

**ITEM 1  
COVER PAGE**

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

**QVT FINANCIAL LP**

March 29, 2019

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QVT Financial LP  
444 Madison Avenue, 21<sup>st</sup> Floor  
New York, New York 10022  
Tel: (212) 705-8888  
Fax: (212) 705-8820  
Website: [www.qvt.com](http://www.qvt.com)

THIS BROCHURE PROVIDES INFORMATION ABOUT THE QUALIFICATIONS AND BUSINESS PRACTICES OF QVT FINANCIAL LP. IF YOU HAVE ANY QUESTIONS ABOUT THE CONTENTS OF THIS BROCHURE, PLEASE CONTACT US AT (212) 705-8888 OR [IR@QVT.COM](mailto:IR@QVT.COM). THE INFORMATION IN THIS BROCHURE HAS NOT BEEN APPROVED OR VERIFIED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR BY ANY STATE SECURITIES AUTHORITY.

ADDITIONAL INFORMATION ABOUT QVT FINANCIAL LP IS ALSO AVAILABLE ON THE SEC'S WEBSITE AT [WWW.ADVISERINFO.SEC.GOV](http://WWW.ADVISERINFO.SEC.GOV)

REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR WITH ANY STATE SECURITIES AUTHORITY DOES NOT IMPLY A CERTAIN LEVEL OF SKILL OR TRAINING.

## **ITEM 2**

### **MATERIAL CHANGES**

#### Summary of Changes:

In January 2018, the Adviser announced its plans to refocus the Adviser's business primarily on the management of the capital of the principals of the Adviser. In doing so, in 2018, the Adviser redeemed all investor capital that was invested in QVT Offshore Ltd. and QVT Onshore LP and launched the Family Office Funds (as defined below).

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## **ITEM 4**

### **ADVISORY BUSINESS**

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

QVT Financial LP (the “Adviser”), a Delaware limited partnership with offices in New York, was formed on June 18, 2003. The principal owners are QVT Financial GP LLC, Daniel Gold, Nicholas Brumm, Arthur Chu and Tracy Fu (Messrs. Gold, Brumm, Chu and Fu together, the “Managing Members”).

The Adviser and its affiliates (the “Affiliates”) (the Adviser and its Affiliates are sometimes collectively referred to as the “Advisers”) provide administrative and/or investment management services to U.S. limited partnerships, non-U.S. limited partnerships and non-U.S. corporations (collectively, the “Private Funds” or the “Clients”) based on their respective investment objectives. Certain Advisers serve as the general partner to those Private Funds that are formed as U.S. limited partnerships or non-U.S. limited partnerships. Persons reviewing this Form ADV Part 2A should not construe this as an offering of any of the Private Funds described herein, which will only be made pursuant to the delivery of a private placement memorandum to prospective investors.

As of the date hereof, the Advisers provide administrative and/or investment management services to the following Private Funds:

- QVT Fund LP, a Cayman Islands exempted limited partnership (“QVT Fund”),
- QVT Family Office Offshore LP, a Cayman Islands exempted limited partnership (“QVT FO Offshore”),
- QVT Family Office Offshore II LP, a Cayman Islands exempted limited partnership (“QVT FO Offshore II”),
- QVT Family Office Onshore LP (formerly known as QVT V Onshore LP), a Delaware limited partnership (“QVT FO Onshore”),
- QVT Family Office Fund LP (formerly known as QVT Fund V LP), a Cayman Islands exempted limited partnership (“QVT FO” and together with QVT FO Offshore, QVT FO Offshore II and QVT FO Onshore, the “Family Office Funds”),
- Quintessence Overseas L.P., a Cayman Islands exempted limited partnership (“Quintessence Overseas Feeder Fund”),
- Quintessence Overseas II L.P., a Cayman Islands exempted limited partnership (“Quintessence Overseas Intermediate Fund”),

- Quintessence Fund L.P., a Cayman Islands exempted limited partnership (“Quintessence Master Fund”),
- Quintessence Associates LP, a Delaware limited partnership (“Quintessence Associates Feeder Fund” and together with Quintessence Overseas Feeder Fund, Quintessence Overseas Intermediate Fund and Quintessence Master Fund, the “Quintessence Funds”),
- QVT SLV Offshore Ltd., a Cayman Islands exempted company (“SLV Offshore”),
- QVT SLV Offshore II LP, a Cayman Islands exempted limited partnership (“SLV Offshore Fund”),
- QVT SLV Onshore Ltd., a Cayman Islands exempted company (“SLV Onshore”),
- QVT SLV Onshore II LP, a Delaware exempted limited partnership (“SLV Onshore Fund”),
- QVT Series Holdings LP (multiple series), a Delaware series limited partnership (“QVT Series Holdings” and together with SLV Offshore, SLV Offshore Fund, SLV Onshore and SLV Onshore Fund, the “Special Liquidity Vehicles”),
- QVT Special Investment Offshore Fund Ltd., a Cayman Islands exempted company (“Special Investment Offshore”),
- QVT Special Investment Offshore Fund II LP, a Cayman Islands limited partnership (“Special Investment Offshore Fund”),
- QVT Special Investment Onshore Fund Ltd., a Cayman Islands exempted company (“Special Investment Onshore”),
- QVT Special Investment Onshore Fund II LP, a Delaware limited partnership (“Special Investment Onshore Fund” and, together with Special Investment Offshore, Special Investment Offshore Fund and Special Investment Onshore, the “Special Investment Funds”),
- QVT Roiv Hldgs Onshore Ltd., a Cayman Islands company (“Roiv Onshore”),
- QVT Roiv Hldgs Offshore Ltd., a Cayman Islands company (“Roiv Offshore” and together with Roiv Onshore, the “Roiv Funds”), and
- Fourth Avenue FF Opportunities LP (multiple series), a Delaware series limited partnership (“Fourth Avenue FF”).

**B. Description of Advisory Services.**

Please see Item 8.

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

The Advisers' investment decisions and advice with respect to each Private Fund are subject to each Private Fund's investment objectives and guidelines, as set forth in its offering documents or organizational documents.

**D. Wrap Fee Programs.**

The Adviser does not participate in wrap fee programs.

**E. Assets Under Management.**

The Adviser manages approximately \$1,336,935,619, which is the aggregate net asset value of Clients and accounts as of December 31, 2018, on a discretionary basis. As of March 29, 2019, the Adviser does not manage any assets on a non-discretionary basis.

## **ITEM 5**

### **FEES AND COMPENSATION**

#### **A. Advisory Services and Fees.**

##### Management Fees

With respect to the Family Office Funds, Clients are charged a monthly management fee, in arrears, based on the net asset value of the assets under management, typically at a rate of 1.75% per annum.

With respect to the Special Liquidity Vehicles and the Special Investment Funds, investors who participated directly or indirectly in such vehicles prior to the March 1, 2012 restructuring of certain of the Private Funds (the “Restructuring”) do not bear any management fee after February 28, 2014, unless specifically agreed, while those who acquired shares in such vehicles through third party transfer are charged a monthly management fee, in arrears, typically at a rate of 2% per annum, or 1.5% per annum for limited partners of QVT Series Holdings. Similar treatment was provided to segregated assets and special investments held by the Quintessence Funds.

With respect to the Roiv Funds and Fourth Avenue FF, Clients are not charged any management fee, unless specifically agreed.

##### Incentive Allocation/Incentive Fees/Carried Interest

Further, Clients structured as hedge funds also may be charged an annual incentive allocation/fee depending upon the investment mandate. Investors in the Private Funds (“Fund Investors”) that are withdrawing or redeeming other than at a fiscal year end will bear any incentive allocation/fee accrued at a date earlier than the year-end (*i.e.*, through such withdrawal or redemption date).

The incentive allocation for the Family Office Funds is (i) 17.5% for the master fund or intermediate fund, as the case may be; and (ii) 15% for side pockets, determined only on the basis of realized or partially realized side pocket investments.

