qualified in its entirety by each applicable Client's Governing Documents.

*Management Fees.* The Adviser receives management fees (the "Management Fees") from the Funds between 1.25% to 2.0% per annum of net asset value depending on the class of partnership interests. The Management Fee is payable by a Fund to the Adviser or its designee quarterly and in advance, as described in each Fund's respective governing documents, and pro-rated for partial periods.

*Incentive Allocation.* Additionally, the general partner of the Fund, or other affiliate of the Adviser, (the "General Partner") may be eligible to receive an incentive or performance allocation from a Fund based on a percentage of net capital appreciation (both realized and unrealized) during each yearly measurement period (the "Incentive Allocation"), subject to a high water mark. The Adviser expects the Incentive Allocation to be between 15% and 20% of net capital appreciation of the Fund.

The compensation described above is the Adviser's typical compensation rates. However, Management Fee and Incentive Allocation rates may be negotiable. The Adviser has the right to enter into agreements with one or more Fund investors to waive or modify certain terms of the offering of a Fund's interests, or certain rights and obligations of Fund investors, including compensation, otherwise applicable to such interest(s), in each case without notice to the Funds' other investors.

- B. The Management Fee and the Incentive Allocation are proportionally adjusted for capital contributions or directly deducted from the capital account balances of fee-paying investors in the Funds.
- C. Each Fund bears its own legal and other organizational expenses incurred in the formation of the Fund (the "Organizational Expenses") up to an aggregate amount agreed upon in the Fund's Governing Documents. In the General Partner's sole discretion, certain Organizational Expenses may be amortized over a period of up to 60 months from the date the Fund commences its investment activities. The operating and administrative expenses that are borne by each Fund or SMA client are outlined in the applicable LPA or SMA agreement.

To the extent that any of the operating and administrative expenses relate to the operations of one or more Funds or accounts managed by the General Partner or any of its respective affiliates, the General Partner will attempt to allocate such expenses based on a good faith determination of the relative benefits of such expenses to all such funds and accounts benefiting from such expense.

- D. The Adviser collects fees quarterly and in advance. If the advisory contract is terminated before the end of the billing period, the Adviser will issue a pro-rated refund.
- E. Other than as described above, neither the Adviser nor any of its supervised persons receive any compensation from the sale of securities or other investment products.

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

As stated in Item 5 above, the General Partner is entitled to receive performance-based fees or allocations from the Clients. These payments, to the extent received, are subject to Section 205(a)(1) of the Investment Advisers Act of 1940, as amended (the “Advisers Act”), in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3.

Performance-based fees, in general, may create an incentive for an adviser or its supervised persons to make investments that are riskier and more speculative than would be the case in the absence of a performance-based fee. Such fee arrangements may also create an incentive to favor higher fee-paying clients over other clients in the allocation of investment opportunities. The terms of the performance-based fees may also give the general partners or managers of the Clients an incentive to make decisions regarding the timing and structure of realization transactions that may not be in the best interests of investors.

To address these conflicts of interest, the Adviser has implemented policies and procedures to ensure that all Clients receive equitable and fair treatment over time with respect to the allocation of investment opportunities. Additionally, the Adviser manages each Client in accordance with the investment strategy disclosed in such Client’s Governing Documents to help ensure that investors are aware of the investment strategy and the risks associated with the strategy.

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

As described in Item 4, the Adviser provides investment advisory services to private funds that are exempt from registration under the Investment Company Act of 1940, as amended, and SMAs. The offering of interests to investors in the Funds are not registered under the Securities Act of 1933, as amended (the “Securities Act”), or the securities laws of any U.S. state or any other jurisdiction. The offering of the Funds’ interests is made to U.S. persons in accordance with Regulation D promulgated under the Securities Act by the SEC and to non-U.S. persons in accordance with Regulation S promulgated under the Securities Act by the SEC.



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

- A. The Adviser's principal investment objective is to seek to maximize total return for the Clients primarily through the capital appreciation of their investments.

In attempting to achieve the its investment objective, the Adviser expects to invest in, hold, sell, sell short and trade equity securities, equity derivatives, exchange traded funds ("ETFs"), ETF derivatives and PIPEs (private investment in public equities). The Adviser may also engage in other financial instruments including, but not limited to, currency swaps for hedging purposes.

Generally, the Adviser expects to target a diverse blend of investments within the broad healthcare industry and its various segments. The majority of the Clients investment capital is expected to be invested in drug companies (biotechnology companies, specialty pharmaceuticals, drug manufacturers and other pharmaceutical companies), but the Adviser also expects to invest in companies within other segments of healthcare industry including, but not limited to, medical device companies, medical diagnostic companies and other life sciences companies.

Geographically, the Adviser expects to focus a majority of its investments in companies based or with substantial operations in the United States, but also plans to invest on a global basis in companies based or doing business in other developed markets. The Adviser may also make investments in companies in less developed markets on an opportunistic basis.

The Adviser expects to use various investment strategies and techniques to achieve the Clients investment objective. Among others, three anticipated investment strategies include: (i) pre-catalyst events, (ii) post-catalyst entries and (iii) long-term positions. Pre-catalysts events refers to taking a long or short position(s) in a specific equity security, group of related equity securities, ETFs and/or derivative instruments ahead of anticipated events affecting a company or segments of the healthcare industry, which is expected to move the price of the securities of or other financial instruments referencing that company or group of companies. Such positions may be taken on a stand-alone basis or in the context of the Clients' overall portfolio. Post-catalyst entries include taking long or short positions after the announcement or occurrence of major events, when in the Adviser's opinion the change in the price of the securities of the company(ies) affected thereby are not commensurate with the announcement, event, news or other conditions. Long-term positions include long or short investments that the Adviser expects to cause the Client to hold for an extended duration of time based on longer-term investment themes or trends, although the Adviser may cause the Client to, at times, increase exposure to, decrease exposure to or exit completely and then re-enter such positions as market fluctuations or other factors dictate. The Adviser may also employ various hedging and risk-mitigation strategies to optimize the risk-reward profile of individual investment positions or the Client's portfolio as a whole, which may include exposure to securities and derivatives not specifically focused on the healthcare industry. The Advisor may utilize additional strategies or forego any of the above strategies, if it believes it is in the best interests of Clients.

The substantial majority of the Clients' investments will be in securities listed on exchanges. In addition, the Adviser may also acquire warrants and options that are not listed on an exchange. The time horizon of the Clients' investment positions maybe as short as a fraction of a second, or as long as several years.

The Adviser generally expects to limit the size of any investment in the securities of a company to 10% of a Fund's net asset value, determined at the time the position is initiated or increased (without

regard to subsequent fluctuations in market prices or value); provided that, the Adviser reserves the flexibility to cause the Fund to exceed the foregoing guideline on a short-term basis if, in light of the specific circumstances, the Adviser believes the risk/reward opportunity is warranted.

Although the Adviser expects to cause the Funds to take long or short positions in public equity securities, equity derivatives, ETFs, and related financial instruments in accordance with the investment strategies and techniques described above, the Adviser also expects to, from time to time, engage in other investment strategies (either in lieu of or in addition to the strategies described herein) to take advantage of investment opportunities, without notice to the Fund investors. However, the Adviser will provide reasonable notice to the Fund investors if the Fund's investment objective or the investment strategies used to achieve such objective substantially deviates from those described herein. There can be no assurance that pursuing additional or different investment strategies or techniques will be successful and not result in losses for the Funds.

In addition to investing the assets of the Clients to maximize the return of the Clients, to the extent permitted by applicable law, the Adviser may also invest in any asset class or financial instrument including, but limited to, those described above for hedging, portfolio leverage, or any other purpose that the Adviser believes is consistent with the investment objectives of the Clients.

**Investing in securities involves risk of loss that all Clients and their investors should be prepared to bear.**

- B. *Clients and potential investors should be aware that investing in securities involves a high degree of risk. There can be no assurance that the Adviser's investment objectives will be achieved or that an investor will receive a return of its capital. In addition, there will be occasions when the Adviser and its affiliates may encounter potential conflicts of interest in connection with the Clients. The following discussion does not purport to be a complete enumeration or explanation of the risks applicable to the Clients. Clients and potential investors should read the applicable Governing Documents and should consult with their own legal, tax and financial advisors before deciding whether or not to invest.*

#### Investments in Equity Securities

The Adviser intends to invest Client accounts primarily in equity securities and equity derivatives. The value of these financial instruments generally will vary with the performance of the issuer and movements in the equity markets. As a result, Client accounts may suffer losses if it invests in equity instruments of issuers whose performance diverges from the Adviser's expectations or if equity markets generally move in a single direction and Client accounts have not hedged against such a general move. For example, a fund with long equity investments runs the risk that the market prices of those investments will decline. The market price of an equity investment may decline for a number of reasons that directly relate to the issuer, such as poor management performance or reduced demand for its goods or services. It also may decline due to factors which affect a particular industry, such as decline in demand, or adverse clinical or regulatory changes. In addition, market prices may decline as a result of general market conditions not specifically related to a company or industry, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally.

Further, equity investments may be even more susceptible to such events than other types of investments a Client account may make, given their subordinate position in the issuer's capital structure. As such, equity investments generally have greater price volatility than fixed income

and other investments with a scheduled stream of payments, and the market price of equity investments is more susceptible to moving up or down in a rapid or unpredictable manner.

If Client accounts purchase equity investments at a discount from their value as determined by the Adviser, the Client accounts run the risk that the market prices of these investments will not appreciate to that value or will decline for a variety of reasons, one of which may be the Adviser's overestimation of the value of those investments.

Equity investments trading at high multiples of current earnings may be more sensitive to changes in future earnings expectations than securities trading at lower multiples. At times when the market is concerned that these expectations may not be met, the market prices of those securities typically fall.

The foregoing risks outlined in this section related to equity securities generally are oriented with respect to the Client account's long portfolio.

### Healthcare Companies

Healthcare, drug and life sciences companies (each, a "*Healthcare Company*," collectively, "*Healthcare Companies*") are generally subject to greater governmental regulation than other industries at both the state and federal levels. Changes in governmental policies may have a material effect on the demand for or costs of certain products and services. Generally, a Healthcare Company must receive government approval before introducing new drugs, medical devices or procedures. This process may delay the introduction of these products and services to the marketplace, resulting in increased development costs, delayed cost-recovery and loss of competitive advantage to the extent that rival companies have developed competing products or procedures, adversely affecting the company's revenues and profitability. Expansion of facilities by healthcare providers is subject to "determinations of need" by the appropriate government authorities. This process not only increases the time and cost involved in these expansions, but also makes expansion plans uncertain, limiting the revenue and profitability growth potential of healthcare facilities operators and negatively affecting the price of their securities. Certain Healthcare Companies depend on the exclusive rights or patents for the products they develop and distribute. Patents have a limited duration and, upon expiration, other companies may market substantially similar "generic" products which cost less to develop and may cause the original developer of the product to lose market share and/or reduce the price charged for the product, resulting in lower profits for the original developer. , due to the importance of the products and services of Healthcare Companies and their impact on the health and well-being of many individuals, these Healthcare Companies are especially susceptible to product liability lawsuits. The share price of a Healthcare Company can drop dramatically as a reaction to an adverse judicial ruling or from the adverse publicity accompanying threatened litigation.

Some healthcare companies may be levered to one or more drugs or products. An adverse change to those drugs or products may result in meaningful or complete loss of market value for those companies.

There may be other risk factors specific to healthcare companies not described herein.