With respect to the Special Liquidity Vehicles, investors who participated directly or indirectly in such vehicles prior to the Restructuring generally will not bear any incentive allocation/fee/carried interest with respect to their investment. Series C shareholders who acquired Series A, Series B or Series C shares after February 1, 2012 are subject to a 20% “carried interest” from March 1, 2012, to be paid to an affiliate of the Adviser after either losses and/or net asset value of the interests acquired by investors at the date of acquisition or as of the Restructuring date, as determined by the Adviser, or an agreed preferred return, has been recovered. An affiliate of the Adviser will also be entitled to tax distributions that will be advances on such carried interest. Shareholders who acquired shares after May 31, 2016 generally will be subject to a 20% carried interest at



QVT Series Holdings, which will hold the Series D shares of the applicable Special Liquidity Vehicle, after an amount equal to the purchase price paid for the relevant Series D shares of the applicable Special Liquidity Vehicle, plus an agreed upon preferred return, have been recovered. Investors in the Special Investment Funds also will bear carried interest substantially similar to the compensation arrangements described above that are applicable to Special Liquidity Vehicles, but may be subject to a high water mark if the investor owned the Special Investment Fund prior to the Restructuring.

As of January 1, 2016, two new series of interests were established and exchanged with limited partners of Quintessence Overseas Feeder Fund and Quintessence Associates Feeder Fund. Investors in the Quintessence Segregated Assets series issued in the exchange generally will not bear any incentive allocation/fee/carried interest with respect to such investments. Transferees of such series will bear carried interest substantially similar to that of the Special Liquidity Vehicles, but based on January 1, 2016 NAV, unless otherwise agreed. Investors in the Quintessence Special Investment series now bear an incentive allocation of 20% with respect to each sub-series of the Special Investment series.

With respect to the Roiv Funds, Clients are not charged any incentive allocation, incentive fees or carried interest, unless specifically agreed. With respect to Fourth Avenue FF, Clients are not charged any incentive allocation, incentive fees or carried interest unless specifically agreed.

The respective offering documents and/or organizational documents will generally permit the Adviser or the Private Fund the ability to waive, rebate or reduce all or part of the management fee and/or performance compensation with respect to investments made by certain investors without waiving, rebating or reducing the management fee and/or performance compensation charged/payable to other investors (such as the case of, but not limited to, investments made by the Adviser, its Affiliates, its partners/employees and their family members in a Private Fund).

#### **B. Payment of Fees.**

Fees and compensation paid to the Adviser or its Affiliates by the Private Funds are generally deducted from the assets of such Clients. As discussed above, management fees are generally deducted on a monthly or quarterly basis and performance compensation is generally deducted on an annual basis.

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

A Client may bear operating and other expenses including, but not limited to, the following:

- investment expenses, including without limitation, expenses that are related to the investment of the Client's assets, such as:
  - brokerage commissions and other costs of executing transactions,

- investment-related travel expenses (which are travel expenses incurred by the Advisers related to the purchase, sale, transmittal or ongoing monitoring of the Client's investments),
- interest expenses,
- finance charges and clearing fees,
- applicable withholding and other taxes,
- consulting and other professional fees related to particular investments, and
- legal, accounting, due diligence and other similar expenses attributable to investments (even if such investments are not consummated).
- fees and expenses relating to software tools, programs or other technology utilized in managing the Clients, including, without limitation, technology to measure risk,
- research and market data (including, without limitation, any computer hardware and telephone and data lines incorporated into the cost of obtaining such research and market data),
- administrative expenses, including, without limitation,
  - the monthly service fees and expenses of an administrator,
  - paying agency, transfer agency, local representative, accounting verification (if any) and/or investor registrar services,
  - costs and expenses relating to the Client's regulatory compliance, including, without limitation, the costs of regulatory inquiries and regulatory filings, registrations and memberships,
- legal expenses, such as
  - legal fees charged in negotiating prime brokerage, ISDA master agreements and related custody and segregation agreements, repurchase agreements or other trading or financing agreements,
  - the costs of revising the Client's offering and operative documents,
- internal and external accounting and valuation expenses,
- audit and tax preparation and filing expenses, such as
  - tax advisory fees,

- the costs of FATCA, OECD Common Reporting Standard and other tax-related compliance,
- insurance premiums (including, without limitation, Director and Officer liability and/or Errors & Omissions insurance, including for indemnified parties),
- custodial fees,
- entity-level taxes,
- organizational expenses,
- offering expenses (including, without limitation, costs associated with compliance with AIFMD and other local offering requirements),
- other expenses associated with the operation of such Client, and
- extraordinary expenses.

**D. Prepayment of Fees.**

Please see responses to 5A above.

**E. Compensation for Sale of Securities or Other Investment Products.**

Neither the Adviser, its Affiliates, nor any of their supervised persons accept compensation for the sale of securities or other investment products.

## **ITEM 6**

### **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

The Adviser and/or its Affiliates receive performance-based compensation in the form of an incentive allocation, incentive fee or carried interest with respect to their Clients, which may be payable in cash or in-kind, except for certain investors holding interests in the Special Liquidity Vehicles or Segregated Asset series that were received upon redemption/withdrawal from other Clients, the Roiv Funds and, in most cases, Fourth Avenue FF.

In the allocation of investment opportunities, performance-based compensation arrangements also may create (i) an incentive to favor accounts with performance compensation arrangements over accounts that are not charged, or from which an adviser will not receive (*e.g.*, because the Private Fund is below the high water mark), a performance compensation; and (ii) an incentive to favor accounts from which an adviser will receive a greater performance compensation over accounts from which an adviser will receive a lesser performance compensation. The Adviser has adopted an allocation procedure designed to ensure that all Clients are treated fairly and equitably and to prevent this form of conflict from influencing the allocation of investment opportunities among Clients. In accordance with the allocation procedures, the Adviser will endeavor to treat each Client in a fair and equitable manner.

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

The clients to whom the Adviser and its Affiliates provide investment management services and advice are the Private Funds.

The offering documents of each Private Fund may set minimum amounts for investment by prospective investors in such Private Funds. These minimum amounts may be waived by the Adviser or an Affiliate, except to the extent prohibited by law.

## ITEM 8

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

#### Methods of Analysis and Investment Strategies

*The descriptions set forth in this Brochure of specific advisory services that the Adviser offers to Clients, and investment strategies pursued and investments made by the Adviser on behalf of its Clients, should not be understood to limit in any way the Adviser's investment activities. The Adviser may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that the Adviser considers appropriate, subject to each Client's investment objectives and guidelines. The investment strategies the Adviser pursues 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. The following methods of analysis and investment strategies are not listed in order of importance.*

**Equity Relative Value:** Equity relative value is a broad category encompassing long and short investments in equities and related instruments globally. It includes fundamentally-driven long and short positions, event-driven positions such as mergers or spinoffs, merger arbitrage and activist or legally intensive strategies. Although most of the underlying instruments are publicly listed, exchange-traded equities, the strategy also has included a wide variety of other related non-equity instruments, such as debt, physical commodities and commodity futures, private investment fund interests, interests in private companies and royalty or milestone securitizations.

**Structured Finance:** Structured finance includes long and short strategies involving mortgage-backed and other asset-backed securities and related products, such as residential mortgage-backed securities, commercial mortgage-backed obligations, collateralized debt obligations, equipment trust certificates, student loan- and credit card-backed securities, and similar instruments. This strategy has historically made extensive use of credit derivatives. The Adviser has also applied the analytical tools developed to manage the structured finance strategy to other strategies (e.g., financial sector equities).

**Convertibles:** This strategy encompasses convertible securities and related instruments, ranging from fully credit- and equity-hedged volatility-driven positions to outright long credit and/or equity positions. This strategy also may use credit derivatives, options, and straight debt as a complement or hedge to convertible positions. This strategy has included unhedged or indirectly hedged positions in certain emerging markets and positions that the Adviser has elected not to hedge on fundamental grounds.

**Credit Relative Value:** The credit relative value strategy takes both relative value positions (e.g., capital structure arbitrage) and fundamental long/short positions in credit and related instruments. This strategy invests in both developed and emerging markets.

Instruments traded include all types of debt, preferred and common stock, credit and equity derivatives and options on these instruments.