### Flexible Investment Approach

While Client accounts will focus on long and short equity positions, the investment strategies, approaches and techniques described herein may evolve over time and the Adviser may trade in

any type of security, issuer or group of related issuers, country, region and sector that it believes will help Client accounts achieve its investment objective. The Adviser has broad latitude with respect to the management of the Client accounts' risk parameters. Although the Adviser will maintain internal risk guidelines (which may be amended from time to time), a Client account may make investment decisions that fall outside such guidelines. The Adviser may utilize such leverage, position size, duration and other portfolio management techniques as it believes are appropriate for the Client account. Prospective investors must recognize that in investing in Client accounts, they are placing their capital indirectly under the full discretionary management of the Adviser, subject to the supervision of the General Partner, and authorizing the Adviser indirectly to trade for the Client accounts using whatever techniques, discretionary approaches and investment tactics the Adviser determines to be appropriate, each of which may not be thoroughly tested before being employed and may have operational or other shortcomings that could result in unsuccessful investments and, ultimately, losses to Client accounts. In addition, any new technique and tactic developed by Client accounts may be more speculative than earlier techniques and tactics and may involve material and as-yet-unanticipated risks that could increase the risk of an investment in Client accounts. Investors will not generally be informed of any non-material changes in the Adviser's strategies, techniques, discretionary approach and tactics. There can be no assurance that the Adviser will be successful in applying its approach and there is material risk that an investor may suffer significant impairment or total loss of its capital.

#### Directional Trading Strategy Risk

Certain of the positions taken by Client accounts will be designed to profit from forecasting short or long-term absolute price movements in the securities of specific companies or in other assets. Predicting future prices is inherently uncertain and the losses incurred, if the market moves against a position, will often not be hedged. The speculative aspect of attempting to predict absolute price movements is generally perceived to exceed that involved in attempting to predict relative price fluctuations.

#### Growth in Assets Under Management

Certain of the investment strategies employed by the Adviser for Client accounts may be dependent on the Client accounts' ability to enter and exit investments quickly and to generate significant profit from investment positions that are relatively small in size on an absolute basis. To the extent a Client account grows in size and/or takes larger positions in the securities of particular companies, it may experience difficulty in making and liquidating investments without adversely affecting the prices at which it buys and sells the securities. Accordingly, as the Client account grows in size, liquidity constraints may adversely affect the ability of the Client account to achieve its objective.

#### Purchasing Initial Public Offerings

Client accounts may purchase securities of companies in initial public offerings or shortly thereafter. Special risks associated with these securities may include a limited number of shares available for trading, unseasoned trading, lack of investor knowledge of the company, and limited operating history. These factors may contribute to substantial price volatility for the shares of these companies and, thus, for the Client accounts' interests. The limited number of shares available for trading in some initial public offering may make it more difficult for Client accounts to buy or sell significant amounts of shares without an unfavorable impact on prevailing market prices. 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. All of the factors that affect the performance of an economy or equity markets may have a greater impact on the shares of companies in initial public offerings. Such securities tend to expose Client accounts to greater risk due, in part, to public perception and the lack of publicly available information and trading history.

#### Preferred and Hybrid Securities Risks

Client accounts may invest in preferred stock and hybrid securities, which may have special risks. Preferred and hybrid securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. If a Client account owns a preferred or hybrid security that is deferring its distributions, the Client account may be required to report income for tax purposes even though it has not yet received such income. Some preferred and hybrid securities are non-cumulative, meaning that the dividends do not accumulate and need not ever be paid.

Preferred and hybrid securities are subordinated to bonds and other debt instruments in an issuer's capital structure in terms of priority to corporate income and liquidation payments and, therefore, will be subject to greater credit risk than more senior debt instruments. For example, deterioration in the credit quality of the issuer will cause greater changes in the value of such instruments than senior debt securities with similarly stated yield characteristics. Preferred and hybrid securities may be substantially less liquid than many other securities, such as common stocks or U.S. government securities.

#### Small or Mid-Sized Capitalization Issuers

Investments in equity securities of small or medium-sized market capitalization companies will have more limited marketability than the securities of larger companies. While smaller companies generally have potential for rapid growth, they often involve higher risks because they may lack the management experience, financial resources, product diversification and competitive strength of larger companies. In addition, in many instances, the frequency and volume of their trading may be substantially less than is typical of larger companies. As such, when making large sales, a Client accounts may have to sell portfolio holdings at discounts from quoted prices or may have to make a series of small sales over an extended period of time due to the lower trading volume of smaller company securities. Such companies may be followed by relatively few securities analysts with the result that there tends to be less publicly available information concerning these securities compared to what is available for exchange-listed or larger companies. As a result, such companies may not be well-known to the investing public, may not have significant institutional ownership and may have cyclical, static or only moderate growth prospects. As a result, the securities of smaller companies may have greater price volatility. All of the Client accounts' investments in stocks will be subject to normal market risks. While diversification among issuers may mitigate these risks, Client accounts may not be required to diversify its investments in equity securities; and investors must expect fluctuations in value of equity securities held by Client accounts based on market conditions.

#### Disclosure of Positions

Client accounts may obtain a position in any public company that requires it to make filings concerning its holdings with the SEC and may become subject to other regulatory restrictions that could limit the ability of Client accounts to dispose of its holdings at the times and in the manner Client accounts would prefer, preventing Client accounts from realizing profit or avoiding loss. Violations of these regulatory requirements could subject Client accounts to significant liabilities.

In an effort to protect the confidentiality of its positions, Client accounts generally will not disclose all of its positions to investors on an ongoing basis, although the General Partner, in its sole discretion, may permit such disclosure on a select basis to certain investors, if it determines that there are sufficient confidentiality agreements and/or procedures in place.

In addition, investors should be aware that the Adviser intends to manage one or more separately managed accounts using substantially the same investment strategies intended to be used for Client accounts. The owners of any such accounts will have visibility into the positions held in such accounts and transactions effected for such accounts by the Adviser. The owners of such accounts may also be invested in Client accounts. Accordingly, due to the increased transparency available to the owners of such accounts, investors should be aware that the owners may use such information in real time to monitor the Adviser's investment strategies and performance, which will not be available to other investors who do not have the same level of transparency with respect to the holdings of a Client account and the transactions effected therefor.

#### Importance of Market Judgment

Although the Adviser uses analytical tools in evaluating the economic components of certain prospective trades, the market judgment and discretion of the Adviser's personnel are fundamental to the implementation of these strategies. The greater the importance of subjective factors, the more unpredictable a trading strategy becomes.

#### Duration of Investment Positions

The Adviser may not know, except in the case of certain options or derivatives positions which have pre-established expiration dates, the maximum—or even the expected (as opposed to optimal)—duration of any particular position at the time of initiation. The length of time for which a position is maintained may vary significantly, from under a second to years, based on the Adviser's subjective judgment of the appropriate point at which to liquidate a position so as to augment gains or reduce losses. Many of the Client accounts' transactions may involve acquiring related positions in a variety of different instruments or markets at or about the same time. Frequently, optimizing the probability of being able to exploit the pricing anomalies among these positions requires holding periods of significant length—often many months to a year or more. Actual holding periods depend on numerous market factors which can both expedite and disrupt price convergences. There can be no assurance that a Client account will be able to maintain any particular position, or group of related positions, for the duration required to realize the expected gains, or avoid losses, from such positions.

#### “Widening” Risk

For reasons not necessarily attributable to any of the risks enumerated above (for example, supply/demand imbalances or other market forces), the prices of the securities in which Client accounts invest may decline substantially. In particular, purchasing assets at what may appear to be “undervalued” levels is no guarantee that these assets will not be trading at even more “undervalued” levels at a time of valuation or at the time of sale. It may not be possible to predict, or to hedge against, such “spread widening” risk. Conversely, securities in which Client accounts hold a short position may see their prices increase substantially for reasons not necessarily attributable to the risks enumerated above. The Adviser may not be able to predict the reasons resulting in this “widening” and may not cause a Client account to hedge against such occurrences.

### Expedited Transactions

Investment analyses and decisions by the Adviser will often be undertaken on an expedited basis in order for a Client account to take advantage of investment opportunities. In such cases, the information available to the Adviser at the time of an investment decision may be limited, and the Adviser may not have access to the detailed information necessary for a full evaluation of the investment opportunity. In addition, the Adviser may rely upon independent consultants in connection with its evaluation of proposed investments. There can be no assurance that these consultants will accurately evaluate such investments.

### Portfolio Turnover

The investment strategy of a Client account may require the Adviser to actively trade a Client account's portfolio, and as a result, turnover and brokerage commission expenses of a Client account may significantly exceed those of other investment entities of comparable size. In addition, active trading may act to reduce a Client account's investment profits, or create a loss for investors and may result in additional taxes for investors depending on the tax rules applicable to such investors. The after-tax impact of portfolio turnover is not generally considered when making investment decisions for a Client account.

### Short Selling

Client accounts' investment program will include short selling. Short selling involves selling securities which may or may not be owned by the seller and borrowing the same securities for delivery to the purchaser, with an obligation to return the borrowed securities to the lender at a later date. Short selling allows the seller to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities and may be an important aspect of certain of the investment strategies of a Client account. 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 a Client account of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase at the time a Client account desires to close out such short position. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. The Adviser will have sole discretion in determining when, whether and in what manner to engage in short selling. In addition, the securities borrowed by a Client account to effect the short sale may be recalled by the lender of those securities at any time, thus forcing a Client account to purchase the securities to close out the short position at a loss.

In the past, the SEC and foreign regulators have imposed, and may in the future impose, restrictions on and reporting obligations with respect to short selling. Uncertainty surrounding the confidential nature of the required disclosures of Client accounts' short sales could discourage short selling by the Client accounts in circumstances where the Adviser believes that the public disclosure of such short sales may be adverse to its interests. In addition, limitations on the short selling of securities could interfere with the ability of a Client account to execute certain aspects of its investment program, including its ability to hedge certain exposures and execute transactions to implement its risk management guidelines, and any such limitations may adversely affect the performance of a Client account.

## Liquidity

Some of the investments that are made by a Client account may lack liquidity or be thinly traded. This could present a problem in realizing the prices quoted and in effectively trading the position(s). To the extent a Client account invests in less liquid investments it could result in significant loss in value should the Client account be forced to sell the less liquid investments as a result of rapidly changing market conditions or as a result of margin calls or other factors. In certain circumstances, the Client account may also be contractually prohibited from disposing of investments for a specified period of time. Accordingly, the Client account may be forced to sell its more liquid positions at a disadvantageous time, resulting in a greater percentage of the portfolio consisting of less liquid investments.

## Trading in Options and Swap Agreements

Client accounts may buy or sell (write) both call options and put options (either exchange-traded, over-the-counter or issued in private transactions), and when it writes options it may do so on a “covered” or an “uncovered” basis. A Client account’s options transactions may be part of a hedging tactic (i.e., offsetting the risk involved in another securities position) or a form of leverage, in which the Client account has the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be large, depending on the circumstances. In general, the principal risks involved in options trading can be described as follows, without taking into account other positions or transactions the Client account may enter into.

A call option is “covered” when the writer owns securities of the class and amount of those as to which the call option applies. A put option is covered when the writer has an open short position in securities of the relevant class and amount.

When a Client account buys an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the security in the case of a put, could result in a total loss of the Client account’s investment in the option (including commissions). A Client account could mitigate those losses by selling short the securities as to which it holds call options or taking a long position (i.e., by buying the securities or buying options on them) on securities underlying put options.

When a Client account sells (writes) an option, the risk can be substantially greater than when it buys an option. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. The risk is theoretically unlimited unless the option is “covered.” If it is covered, an increase in the market price of the security above the exercise price would cause the Client account to lose the opportunity for gain on the underlying security--assuming it bought the security for less than the exercise price. If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction costs) would provide profit that would reduce or offset any loss the Client account might suffer as a result of owning the security.

The seller of an uncovered put option theoretically could lose an amount equal to the entire aggregate exercise price of the option, if the underlying security were to become valueless. If the option were covered with a short position in the underlying security, this risk would be limited, but a drop in the security’s price below the exercise price would cause the Client account to lose some or all of the opportunity for profit on the “covering” short position—assuming the Client account sold short for more than the exercise price. If the price of the underlying security were to increase



above the exercise price, the premium on the option (after transaction costs) would provide profit that would reduce or offset any loss the Client account might suffer in closing out its short position. Swaps and certain options and other custom instruments are subject to the risk of non-performance by the swap counterparty, including risks relating to the creditworthiness of the swap counterparty. In addition, the Client account also is subject to the risk of the failure of any of the exchanges on which it trades or of their clearinghouses. The Client account may enter into swap agreements. Swap agreements can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease the exposure of the Client account to long-term or short-term interest rates (in the United States or abroad), non-U.S. currency values, mortgage securities, corporate borrowing rates, asset-backed securities, collateralized debt obligations, indices, or other factors such as security prices, baskets of equity securities, or inflation rates. Swap agreements can take many different forms and are known by a variety of names. The Client account is not precluded from any particular form of swap agreement if the Adviser determines it is consistent with the investment objective and policies of the Client account.