**Portfolio-Level Hedges:** Portfolio-level hedges aim to limit the exposure of the Clients to rapid, adverse changes in the market environment to protect against “tail events” and/or mitigate counterparty risk. Historically, portfolio-level hedges have been concentrated in long protection positions in credit derivatives (principally in liquid indices) and low volatility positions in options on equity indices, but also have included positions in currencies, equities, commodities, and options on such instruments. The size and composition of such hedges has varied, and can be expected to continue to vary significantly across time. Portfolio-level hedges are supplemental to the hedging of individual investments.

**Distressed:** The distressed strategy consists mainly of long positions in instruments of companies undergoing, or at risk of undergoing, restructuring, or, in many cases, bankruptcy or other judicial reorganization. Instruments include defaulted or distressed debt (e.g., bank loans, secured and unsecured bonds), equity, as well as unlisted instruments, such as trade claims. In addition to the inherent fundamental analysis component, the investments within this area often require intensive legal analysis and require estimation of the value of litigation or similar claims, including significant inter-creditor issues.

**Other Strategies:** Other strategies include closed-end funds (generally involving the purchase of a closed-end fund, or similar pooled investment vehicle, at a discount), energy (trading principally in oil and natural gas futures), as well as private placements in a variety of instruments and sectors.

In connection with the implementation of the Private Funds’ strategies described above, the Adviser may directly or indirectly (a) commence litigation against a person, its major shareholders and/or directors to prevent or encourage a specific set of actions (e.g., preventing an unfair settlement or affiliated transaction or enforcing the Private Funds’ rights under bond indentures) or (b) report such persons’ activities to governmental or regulatory authorities with jurisdiction over such persons, in order to maximize the returns attributable to the underlying positions, whether long or short.

*The following risk factors do not purport to be a complete list or explanation of the risks relating to the Adviser's services. A complete list of risks relating to an investment in a particular Client is set forth in such Client's offering memorandum. The following risks are not listed in order of importance.*

#### Certain Risks Related to Nature and Structure of the Private Funds

##### **Risk of Loss**

The Private Funds’ investment programs are highly speculative and an investment in the Private Funds involves a high degree of risk, including the risk that the entire amount

invested may be lost. As a result, an investment in the Private Funds is suitable only for financially sophisticated, high net worth individual and institutional investors.

### **Past Performance**

The past performance of speculative trading strategies such as those implemented by the Private Funds is not necessarily indicative of their future results. On an ongoing basis the Adviser is expanding many of the Private Funds' portfolios into new market sectors, instruments and strategies. Consequently, the Private Funds' trading and investing in the past may not be representative of their current or future investment approaches.

### **Dependence on Adviser**

The Adviser makes all portfolio decisions on behalf of the Private Funds, subject to the policies and control of the board of directors or the general partner of the applicable Private Fund. In addition, the Private Funds' net asset values generally will be determined by their administrators, in consultation with, and subject to the approval of, the Adviser; further, the Adviser may elect to self-administer certain Private Funds. Accordingly, the Private Funds are dependent on the Adviser with respect to such investment and valuation decisions. Fund Investors have no authority to make decisions on behalf of the Private Funds.

### **Valuation Risk**

The Adviser and/or the general partners value the Private Funds' assets and liabilities pursuant to the Private Funds' respective articles of association and/or limited partnership agreements and on the basis of the valuation principles and policies of the Adviser (together, the "Valuation Policies"). With respect to certain assets and liabilities, the Adviser or the general partners may have the ability to exercise substantial discretion pursuant to the Valuation Policies.

### **Information Rights**

While the Adviser has historically provided substantial information regarding the Private Funds' portfolios and performance to Fund Investors who have entered into confidentiality agreements, the Adviser is not required to continue to provide such information.

### **Cross Liabilities to QVT Fund**

Certain of the Private Funds continue to be exposed to the credit risk of QVT Fund because certain assets which were difficult to transfer in conjunction with the Restructuring are held by certain of the Private Funds through participation agreements with or direct investments in QVT Fund. These exposures create a potential cross liability in the event of the insolvency of QVT Fund, which holds, among other things, substantially all of the assets participated to the Special Liquidity Vehicles and the Special Investment Funds.



## Risks Related to the Adviser

### **Adviser's Dependence on Key Personnel**

The Adviser is dependent upon the expertise of the Managing Members and other key personnel. If the Adviser were to lose the services of the Managing Members or other key personnel, the Private Funds may be adversely affected. The Managing Members and other partners of the Adviser are subject to certain notice and non-compete provisions, and Advisory Personnel are subject to certain vesting requirements with respect to deferred compensation awards designed to incentivize personnel retention and permit an orderly transition of their duties. However, there can be no assurance that these will prove sufficient and that the Private Funds' activities will not be subject to disruption due to the loss or sudden departure of key personnel.

### **Cyber Security Breaches and Other Events Impacting Technology**

The Adviser's information and technology systems may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by its professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Although the Adviser has implemented various measures to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, the Adviser and/or the Private Funds may have to make a significant investment to fix or replace them. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in the Adviser's and/or the Private Funds' operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). In addition, the Private Funds rely on third-party service providers for many of the Private Funds' day-to-day operations, including for cloud-based storage of private sensitive data of the Private Funds and their investors, and will be subject to the risk that the protections and protocols implemented by those service providers will be ineffective to protect the Private Funds' data from cyber-attack. Such a failure could harm the Adviser's and/or the Private Funds' reputations, subject any such entity and their respective affiliates to legal claims and otherwise affect their business and financial performance.

## Risk Related to Investment Instruments

### **No Material Limits on Investment Instruments**

There is no limit on the type of instrument or investment opportunity in which the Adviser may cause the Private Funds to invest. Such instruments and other investments may range from typical retail investment securities to far more exotic instruments.

## **No Fixed Strategy, Instrument, Market, Sector or Issuer Weights**

Although diversification is an integral part of the Adviser's overall portfolio risk management process, the Adviser generally is not restricted as to the percentage of the Private Funds' assets that may be invested in any particular strategy, instrument, market, sector, industry or issuer. The Private Funds do not and will not maintain any fixed requirements for diversifying their portfolio among strategies, instruments, markets, sectors, industries or issuers. In recent years, the Private Funds have had significant concentrations of risk in the life sciences sector, the financial services sector and the energy-related sector, each of which is subject to specific risks. However, the Private Funds' investment programs are not premised on any continuing allocation to these sectors and may in the future involve significant risk concentrations in other industry sectors. In general, the Adviser may elect to concentrate the Private Funds' portfolios in those instruments, markets, sectors, industries or issuers that, in the sole judgment of the Adviser, provide the best profit opportunities, consistent with the Private Funds' investment programs.

## **Short Selling**

Short selling consists of borrowing securities held by third parties and selling such securities. A short sale of a security involves the risk of a theoretically unlimited increase in the market price of the security, which could result in an inability to cover the short position or a theoretically unlimited loss. The fact that the Private Funds may have agreements in place which guarantee margin or other financial arrangements does not necessarily protect the Private Funds from being forced to return the borrowed securities to the securities lending counterparty at a time that may be disadvantageous to the Private Funds. Additionally, adverse market participants could accumulate such securities in a "short squeeze," which would reduce the available supply, and thus increase the cost of those securities and/or result in a "buy-in" (a mandatory repurchase of the securities by the party that is short the position at the current price). Purchasing securities to close out the short positions can itself cause the price of the securities to rise further, thereby exacerbating the loss. Buy-ins and other repurchases of borrowed securities may substantially increase the impact of adverse price movements on the Private Funds' portfolios and expose the Private Funds to the risk of additional losses on related long positions that are no longer hedged. Regulators worldwide have instituted restrictions on short-selling and/or disclosure requirements, including at times requiring public disclosure of a holder's name. These restrictions and/or public disclosure requirements could materially affect market liquidity, as well as provide potentially damaging investment-level transparency to the relevant issuer and other market participants.

## **Fixed Income Securities and Loans**

The Private Funds may take positions in debt securities, bonds and other fixed income securities and loan instruments of U.S. and non-U.S. sovereign and corporate issuers that pay fixed, variable or floating rates of interest. The value of fixed income securities and loans in which the Private Funds may invest may change in response to fluctuations in interest rates and/or to perceptions of creditworthiness, political stability or soundness of

economic policies. Fixed income securities and loans are generally traded through dealers in the over-the-counter market. Accordingly, their value can also be impacted by dealer and market liquidity, particularly in periods of significant financial market stress.

### **Credit Default Swaps**

Certain of the Private Funds invest in credit default swaps (“CDSs”), which are credit derivative contracts where one party (the buyer of protection) pays a premium to another party (the seller of protection) until the earlier of an agreed maturity or the date of a credit event. If a credit event occurs, the seller of protection is obligated to remit to the buyer of protection a certain payout. Credit events may include a failure by the reference company to pay principal or interest with respect to the reference obligation, a restructuring of the final maturity date of the reference obligation, an acceleration of the reference obligation so that it is due prior to its stated maturity date, a ratings downgrade of the reference obligation below certain specified ratings levels or a writedown (including an implied writedown) of the reference obligation. During the past few years, regulators in several countries, in particular, European Union member states, have instituted or considered instituting restrictions on CDS trading which could materially affect the market for CDSs. The margin arrangements associated with CDS trading also expose the Private Funds to certain counterparty risk.

### **Other Swap Agreements**

The Private Funds may enter into other types of swap agreements, including, without limitation, swaps with respect to U.S. or non-U.S. interest rates, foreign exchange rates, corporate borrowing rates, commodity prices, baskets of equity securities or inflation rates. Swaps may also be used to obtain leverage. In connection with swap agreements, cash or securities are generally posted to or received from the swap counterparty in accordance with the terms of the swap agreement, which may expose the Private Funds to further risks.

### **Options**

The Private Funds may buy and sell options on securities, currencies and commodities on exchanges and in the over-the-counter market. The seller of a put option assumes the risk of a decline in the market price of the underlying security, currency or commodity below the exercise price of the option, although this may be mitigated by an offsetting short position in the underlying security (a “covered put”). The seller of a call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security, currency or commodity above the exercise price of the option, although this may be mitigated by an offsetting long position in the underlying security (a “covered call”). Buyers of puts and calls will lose their option premium if the option expires worthless and is not resold prior to expiration.

## **Futures Contracts**

The Private Funds trade futures contracts that may reference a wide variety of equity indices, government bonds, commodities and other underlying instruments and indices on futures exchanges regulated by the Commodity Futures Trading Commission (“CFTC”) and other regulatory organizations. Futures contracts are levered because of the limited margin typically required for futures traded on an exchange. Futures positions can be volatile and may become illiquid. Certain futures exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as “daily limits.” Under these daily limits, during a single trading day no trades may be executed at prices beyond the daily limits, which may result in futures positions becoming illiquid, reducing the Private Funds’ ability to liquidate unfavorable positions and potentially exposing the Private Funds to substantial losses. It also is possible that an exchange or the CFTC may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only.

## **Currency Trading and Forward Contracts**

The Private Funds engage in spot and forward transactions in currencies of different countries involving outright purchases and sales, forward contracts and options on currencies. Forward currency contracts are agreements to purchase or sell one specified currency for another currency at a specified future date and price determined at the inception of the contract. Forward contracts are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and spot trading is substantially unregulated and there is no limitation on daily price movements or any requirement to segregate customer funds or positions. As a result, trading in interbank foreign exchange contracts may be subject to more risks than futures or options trading on regulated exchanges, including, but not limited to, the risk of default due to the failure of a counterparty with which the Private Funds have a forward contract. The banks who deal in the forward markets are not required to continue to make markets in the currencies they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies 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. Disruptions can occur in any currency due to unusually high trading volume, political intervention or other factors. The imposition of foreign exchange controls by governmental authorities also might limit trading. Market illiquidity or disruption could result in major losses to the Private Funds.

## **Energy and Agricultural Commodities and Physical Assets**

The Private Funds may trade physical or cash commodities for immediate or deferred delivery and may take physical delivery of such commodities and store them for future sale. The prices of such commodities may be volatile. Such transactions may expose the Private Funds to significant counterparty and custody risk and, unlike U.S. futures

contracts in such commodities, are not subject to the comprehensive regulation by the CFTC. The Private Funds have invested and may invest and deal in physical assets such as oil and gas wells, mining operations, oil drilling rigs and other oil and gas and energy-related vessels, equipment and services, electric power, transmission facilities and power plants. These investments are subject to risks – destruction, loss, industry-specific regulation (*e.g.*, pollution control regulation), operating failures, labor relations, etc. – that are not typically directly applicable to financial instrument trading. In addition, the regulation of such assets is extensive and variable, and the Private Funds’ interests in certain of these assets could be wholly illiquid for long periods of time. While in certain circumstances, the Adviser seeks to mitigate the risks inherent in directly owning a physical asset through the use of special purpose vehicles and the purchase of insurance, certain liabilities, particularly environmental liabilities, may still affect the Private Funds.

### **Energy Derivative Transactions**

The Private Funds may invest in energy-based financial instruments, including, without limitation, exchange-traded and over-the-counter derivatives contracts such as futures, options, swaps and forwards, which have energy commodities (such as petroleum products, natural gas and electric power) as their reference asset. Certain of these markets are in developmental stages and may expose the Private Funds to unusually volatile returns, illiquidity and imperfect dealer pricing.

### **Illiquid Investments**

The Private Funds will invest in illiquid securities or other instruments, including both listed and unlisted instruments. Additionally, investments may become illiquid due to market conditions. The success of these investments is typically dependent not only upon the performance of such companies, but also upon the Adviser’s ability to engineer effective “exit strategies” in order to realize any enterprise value created or to force the companies to create liquidity opportunities. These investments may consume a substantial amount of the Adviser’s time. The market prices, if any, for these securities tend to be volatile and may not be readily ascertainable, and the Private Funds may not be able to sell them when they desire to do so or to realize what they perceive to be their fair value in the event of a sale. The Private Funds may be contractually prohibited from disposing of certain of these investments for a specified period of time. The sale of restricted and/or illiquid securities often requires more time and may result in higher brokerage charges than does the sale of more liquid securities. The limited liquidity of these investments may subject them to more extensive fluctuations in value and may impair the ability of the Private Funds to exit such investments in times of adversity. Companies whose securities are not publicly-traded generally will not be subject to public disclosure and other investor protection requirements applicable to publicly-traded securities. Illiquid positions also may be difficult to value and such valuation may require the exercise of substantial discretion by the Adviser. The Private Funds may hold illiquid investments that may be concentrated in certain industries or among certain investment types, including energy (*e.g.*, oil and gas and energy equipment and services), life

sciences, finance and funds (e.g., closed-end, hedge fund and fund of funds interests).

### **Other Investment Vehicles and Joint Ventures**

The Private Funds may invest a portion of their portfolios in listed or private pooled investment vehicles (e.g., hedge funds, funds of hedge funds and closed-end funds) or private investment vehicles managed by third-party managers for the exclusive benefit of the Private Funds. Such investments may be made where the Adviser determines that such arrangements complement the Private Funds' expertise or enhance the Private Funds' ability to access specific investment opportunities, and may include a joint venture or other co-investment arrangement pursuant to which the Private Funds pay fees and/or a profit participation to the third party manager or other joint venture partner (any such manager or partner, a "Strategic Partner"). The Private Funds will bear the management fees, incentive fees or allocations, other fees and/or expenses charged by the manager of each such investment vehicle or Strategic Partner, in addition to the Private Funds' respective management fees and incentive compensation (if any) payable to the Adviser or its Affiliates. As a result, in these cases, the Private Funds will pay two or more layers of fees. These investments involve the Private Funds relying on the performance and probity of third parties and may result in offsetting positions or concentrations in certain positions of which the Adviser will only learn if it has access to detailed information on such investment vehicles' underlying holdings. The Private Funds may not be able to withdraw capital from a Strategic Partner, even in situations where such Strategic Partner is deviating from announced strategies or risk control policies.