Swap agreements tend to shift investment exposure from one type of investment to another. For example, if the Client account agrees to exchange payments in dollars for payments in non-U.S. currency, the swap agreement would tend to decrease the Client account's exposure to U.S. interest rates and increase its exposure to non-U.S. currency and interest rates. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the portfolio of the Client account. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency, individual equity values or other factors that determine the amounts of payments due to and from the Client account. If a swap agreement calls for payments by the Client account, it must be prepared to make such payments when due. In addition, if a counterparty's creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses by the Client account.

The U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the "*Dodd-Frank Act*") requires clearing and trading on regulated platforms of those certain products mandated by the CFTC. The CFTC currently requires the centralized clearing and trading on swap execution facilities ("*SEFs*") of certain interest rate and credit index derivatives. Additional products are expected to be required to be cleared and traded in this manner in the future. However, other swaps will not necessarily be cleared or traded through registered clearinghouses or traded on regulated platforms, and therefore may not be subject to the protections afforded to participants in cleared swaps (for example, centralized counterparty, guaranteed funds, customer asset segregation and mandatory margin requirements) and trades executed on SEFs (for example, price transparency). Clearinghouse collateral requirements may differ from and be greater than the collateral terms negotiated with swap counterparties in the "over-the-counter" market. This may increase the Client account's cost in entering into these products and impact the Adviser's ability to pursue certain investment strategies. For swaps that are cleared through a clearinghouse, the Client account will face the clearinghouse as legal counterparty and will be subject to clearinghouse performance and credit risk.

For all the foregoing reasons, while a Client account may benefit from the use of derivatives and related techniques, such instruments can expose the Client account and its investments to significant risk of loss and may result in a poorer overall performance for the Client account than if it had not entered into such transactions.

### Trade Errors

Given the volume of transactions executed by the Adviser on behalf of Client accounts, investors should assume that trading errors will occur and that Client accounts will benefit from any resulting gains and may be responsible for any resulting losses. Trading errors might include, for example, the purchase or sale of a security in the wrong amount or key stroke errors that occur when entering trades into an electronic trading system. The General Partner reserves the right to decide, on a case by case basis, whether the Client account (and not the General Partner) will be responsible for any losses resulting from trading errors and similar human errors, absent willful misconduct, fraud or gross negligence of their duties pursuant to the Client account's limited partnership agreement.

### Extended Hours Trading

Client accounts will trade during the pre-market and after-market sessions. Although the Adviser believes that Client accounts will benefit from trading during extended hours, there are additional risks associated with trading during pre-market and after-market hours. Such risks include, but are not limited to the following:

- i. ***Risk of Lower Liquidity.*** There generally is lower liquidity in extended hours trading as compared to regular market hours. As a result, a Client account's orders during extended hours may only be partially executed, or not at all, and the Client account may be less likely to pay or receive a competitive price for securities purchased or sold during extended market hours.
- ii. ***Risk of Higher Volatility.*** There may be greater volatility in extended hours trading than in regular market hours. Please refer to the risk factor labeled "Volatility" for more information.
- iii. ***Risk of Wider Spreads.*** Lower liquidity and higher volatility in extended hours trading may result in wider than normal spreads for a particular security.
- iv. ***Risk of News Announcements.*** Typically, companies make news announcements that may affect the price of their securities before or after regular market hours. Similarly, important financial information is frequently announced outside of regular market hours. In extended hours trading, these announcements may occur during trading, and if combined with lower liquidity and higher volatility, may cause an exaggerated and unsustainable effect on the price of a security.
- v. ***Risk of Unlinked Markets.*** Depending on the extended hours trading system or the time of day, the prices displayed on a particular extended hours system may not reflect the prices in other concurrently operating extended hours trading systems dealing in the same securities.

### Highly Volatile Markets

Price movements of Client accounts' investments may be highly volatile and influenced by, among other things, interest rates, inflation or deflation, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies, financial instruments, futures and options. Such intervention often is intended directly to influence

prices and 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.

#### Suspensions of Trading and Failure of Exchanges

Each securities exchange typically has the right to suspend or limit trading in all securities which it lists. Such a suspension involving securities owned by the Client account would render it impossible for the Client account to liquidate positions and, accordingly, could expose the Client account to losses. Client accounts also are subject to the risk of the failure of any exchanges on which the positions of the Fund trade or of their clearinghouses.

#### Currency

Client accounts may invest a portion of its assets in principal instruments denominated in currencies other than the U.S. dollar, the price of which is determined with reference to currencies other than the U.S. dollar. Client accounts will, however, value its securities and other assets in U.S. dollars. To the extent unhedged, the value of a Client account's assets will fluctuate with U.S. dollar exchange rates as well as the price changes of the Client account's investments in the various local markets and currencies. Thus, an increase in the value of the U.S. dollar compared to the other currencies in which the Client account makes its investments will reduce the effect of increases and magnify the U.S. dollar equivalent of the effect of decreases in the prices of the Client account's securities in their local markets. Conversely, a decrease in the value of the U.S. dollar will have the opposite effect on the Client account's non-U.S. dollar securities. Client accounts also may utilize options and forward contracts to hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be effective.

#### Hedging Transactions

Client accounts may utilize a variety of financial instruments such as shorts, derivatives, options, swaps, caps and floors and forward contracts, both for investment purposes and for risk management purposes in order to: (i) protect against possible changes in the market value of Client accounts' investment portfolio resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect Client accounts' unrealized gains in the value of its investment portfolio; (iii) facilitate the sale of any such investments; (iv) establish a position as a temporary substitute for other securities; (v) enhance or preserve returns, spreads or gains on any investment in the Client accounts portfolio; (vi) hedge the interest rate or currency exchange rate on any of the Client accounts' liabilities or assets; (vii) protect against any increase in the price of any securities Client accounts anticipate purchasing at a later date; or (viii) for any other reason that the General Partner deems appropriate.

Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the portfolio positions' value. Such hedging transactions also limit the opportunity for gain if the value of the portfolio position should increase. Moreover, it may not be possible for Client accounts to hedge against an exchange rate, interest rate or security price fluctuation that is so generally anticipated that the Client accounts are unable to enter into a hedging transaction at a price sufficient to protect its assets from the decline in value of the portfolio positions anticipated as a result of such fluctuations.

Client accounts are not required to attempt to hedge portfolio positions and, for various reasons, may determine not to do so. Moreover, Client accounts are not obligated to hedge against fluctuations in the value of its portfolio positions as a result of changes in market interest rates or any other developments. Furthermore, Client accounts may not anticipate a particular risk so as to hedge against it. While Client accounts may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Client accounts than if the Client accounts had not engaged in any such hedging transaction. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio position being hedged may vary. For a variety of reasons, Client accounts may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent Client accounts from achieving the intended hedge or expose Client accounts to risk of loss. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the Client accounts' portfolio holdings. Moreover, it should be noted that a portfolio will always be exposed to certain risks that cannot be hedged, such as credit risk (relating both to particular securities and counterparties), "liquidity risk" and "widening" risk.

#### Non-U.S. Investments

Investments outside the United States or denominated in non-U.S. currencies pose currency exchange risks (including blockage, devaluation and non-exchangeability) as well as a range of other potential risks which could include, depending on the country involved, expropriation, confiscatory taxation, political or social instability, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding non-U.S. investments 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. Transaction costs of investing outside the U.S. are generally higher than in the U.S. There is generally less government supervision and regulation of exchanges, brokers and funds than there is in the U.S. Non-U.S. investments pose certain legal risks, including that laws and regulations governing investments in securities may not exist or may be subject to inconsistent or arbitrary appreciation or interpretation, both the independence of judicial systems and their immunity from economic, political or nationalistic influences remain largely untested in many countries and Client accounts may encounter difficulties in pursuing legal remedies or in obtaining and enforcing judgments in non-U.S. courts. Non-U.S. markets also have different clearance and settlement procedures which in some markets have at times failed to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures that could adversely affect Client accounts' performance. Greater tax risks and complexities also may be associated with these investments.

#### Concentration of Investments

Client accounts may invest all or most of its capital in the healthcare sector and may hold a few relatively large positions in the securities of companies within the healthcare sector. Client accounts will typically limit its exposure in a single investment to 10% of the Client accounts' net asset value, determined at the time the position is initiated or increased (without regard to subsequent fluctuations in market prices or value), provided that, the Adviser reserves the flexibility to cause Client accounts to exceed the foregoing guideline on a short-term basis if, in light of the specific circumstances, the Adviser believes the risk/reward opportunity is warranted. Adverse movements in the value of the securities of such issuer or market sector could therefore result in considerably greater risks and volatility than if the Client account were not permitted to concentrate its investments to such an extent. At times, the performance of the Client accounts' investments, if concentrated in a particular sector or sectors, may lag the performance of other market sectors or

the broader market as a whole. Such underperformance may continue for extended periods of time. In addition, the General Partner and its respective affiliates may at times attempt to influence management of a particular company or exercise control of a company in which it has a substantial position.

### Use of Leverage

Client accounts will have the ability to engage in borrowing or utilize leverage in order to maintain liquidity (for example, to meet withdrawal requests and expenses, which may otherwise result in Client accounts having to realize investments prematurely) and with a view to enhancing its performance and facilitating its investment objectives and process. Client accounts may incur leverage through a variety of techniques, including reverse repurchase agreements, dollar rolls, margin financing, borrowings, total return swaps and other derivatives. The General Partner will be authorized to pledge or grant security interests in the assets of certain Client accounts in connection with any borrowing or other leverage.

The use of leverage will, in many instances, enable Client accounts to achieve a higher rate of return than would be otherwise possible. Generally, the Adviser will seek to balance the amount of leverage to be employed by Client accounts and the estimated long-term volatility of the portfolio. Client accounts' perception of any strategy's volatility is expected to change from time to time and the market for leverage is expected to be dynamic. Accordingly, the amount, sources and pricing of leverage utilized with respect to such strategy will also change. An inability of the Client accounts to obtain a desired amount of leverage, however, may limit the Client accounts' overall investment exposure and may reduce the Client accounts' performance. Leverage may take the form of any of the financial instruments described herein, including derivative instruments and products with inherent leverage such as options, short sales, swaps and forwards.

The use of leverage will allow Client accounts to borrow in order to make additional investments, thereby increasing its exposure to assets, such that its total assets are greater than its capital. The use of leverage will magnify the volatility of changes in the value of the investments of Client accounts. Accordingly, any event that adversely affects the value of an investment would be magnified to the extent the investment is leveraged. The cumulative effect of the use of leverage by the Client accounts in a market that moves adversely to its investments could result in substantial losses to the Client accounts, which would be greater than if the Client accounts were not leveraged. In addition, the amount of the Client accounts' borrowings and the interest rates on those borrowings, which will fluctuate, may have a significant effect on the Client accounts' profitability. In general, the use of short-term margin borrowings with respect to portfolio securities results in certain additional risks to Client accounts. For example, should the securities pledged to brokers to secure a Client account's margin accounts decline in value, the Client account could be subject to a "margin call," pursuant to which the Fund must either deposit additional funds or securities with the broker, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden drop in the value of the assets of Client accounts, the Client accounts might not be able to liquidate assets quickly enough to satisfy its margin requirements. In such circumstances, the forced liquidation of all or a portion of the Client accounts' portfolio at distressed prices could result in significant losses to Client accounts.

The financing used by Client accounts to leverage its portfolio is expected to be extended by securities brokers and dealers in the marketplace in which Client accounts will invest. While Client accounts attempt to negotiate the terms of these financing arrangements with such brokers and dealers, its ability to do so is limited. Client accounts are therefore subject to changes in the value that the broker-dealer ascribes to a given security or position, the amount of margin required to

support such security or position, the borrowing rate to finance such security or position and/or such broker-dealer's willingness to continue to provide any such credit to Client accounts. In certain circumstances, Client accounts may also borrow from banks.