### **Risks Related to Current Investment Strategies**

#### ***Life Sciences Sector***

The Private Funds may invest in companies in the life sciences industry, including biotechnology companies, whose ultimate success or failure often depends heavily on unproven technologies and highly risky drug development programs. In certain periods, the performance of the life sciences positions of the Private Funds has been a major contributor to certain of the Private Funds' overall performance (both positive and negative). Life sciences investments involve substantial risks, including but not limited to:

*Regulatory Risk and Volatility:* Life sciences companies are subject to significant government regulation, including the requirement for government approval of their products and services. Attainment of such government approval is often a lengthy, expensive and uncertain process, and the outcome of various regulatory processes to which they are subject generally has a material impact on the potential commercial opportunity for these companies and hence on the prices of their securities. The securities of life sciences companies accordingly tend to be extremely volatile in price.

*Technological Risk:* The development of life sciences technologies, including drug discovery and development, is a highly risky business in which the majority of product candidates fail to reach the market due to lack of efficacy, safety problems, or other concerns. Consequently, companies in this sector are subject to significant technological risks that may result in the discontinuation of the development or commercialization of their products. Moreover, even if successful, the types of products or services produced or provided by these companies may become obsolete as a result of innovation or new discoveries by competitors.

*Financial Risk:* Developing product candidates, conducting clinical trials, and commercializing products is expensive and typically requires significant capital investment. Life sciences companies may be unable to raise sufficient funds during periods of capital illiquidity or may be forced to do so at prices that result in significant dilution to existing investors.

*Reimbursement Risk:* Life sciences companies generally rely on reimbursement for their products from third-party payers, including public insurers such as Medicare and Medicaid, as well as private insurers. Reimbursement for life sciences products or services is highly complex and subject to many uncertainties. If these third-party payers do not adequately reimburse companies, patients and physicians, the commercial potential of these companies' products or services may be limited.

*Business Risk:* Many life sciences companies rely on third parties or corporate partners for funding and assistance with the operation of certain aspects of their businesses, such as the manufacturing of drug products and the conducting of clinical trials, which may result in material delays or quality deficiencies in product development programs. Furthermore, if terminated, these relationships may have an adverse impact on the development and commercialization of these companies' product candidates.

*Additional Risks:* These include, but are not limited to, intellectual property litigation, product liability litigation, the emergence of new competitors in the marketplace, pricing pressure resulting from the entry of generic products, changes in government policies (including healthcare reform), and changing investor sentiments and preferences with regard to life sciences sector investments.

### ***Financial Sector***

The Private Funds may invest in the securities and other instruments of companies operating in the banking and financial sector. In recent years, such investments have represented a significant sector exposure for certain of the Private Funds. Investing in financial services companies presents special risks. The financial statements of such companies are frequently complex and may fail to present fully their financial position or predict their future revenue, credit losses and funding ability. Financial services companies are particularly exposed to general economic risk and to funding risk caused by loss of market and customer confidence. In circumstances where financial services companies experience sudden sharp declines in share price or widening of credit spreads, there may also be a significant increase in counterparty and custody risk, including for

the Private Funds. Financial services companies are highly regulated and in recent years have increasingly been the subject of regulatory actions that in certain cases have caused substantial volatility in their security prices. Applicable regulations, including in the U.S., also typically limit the percentage of a bank's securities that can be owned by an investor without regulatory approval. As a result, the Private Funds do not intend to purchase or otherwise acquire 5% or more of any class of voting securities of any U.S. bank or U.S. bank holding company or 10% or more of any class of voting securities of any U.S. thrift or U.S. thrift holding company.

### ***Energy-Related Sector***

The Private Funds may invest in the securities and other instruments of companies operating in, or providing services to, the energy and power industries, as well as directly in electricity, natural gas, oil, coal and emissions. In recent years, such investments have represented a significant sector exposure for certain of the Private Funds. Energy-related industries are typically uncertain, complex and multi-faceted. Underlying energy commodity markets are highly volatile and may fluctuate for reasons including changing supply and demand relationships, regulatory policy, geopolitical developments, weather and the trading activities of third parties. Fluctuations in the prices of energy commodities impact the financial results of companies operating in energy-related industries and therefore the value of their securities. Due to the finite lifespan of many types of energy resources and of the equipment used to extract, transport, and process energy, energy-related industries consistently require new capital. In the case of oil and gas exploration and production companies, estimates of hydrocarbon reserves by qualified engineers are often a key factor in valuing certain energy companies. These estimates are subject to wide variances based on technical assumptions and changes in commodity prices. Accordingly, it is possible for such reserve estimates to be significantly revised from time to time, resulting in significant changes in the valuation of such reserves.

### ***Below Investment-Grade Credits***

The Private Funds may invest in fixed-income securities and instruments which are rated below investment grade by the major ratings agencies or are not rated at all. These investments may include so-called "high-yield" debt instruments of issuers with highly speculative credit profiles. Such issuers typically face significant ongoing uncertainties in their business models and exposure to adverse conditions and are often highly leveraged and lack access to less costly methods of debt financing. The market values of certain of these below-investment grade instruments tend to reflect individual corporate developments to a greater extent than do higher-rated instruments and in an adverse financial environment may fall further and more rapidly than the market values of higher-rated instruments. The market prices of below-investment grade instruments can be volatile and are subject to abrupt and erratic market movements and changes in liquidity and wide bid/offer spreads.



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

The Private Funds may invest in the listed securities of companies with small- to medium-sized market capitalizations, which may involve greater risk than investments in the listed securities of larger companies. Companies with small- to medium-sized market capitalizations are frequently thinly traded and may be more volatile in price. Many small- and medium-capitalization companies tend to have less access to capital markets, shorter operating histories and less proven or capable management teams than do larger companies. All these traits make the risk of business failure higher for many smaller issuers than for larger “blue-chip” companies.

### ***Use of Relative Value Models***

Certain of the Private Funds may operate relative value strategies. The success of those Private Funds’ relative value strategies depends on market values converging towards the theoretical values determined by the Adviser’s valuation models. However, the valuation models used to determine that a position is mispriced may be incorrect or may prove inaccurate as market conditions change. In the event of market disruptions, significant losses can be incurred which may force the Private Funds to close out one or more positions at unfavorable times.

### ***Merger Arbitrage***

Certain of the Private Funds have engaged in, and the Private Funds may engage in the future in, merger or “risk arbitrage” strategies that establish long and/or short positions in the spread between current market values of securities and their values conditional upon successful completion of a merger, restructuring or similar corporate transaction. Merger arbitrage investments often incur significant losses when anticipated merger or acquisition transactions are not consummated. The consummation of mergers, tender offers and exchange offers can be prevented or delayed by a variety of factors, including: (i) regulatory and antitrust restrictions; (ii) political factors; (iii) industry weakness; (iv) stock-specific events; and (v) failed financings. Merger arbitrage positions also are subject to the risk of overall market movements. To the extent that a general increase or decline in equity values affects the stocks involved in a merger arbitrage position differently, the position may be exposed to loss. Merger arbitrage strategies also typically depend for success on the overall volume of merger activity, which historically has been cyclical.

### ***Unusual Instruments***

The Private Funds’ relative value trading strategies have in the past included positions in certain more unusual instruments exposed to idiosyncratic risks, including, without limitation: fixed-income instruments tied to drug royalties or the achievement of certain regulatory milestones with respect to drug development; GDP warrants; catastrophe-linked securities where the return of principal is contingent on the non-occurrence of a specific natural peril event such as a hurricane, earthquake or other physical or weather-related phenomenon; municipal fixed-income securities; interests in other hedge funds,

private equity funds, funds of such funds purchased in the secondary market transactions at discounts to stated net asset values; special purpose acquisition vehicles (also known as “blank-check” stock companies); emissions credits and certain physical assets, including offshore oil rigs and a rare earths mining operation; and real estate. The Private Funds may in the future invest in such instruments or in other unusual instruments subject to idiosyncratic risks, including risks which the Adviser may fail to understand or foresee at the time of investment.

### ***Structured Finance***

The Private Funds may invest in a wide variety of structured finance instruments, such as residential mortgage-backed securities (“RMBS”) and collateralized debt obligations (“CDOs”). These instruments are typically debt obligations issued by special-purpose vehicles (“SPVs”), where the debt is serviced only by the cashflows and collateral value of the assets held by the SPVs (*e.g.*, the underlying mortgage loans). Unlike corporate securities, which are subject to credit risk but generally mature on fixed dates, structured finance securities are subject to uncertainty regarding both the aggregate amount, and timing of, interest and principal payments, since the obligors on the loans held by the SPVs may prepay or default.