#### Reliance on Corporate Management and Reporting

Many of the strategies implemented by Client accounts rely on the information, including, but not limited to, financial reports, reports related to clinical trials and studies, product and progress updates on drug development programs, made available by the issuers of securities in which the Client accounts invest. The Adviser has no ability to independently verify the information disseminated by such issuers and is dependent upon the integrity of both the management of these issuers and the reporting process in general.

#### Publicly Available Information

The General Partner will select investments for certain Client accounts on the basis of publicly available information. Although the General Partner intends to evaluate carefully all such information and to seek independent corroboration when it considers it appropriate and when it is reasonably available, it will not be in a position to confirm the completeness, genuineness or accuracy of such information.

**The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment. Prospective Clients and investors should read applicable Governing Documents carefully and consult with their own advisors before deciding to invest.**

C. Please see Item 8.B. above.

**Item 9 - Disciplinary Information**

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

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

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

- A. Neither the Adviser nor any of its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither the Adviser nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, a commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.
- C. In connection with sponsoring any Fund, an affiliate of the Adviser will serve as general partner of each Fund, which general partner will receive an Incentive Allocation. Other than these affiliated general partners entities, the Adviser has no relationships or arrangements with any related person listed in the instructions to Item 10.C. that are material to its advisory business or to its clients. Clients and Fund investors are advised to review the relevant Governing Documents for more extensive descriptions of the risks of investing in the Client and the required procedures for resolving conflicts of interest.
- D. Generally, the Adviser does not recommend or select other investment advisers for its Clients.



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

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

The Adviser has established procedures to prevent the abuse of material, non-public information, which includes procedures for, among other things, the use and maintenance of restricted trading lists.

The Adviser’s Code of Ethics is available, upon request, to any Client or prospective Client as well as any Fund investor or qualified prospective Fund investor.

Additionally, the Adviser and its related entities may engage in a broad range of activities. In the ordinary course of conducting its activities, the interests of a Client may, from time to time conflict with the interests of the Adviser, other Clients or their respective affiliates. Certain of these conflicts of interest, as well a description of how the Adviser addresses such conflicts of interest, can be found below.

In the case of all conflicts of interest, the Adviser’s determination as to which factors are relevant, and the resolution of such conflicts, will be made using the Adviser’s best judgment, but in its sole discretion. In resolving conflicts, the Adviser will consider various factors, including the interests of the applicable Clients with respect to the immediate issue and/or with respect to their longer-term courses of dealing. Certain procedures for resolving specific conflicts of interest are set forth below. When conflicts arise, the following factors generally mitigate, but will not eliminate, conflicts of interest:

- (1) A Client will not make an investment unless the Adviser believes that such investment is an appropriate investment considered solely from the viewpoint of such Client;
- (2) Many important conflicts of interest will generally be resolved by set procedures, restrictions or other provisions contained in the Governing Documents for the Clients;
- (3) Where the Adviser deems appropriate, unaffiliated third parties may be used to help resolve conflicts, such as the use of an investment banker to opine as to the fairness of a purchase or sale price; and
- (4) Prior to subscribing for interests in a Fund, each investor receives information relating to significant potential conflicts of interest arising from the proposed activities of the Fund.

Specifically, with respect to conflicts of interest that may arise in connection with its investment activities, the Adviser has adopted written policies and procedures relating to the allocation of investment opportunities, and will make allocation determinations consistently with Client

Governing Documents and such policies. The Adviser will not allocate investment opportunities based, in whole or in part, on (i) the relative fee structure or the amount of fees paid by any Client or (ii) the profitability of any Client.

- B. Neither the Adviser nor any of its related persons currently recommend to Clients investments in which the Adviser or any related persons have a material financial interest. However, to the extent the Adviser or its related persons may recommend to Clients investments in which the Adviser or any related persons have a material financial interest, the Adviser and its related persons will consider and resolve in the best interests of the Clients any conflicts of interest associated with such recommendations.

Fund investors are provided with disclosure related to conflicts of interest in the Fund's offering documents prior to making capital commitments to the Fund.

Additionally, the Adviser enforces a robust Code that generally requires, subject to the terms of a Client's governing documents, the Adviser and its employees to place the interests of the Clients over their own or those of a related party.

It is critical that Fund investors review the Fund's offering documents for a detailed description of potential conflicts of interest related to an investment in the Fund. The information contained herein is a summary only.

- C. In connection with sponsoring any Fund, the Adviser and certain of its affiliates have an economic interest in such Fund, the General Partner, or both. The Adviser may, from time to time, recommend a security in which the Adviser, directly or indirectly, has an interest. For instance, Fund assets may be invested in securities of issuers in which one or more other Funds or accounts managed by the Adviser hold positions. Given the likely frequency of such occurrence, Clients will not be provided with notification of such occurrences. This may represent a conflict of interest for the Adviser. The Adviser will disclose to Clients this and any other material conflict of interest which might reasonably be expected to impair the Adviser's rendering of unbiased or objective investment advice.
- D. As provided by the Code, the Adviser may not recommend investments to Clients, or make investments for Clients, at or about the same time that the Adviser or its related persons buy or sell the same investments for their own account.

## Item 12 - Brokerage Practices

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

### *Brokerage*

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

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

### *Soft Dollars*

Commissions paid by the Clients to brokers may include "soft dollar" research-related goods and services (collectively, "soft dollar items") used by the Adviser in making investment decisions which include, but are not limited to, research reports on particular industries and companies, economic surveys and analyses, recommendations as to specific securities, certain research services, financial trade publications, statistical and pricing services, discussions with research personnel, consultants and management teams, attendance at industry conferences or seminars, software and databases and other goods and services providing lawful and appropriate assistance to the Adviser in the performance of its investment decision-making responsibilities on behalf of the Clients. To the extent that the Adviser does engage in such "soft dollar" arrangements, the Clients may pay commissions to a broker in an amount greater than the amount another broker might charge.