During times of significant market dislocation and depressed asset prices, structured finance securities can become quite illiquid and the Private Funds could incur large transaction costs if forced to liquidate rapidly such positions.

The Adviser has historically been active in RMBS backed by more speculative residential mortgages, principally U.S. residential mortgages. These RMBS are primarily exposed to the rates at which borrowers default and the severity of losses taken upon liquidation of the underlying properties. These exposures in turn may vary not only with macroeconomic factors such as changes in home prices, but also with changes in the law or government policy which could make it more difficult or costly to enforce against the collateral. For less-speculative mortgage backed securities where default is not the primary exposure, or where the principal and interest is guaranteed by the U.S. government, prepayments can also be a significant risk.

In addition to long positions in U.S. RMBS, the Private Funds may invest in a number of other structured finance sectors, such as credit card receivables, collateralized debt obligations, structured investment vehicles (SIVs), commercial mortgage-backed securities and aircraft equipment trust certificates. The Private Funds may also take short positions in structured finance securities using “pay as you go” credit derivatives.

### ***Convertibles***

The Private Funds invest in fixed income and other securities that may be converted into or exchanged for a specified amount of another security (typically common equity) of the same or different issuer within a particular period of time at a specified price or formula. Convertible securities are exposed to changes in the price of the security into which they are convertible, changes in the creditworthiness of the issuer, changes in interest rates,

and changes in overall fixed-income risk premiums. The Private Funds and other investors in convertible securities frequently hedge their position by selling short all or a portion of the underlying securities into which they are convertible. As a result, to the extent that they hedge in this fashion, the Private Funds may also be exposed to the following risks: (i) the loss of the ability to hedge the security due to loss of stock loan or a corporate event such as a merger; (ii) an unexpected increase in dividends by the issuer making hedging more expensive and thus lowering the value of the conversion option; (iii) an unexpected termination of the conversion option due to a cash takeover of the issuer; (iv) a decline in the volatility of the underlying security by reason of a share-for-share takeover or otherwise which also tends to reduce the value of the conversion option and (v) a failure of the issuer to deliver common stock upon receipt of a conversion notice, preventing the Private Funds from liquidating their hedges.

### ***Distressed***

*Investments in Distressed Situations:* The Private Funds may invest in securities and obligations of U.S. and non-U.S. issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or facing extraordinary liabilities, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These investments also may be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and a bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. There is no assurance that the Adviser will correctly evaluate the assets underlying any distressed investment or the prospects for a successful reorganization. In such reorganizations, the Private Funds take the risk that the reorganization either will be unsuccessful or delayed or will result in a distribution of cash or other consideration worth less than what the Private Funds paid for their position. Where there are multiple classes of creditors (*e.g.*, secured vs. unsecured creditors, senior vs. subordinated creditors), there may be significant inter-creditor conflicts. 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 of 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.

*Clawback With Respect to Investments:* The Private Funds may make investments (including, but not limited to, investments in other hedge funds or private funds) that are, or may be, subject to a clawback right, whether pursuant to the organizational documents of such investment or through ongoing litigation, other dispute resolution processes or bankruptcy proceedings, which could result in all or part of the Private Funds' amounts invested in these investments being clawed back under certain circumstances. Additionally, many private equity funds/hedge funds include the ability to claw back distributions.

Although the Adviser considers clawback risk when making investments, it may not be able to predict accurately the likelihood or size of this risk. There may be clawback scenarios which the Adviser is not able to foresee. If a clawback is imposed on a Private Fund in respect of such an investment, shareholders in that Private Fund as of the time of that clawback will bear such loss, even if these shareholders were not shareholders at the time of the initial investment; if the relevant investment is in a side pocket of the Family Office Funds, only those investors to whom that side pocket was designated will bear such a loss.

### ***Litigation and Regulatory Interaction Involving Portfolio Positions***

In connection with the implementation of the Private Funds' strategies described above, the Adviser may directly or indirectly (a) commence litigation against an issuer, its major shareholders, management and/or directors to prevent or encourage a specific set of actions (e.g., preventing an unfair settlement or affiliated transaction) or (b) report such entities' or persons' activities to the relevant governmental or regulatory authorities or agencies (e.g., financial market regulators, stock exchanges, tax authorities or industry oversight or advisory agencies), in order to maximize the returns attributable to the underlying positions, whether long or short.

A risk of interacting with a governmental or regulatory authority in this manner is that the subject of such a report (e.g., management or significant shareholders of the relevant investment) may make counter-allegations publicly and/or to the same governmental or regulatory authorities, which could cause an investigation to be initiated by such authorities against the Private Funds, the Adviser and/or the Adviser's personnel and which could damage the reputation of the Private Funds, the Adviser and/or the Adviser's personnel. Additionally, the subject of such a report could initiate counterclaims or commence litigation against the Private Funds, the Adviser or the Adviser's personnel for damages caused by the report. Retaliatory litigation or investigations (regardless of merit) may divert the Adviser's time, attention and resources from other portfolio management activities, cost the Private Funds a significant sum to defend and could lead to substantial redemptions by shareholders.

Another risk of litigation and regulatory reporting activity is that the details of the Private Funds' investments may be made public, which could enable market participants to take opposing positions in order to force the Private Funds to close the relevant open long or short position at a loss.

### ***Other Litigation Risks***

In connection with the implementation of the Private Funds' strategies, the Adviser may directly or indirectly obtain a right to proceeds from an ongoing litigation either individually or in partnership with the named plaintiff in such litigation. As with all litigation there is the risk that the court decides that the plaintiff's case is not sufficient to obtain the damages alleged. Litigations also may take a number of years to be resolved and can involve substantial legal and expert costs, including, in the case of non-U.S. litigation,

being required to pay the legal and other related costs of the opposing party, which can be substantial.

### ***Hedging Transactions***

The Adviser typically seeks to limit the Private Funds' exposure to certain generic market risks, such as foreign exchange, interest rate and equity market risk. However, the Adviser is not obligated to hedge any specific risk and may elect not to hedge the Private Funds' portfolios against certain risks or to alter the extent to which they are so hedged from time to time. Moreover, the Adviser may seek to limit the Family Office Funds' exposure to the market risks described herein to a lesser extent than in other Private Funds it manages or has managed in the past. Although hedging transactions are typically intended to reduce specific risks to which the Adviser believes the Private Funds' portfolios are exposed, such transactions may fail to reduce, or even increase, the overall risk of the portfolios, causing them to experience poorer performance than if the Private Funds had not engaged in such hedging transactions. Moreover, the portfolios will always be exposed to certain risks that cannot be hedged.

### **Risks Related to Financing, Custody and Counterparties**

#### ***Use of Leverage***

The Adviser may use leverage in managing the Private Funds' portfolios. Such leverage may take the form of borrowings from securities broker-dealers, banks or others that is secured by a material portion of the Private Funds' portfolios or may arise from transactions in derivatives, futures, forwards, swaps and options or from short sales. Such leverage increases both the possibilities for profit and the risk of loss. The use of leverage increases the possibility that a systematic underperformance of assets versus their hedges in the markets in which the Adviser invests will result in a material, perhaps even total, loss to investors. The Private Funds may use leverage even in periods when they have held long-side positions equal to less than one times their current net asset value ("NAV") for a variety of reasons (*e.g.*, margin requirements on short positions, the desire to maintain liquidity outside of their prime brokers and other security custodians).

#### ***Margin Financing and Derivatives Margin***

Any borrowings by the Private Funds against securities held by their custodians, including a prime broker acting as lender, will typically take the form of a margin borrowing. Under such a margin arrangement, the Private Funds are required to post a certain amount of cash or securities as determined from time to time by the lender based on prevailing market prices and are then permitted to borrow the remaining balance required to finance their securities. The Private Funds also post initial margin and may post and receive variation margin in conjunction with derivative transactions and transactions in futures and forwards. Margin requirements expose the Private Funds to multiple risks including, but not limited to:

## **Change in Margin Terms**

In the absence of specific agreements, securities margin arrangements are generally subject to change or revocation by the lender upon very limited notice and for any or no reason. The lender may demand an increase in the collateral, including requiring collateral equal to the full amount of the borrowings, and, if the Private Funds are unable to provide additional collateral, the lender could liquidate assets held by the lender to satisfy the Private Funds' obligations. Liquidation in that manner could have extremely adverse consequences. Those adverse effects may be exacerbated in the event that these changes or revocations are imposed suddenly or by multiple lenders. In order to manage the risks of short-term margin, certain of the Private Funds have entered into term margin lock agreements with each of their prime brokers who provide substantial margin lending. These agreements provide fixed margin and pricing terms with respect to leverage for a fixed period (generally between three months and one year) and are subject to a variety of conditions, including maintenance by the Private Funds of compliance with certain covenants.