Soft dollar items may be provided directly by brokers and dealers, by third parties at the direction of brokers and dealers or purchased on behalf of the Clients with credits or rebates provided by brokers and dealers. Soft dollar items may arise from over-the-counter principal transactions, as well as exchange traded agency transactions. Where a product or service obtained with soft dollars provides both brokerage and research and brokerage and non-research assistance to the Adviser (e.g., a "mixed use" item), the Adviser will make a reasonable allocation of the cost that may be paid for with soft dollars. Brokers and dealers sometimes suggest a level of business they would like to receive in return for the various services they provide. Actual business received by any broker or dealer may be less than the suggested allocations, but can (and often does) exceed the suggestions, because total transaction volume is allocated on the basis of all the considerations described above. A broker or dealer will not be excluded from executing transactions for a Client because it has not been identified as providing soft dollar items.

The use of commissions or “soft dollars,” if any, generated by the Clients through agency and certain riskless principal transactions to pay for brokerage- and research-related products or services, if any, typically is expected to fall within the safe harbor created by Section 28(e) of the Exchange Act; however, the use of soft dollar services that could be deemed to fall outside the safe harbor but that are consistent with the Adviser’s fiduciary duty to the Clients managed by it is not prohibited if otherwise legally permitted. Under Section 28(e), brokerage- and research-related products or services obtained with soft dollars generated by a Client may be used by the Adviser to service accounts other than the Client. The Adviser will not necessarily only use such services to benefit the Clients that the Adviser manages in proportion to the commissions paid by each Client to the brokers providing such services.

Any new soft dollar arrangements with broker-dealers generally will be documented by entering into a soft dollar agreement with the broker-dealer. In addition, the Adviser periodically will review each existing soft dollar arrangement to confirm that the level of commissions paid for items received appears commensurate with the value of such items, and to confirm that soft dollar credit and debit balances remain reasonable.

The Adviser’s soft dollar practices as described above will be adjusted to comply with any changes in applicable law.

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

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

- A. The Adviser maintains comprehensive review procedures for the ongoing monitoring of the securities transactions of its Clients. In connection therewith, the Adviser conducts periodic reviews of all investments held in each Client portfolio. All Adviser investment and operational staff participate in the ongoing monitoring of Client portfolios, although responsibilities vary by individual. These individuals perform intra-day, daily, weekly and monthly reviews of the Clients' positions regarding performance, risk, volatility, and other statistical analysis. In monitoring a Client's positions, they ensure (i) the management of investments and capital actions are consistent and comply with attainment of the Client's investment policy, objectives, and strategy goals, and (ii) the Client's portfolio is in compliance with legal and regulatory requirements.
- B. See Item 13.A. above.
- C. The frequency and nature of reports prepared for Clients varies depending on the type of Client and Client's requirements and interests.

The Adviser's reporting obligations with regard to SMA clients will be outlined in the applicable investment management agreement. SMA clients will generally receive monthly or quarterly written reports showing portfolio activities and performance on a current and year-to-date basis.

As for Fund clients, after the end of each fiscal month, each investor in a Fund is provided with an unaudited account statement that details the Fund's investment performance. After the end of each fiscal year, each investor in a Fund is provided with audited financial statements, as well as information regarding the status of the investor's capital account and certain tax reporting information.

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

- A. The Adviser does not receive any economic benefit, including sales awards or prizes, from any third party for providing advisory services to its Clients.
- B. The Adviser does not currently have any formal arrangements directly or indirectly with any person for client or investor referrals. However, the Adviser may, from time to time, enter into an agreement with third-party placement agents. Such agreements provide for compensation to be paid to the placement agent for referring investors to the Adviser's Funds. Under these agreements, the placement agent will typically receive a percentage of the capital commitments attributable to each investor referred depending upon the specific circumstances. In such cases, details of the arrangement will be provided to prospective investors. Such arrangements will be in accordance with all applicable laws and regulations, including Rule 206(4)-3 of the Advisers Act. Compensation of placement agents will be as determined in a written agreement between the Adviser or its affiliate and the placement agent. Subject to the provisions of the applicable Fund operating agreement, placement agent compensation will be borne entirely by the Adviser and not by any of its Funds nor by any Fund investor.

## **Item 15 - Custody**

The Adviser does not serve as the qualified custodian of any of the assets owned by Clients and does not maintain physical custody of any securities or cash owned by the Clients (other than certain privately offered securities to the extent permitted by the Investment Advisers Act of 1940, as amended, and related SEC interpretive guidance).

With respect to the Funds, the Adviser is deemed to have custody, as defined in Rule 206(4)-2 under the Advisers Act, of the assets of the Funds as a result of one or more of its affiliates serving as the general partner of some of the Funds it manages and its ability to remove the directors of some of the other Funds it manages. The Funds are audited annually by an independent accounting firm that is registered and examined by the Public Company Accounting Oversight Board, and audited financial statements are delivered to investors in the Funds within 120 days of the applicable fiscal year-end.

The Adviser generally does not have custody of the cash and securities held by SMA clients.

**Item 16 - Investment Discretion**

The Adviser has discretionary authority to determine the type, amount, and price of securities and investments to be bought and sold on behalf of each Client, including the selection of, and commissions paid to, broker-dealers. This discretionary authority is subject to terms set forth in the applicable management agreement with each respective Client. Additionally, the Adviser's discretionary authority is subject to the investment objectives, policies and restrictions as set forth in the governing documents of each respective Client. For the Adviser to assume such discretionary authority, each respective Client must enter into a management agreement prior to the establishment of an advisory relationship granting such authority.



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

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

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

If a proxy vote creates a material conflict between the interests of the Adviser and a Client, the Adviser will resolve the conflict before voting the proxies. The Adviser will take steps designed to ensure that a decision to vote the proxy was based on the Adviser's determination of the Client's best interest.

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

- B. See Item 17.A. above.

**Item 18 - Financial Information**

- A. The Adviser does not require or solicit prepayment of fees greater than \$1,200 six months in advance.
- B. The Adviser does not believe it has any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to its Clients.
- C. The Adviser has not been the subject of a bankruptcy petition at any time during the past ten years.

**Item 19 - Requirements for State-Registered Advisers**

The Adviser is an SEC-registered investment adviser. Thus, Item 19 is not applicable.