## **Loss or Insufficiency of Margin on Derivatives**

The Private Funds may engage in derivative transactions pursuant to ISDA master agreements ("ISDAs") with many major banks that act as derivatives dealers. Unlike in the case of securities margin, margin arrangements on derivatives are generally only subject to change in limited circumstances set forth in the relevant ISDA.

The Private Funds' ISDAs require the Private Funds to post initial margin for the benefit of the dealer bank at the time of entry into a derivatives transaction. The amount of initial margin paid by the Private Funds to the dealer banks represents an uncollateralized credit risk to the dealer bank. Such initial margin is not reduced to reflect declines in a dealer bank's creditworthiness or to mitigate the risk of a dealer bank's failure to return initial margin.

Also, the ISDAs provide for two-way variation margin pursuant to which the Private Funds or the dealer bank post margin to one another to reflect fluctuations in the market value of the derivative. Generally, the dealer bank is responsible for calculating the daily change in margin requirements to be paid by either party due to changes in market prices. However, the dealer bank's calculation, due to error or lack of timely data, may not accurately reflect such market price changes. Although the Private Funds have the right to dispute the dealer bank's calculation, in volatile or stressed markets there can be no guarantee that these dispute mechanisms would work, potentially exposing the Private Funds to material under-collateralization.

The Private Funds may have additional counterparty credit risk because the counterparty receives variation margin on derivative transactions based upon the mid-market price to replace such transactions. Since the mid-market price is calculated on the day preceding any dealer default, it is unlikely to reflect fully the cost to the Private Funds of entering into a replacement transaction on the date of the default, particularly because any default by a dealer bank can have a significant effect on the markets and value of such

transactions. As a result, any margin held by the Private Funds will likely prove insufficient in the case of a major dealer default.

### **Net Asset Value Triggers**

Prime brokerage term margin agreements, ISDAs and other credit arrangements that may be entered into by the Private Funds generally contain Net Asset Value termination events that allow the lender or counterparty the right to amend immediately otherwise fixed margin and pricing terms, to terminate the ISDA and prime brokerage arrangements or declare a default under a credit arrangement. These termination events are commonly referred to as “net asset value triggers.” Such net asset value triggers typically measure declines in Net Asset Value on a monthly, quarterly, year-to-date or annual basis and in certain cases may take into account changes in Net Asset Value resulting from subscription and redemption activity as well as portfolio performance. In addition, the Net Asset Value may be measured against an absolute minimum or floor of assets. To the extent that a lender or counterparty elects immediately to amend margin and pricing terms, terminate an ISDA or declare a default under a credit agreement as a result of the Private Funds breaching a net asset value trigger, such action could have extremely adverse consequences for the Private Funds. Breaching a net asset value trigger under an ISDA will typically permit the counterparty to close out the Private Funds’ positions under the relevant agreement on the counterparty’s side of the market and at prices determined by the counterparty and setoff other amounts owed by the counterparty, which may result in substantial losses to the Private Funds. Further, a termination of an ISDA or a declaration of default under a credit arrangement by a counterparty also may permit other counterparties to exercise similar rights against the Private Funds under the cross-acceleration provisions of other ISDAs and financing agreements. A termination of one or more ISDAs may trigger a loss of the Private Funds’ term margin arrangements, limiting the amount of available leverage and increasing the cost of such leverage going forward and potentially triggering a liquidation of the Private Funds.

### **Commodities Futures and Options Margin**

Because of the limited initial margin required for, and substantial volatility associated with, the purchase or sale of most listed commodity futures contracts or commodity options, the Private Funds may be required to deposit a substantial amount of additional variation margin, on short notice, in order to maintain their positions. If they fail to do so, their position may be liquidated at a loss, making the Private Funds liable for any resulting deficit in their account. Under the U.S. Commodity Exchange Act, as amended, futures commission merchants are required to maintain customers’ assets in a segregated account, but the Private Funds will nevertheless be subject to a risk of loss if their futures commission merchants fail to do so and become bankrupt.

### **Margin in Periods of Stress**

In periods of market stress, and particularly in periods of stress specific to the Private Funds, lenders or counterparties may attempt to increase margin levels. In such cases, the Private Funds may elect to comply with these requests even if not obligated to do so

under the relevant agreements with lenders to the extent the Adviser believes that complying with these requests would be in the best interest of the Private Funds. Additionally, a simultaneous, broad-based increase in margin among hedge funds generally would likely adversely impact the investments held by the Private Funds by decreasing demand and increasing supply of those or similar investments.

### ***Counterparty, Custody and Prime Brokerage Risks***

Risks associated with counterparties and custodians (and/or their unaffiliated sub-custodians), including “prime brokers” (a custodian that typically provides securities on a margin basis as discussed above) include:

- loss of initial margin and insufficiency of margin as discussed above,
- the inability to replace terminated derivatives transactions or lost financing arrangements or having to do them only at significantly increased costs,
- the risk assets rehypothecated may not be available to recover as they may no longer be in the possession of the prime broker and additionally may rank as an unsecured claim,
- loss of assets held in custody or the delay in returning assets that, in each case, may prevent the Private Funds from liquidating their positions or subject them to a lack of clarity as to what positions they still hold, and
- loss of equity in positions held under margin arrangements with prime brokers and repo counterparties.

Prime brokerage arrangements typically involve allowing the prime broker to rehypothecate (*i.e.*, pledge or transfer title with respect to) some or all of the customer’s assets. The prime broker uses this ability to raise secured financing to cover a customer’s debit balance. As a result, following the failure of a prime broker, its customers may not be able to recover their assets because they are no longer in the possession of the prime broker. In some jurisdictions, customers whose assets were rehypothecated may, in fact, rank as only one of such prime broker’s unsecured creditors. Rehypothecation and the applicability of the insolvency rules of multiple jurisdictions can result in lengthy periods in which it is unclear whether a Private Fund retains ownership and risk of positions held at a failed prime broker or whether the failure of the prime broker resulted in the closing out of those positions.

A further risk is that a Private Fund’s cash held with a prime broker may not be segregated from such prime broker’s own cash and may be used by the prime broker in the course of its business. In the event of an insolvency of a prime broker, the Private Funds may rank as an unsecured creditor in relation to such cash. The failure of a prime broker or other significant custodian, or even concerns about a default by that institution, could lead to significant liquidity problems, losses or defaults by other institutions, which in turn could adversely affect the Private Funds.



While the Private Funds attempt to diversify, their use of multiple prime brokers and other custodians may result in higher fees being paid, a reliance on prime brokers or custodians with weaker operational systems and an increase in the chance of operational error (and the associated costs thereof) both by the Adviser and the prime broker or custodian. Additionally, the use of multiple prime brokers and other custodians also may make it harder for the Private Funds to negotiate forbearance in periods of great stress, because of the difficulty of coordinating the actions of a large number of counterparties. The Adviser may determine to consolidate assets with fewer prime brokers.

### ***Cash Deposit Risk***

In order to limit their credit risk to prime brokers and other custodians and manage their liquidity, certain of the Private Funds currently maintain cash deposits that equal a material portion of their capital with major banks with which they have only limited capital markets business. As these are large deposits, any failure of a deposit bank will have a material adverse effect on those Private Funds. The FDIC has a \$250,000 limit on insured cash balances in banks and the Private Funds' balances exceed this limit. The Private Funds may reduce their exposure to banks through the purchase of short term dated U.S. Treasury bonds.

### ***Non-U.S. Custodians, Brokers and Counterparties***

Some of the Private Funds' relationships are with custodians or counterparties that are organized outside of the U.S. or use affiliates or sub-custodians that are organized outside the U.S. Those Private Funds' assets therefore may be subject to bankruptcy protection that is different from or worse for creditors than U.S. bankruptcy treatment, or it may be unclear how applicable laws interact with U.S. law. Non-U.S. brokerage commissions generally are higher than in the United States. Increased custodian costs as well as administrative difficulties (such as the applicability of foreign laws to foreign custodians in various circumstances, including bankruptcy, ability to recover lost assets, expropriation, nationalization and record access) may be associated with the maintenance of assets in non-U.S. jurisdictions.

### ***Repo Financing***

The Private Funds may conduct certain of their securities transactions, principally in fixed income securities, by entering into repo agreements pursuant to which the Private Funds are required to repurchase at a fixed price securities they have sold or to resell securities that they have bought. Repo is a form of secured financing where the lender takes title to the assets and the borrower has an obligation to repurchase the assets at the maturity of the financing. During the term of a repo transaction, the parties to the transaction post collateral to one another to reflect changes in the value of the underlying securities.

The experiences of the repo financing market indicate such financing can prove unreliable because it is typically short-term and, particularly in periods of market stress, there is no guarantee that the repo can be "rolled" at expiration (a new repo transaction

will be available on the same or similar terms). In periods of market stress, counterparties may not allow “rolling” of existing positions or may agree to roll but insist on changes in financing terms, including changes in financing spreads or the amount of collateral required. This may compromise the Private Funds’ ability to maintain or enter into certain positions thus forcing the liquidation of positions at points the Adviser considers inopportune. Because of the legal structure of repo transactions, the Private Funds will likely rank as unsecured creditors in relation to any losses resulting from the close-out of repo transactions in the context of a repo counterparty insolvency.

### ***Derivatives Clearing Regulations***

Pursuant to government regulations, certain of the Private Funds began centrally clearing certain derivative instruments in 2013. In connection with these regulations, certain of the Private Funds were required to open clearing accounts at Futures Clearing Merchants (“FCMs,” and each, an “FCM”).

In addition, the EU Regulation on OTC derivatives, central counterparties and trade repositories (“EMIR”) introduced uniform requirements covering financial counterparties, including alternative investment funds, in respect of central clearing of so-called “eligible” OTC derivatives contracts through a duly authorized central counterparty, reporting the details of derivatives contracts to a trade repository and certain risk mitigation requirements.

As a result of these regulations, the Private Funds could be exposed to a failure of a central clearing house (“CCP”). To mitigate credit exposure, the FCM is required to segregate customer assets, including margin posted by the Private Funds. The minimum amount of margin required to be posted with the FCM depends on the amount of margin that the FCM is required to post with the clearing house. A CCP does not fix margin terms for extended periods of time and may change its methodology at any time, for both new and existing positions. Therefore, the Private Funds’ margin requirements may increase materially, especially in times of stressed markets.

### **Risks Related to International Investments**

#### ***Exchange Rate Fluctuations***

The Private Funds invest a portion of their portfolios in instruments denominated in currencies other than the U.S. dollar, whereas the NAV of each of the Private Funds is calculated in U.S. dollars, and contributions to and withdrawals from the Private Funds also are made in U.S. dollars. Accordingly, changes in currency exchange rates (to the extent unhedged) will affect the value of the Private Funds’ portfolios.

#### ***Emerging Market Investments***

The Private Funds invest in securities and currencies traded in various markets throughout the world, including emerging or developing markets. Financial markets in emerging markets may have substantially lower trading volumes and therefore are likely

to be less liquid and more volatile. Additionally, emerging market economies are often heavily dependent upon international trade and a limited number of industries which expose them to certain risks typically not associated with investing in currencies or securities of developed markets. Such risks include, among other things:

- less predictable or ineffectual governmental regulation;
- exchange control regulations and protectionist measures;
- limitations on the removal of funds or other assets of the Private Funds;
- nationalization or expropriation of private businesses or assets and/or confiscatory taxation;
- sudden large changes or reversals in trade or portfolio flows;
- economic instability; and
- political instability.

These factors may affect the level and volatility of securities prices and the liquidity of the Private Funds' investments.

### ***Non-U.S. Legal Risk***

Many of the laws that govern private and non-U.S. investment transactions in securities, commodities, derivatives and securities indices, and other contractual relationships in non-U.S. countries, particularly in developing countries, are new and largely untested. As a result, the Private Funds may be subject to a number of unusual risks, including:

- inadequate investor protection;
- contradictory legislation;
- incomplete, unclear and changing laws;
- ignorance or breaches of regulations on the part of other market participants;
- lack of established or effective avenues for legal redress;
- lack of standard practices and confidentiality customs characteristic of developed markets; and
- lack of enforcement of existing laws, regulations and private contracts.

The Private Funds likewise may be subject to unpredictable foreign regulatory responses to their investments in non-U.S. markets.

## **ITEM 9**

### **DISCIPLINARY INFORMATION**

#### **A. Criminal or Civil Actions**

Not Applicable.

#### **B. Administrative Proceedings Before Regulatory Authorities**

##### Capital Markets Board of Turkey

**Trading:** The Capital Markets Board of Turkey, without notice or hearing, suspended the Adviser and QVT Fund from trading on Turkish exchanges effective September 19, 2009. The trading suspensions related to alleged improper trading in shares of three Turkish companies on various dates between October 2006 and February 2008. After receiving notice of the suspensions, the Adviser responded to all issues raised by the Capital Markets Board. The suspensions were lifted on November 13, 2009.

**Position Computation:** On November 13, 2009, the Capital Markets Board of Turkey assessed an administrative fine against QVT Fund, in the amount of TRY 63,443 (approximately US\$43,000) based on the alleged failure of QVT Fund to include in an ownership report “reference securities” which it did not own but which formed the economic basis for swap agreements entered into by QVT Fund. QVT Fund paid the administrative fine during a time period which allowed for a discounted payment in the amount of US\$31,471 and sought to have the proceeding annulled. The court in Turkey denied the requested relief in May 2011. A subsequent appeal of the denial was dismissed on June 8, 2011.

##### Hellenic Capital Market Commission (Greece)

**Late Filing:** On September 29, 2011, QVT Fund received a notice from the Hellenic Capital Market Commission related to a late filing submitted in 2006. The total amount of the fine imposed was €3,000 (approximately US\$3,155). QVT Fund has yet to receive any official invoice regarding the fine.

#### **C. Self-Regulatory Organization (SRO) Proceedings**

Not Applicable.

**ITEM 10**  
**OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

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

The 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 Adviser is registered as a commodity pool operator with the CFTC and relies on relief provided under CFTC Rule 4.13(a)(3) with respect to the Private Funds. The Adviser had relied on relief provided under CFTC Rule 4.7 with respect to certain of the Private Funds, but those Private Funds all became eligible for CFTC Rule 4.13(a)(3) on or before December 31, 2018. Accordingly, as of December 31, 2018, the Adviser filed a notice to withdraw its registration as a commodity pool operator; such withdrawal is pending. Until such time as the withdrawal is final, the Adviser's management persons are registered with the CFTC as principals and associated persons of the commodity pool operator. The Adviser and its management persons are not registered as, and do not have any application to register as, a futures commission merchant, commodity trading adviser, or an associated person of a futures commission merchant or commodity trading adviser.

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

*Other Affiliated General Partners and Advisers*

QVT Associates GP LLC, a Delaware limited liability company, is an affiliate and serves as the general partner to QVT Fund, QVT FO Offshore, QVT FO Offshore II, QVT FO Onshore, QVT FO, Quintessence Overseas Feeder Fund, Quintessence Overseas Intermediate Fund, Quintessence Master Fund, Quintessence Associates Feeder Fund, SLV Offshore Fund, SLV Onshore Fund, Special Investment Offshore Fund, Special Investment Onshore Fund and QVT Series Holdings.

QVT Mount Auburn Associates LLC, a Delaware limited liability company ("QVT Mount Auburn Associates"), is an affiliate and serves as the general partner to QVT Mount Auburn Real Estate Fund LP, a Delaware limited partnership ("QVT Mount Auburn Domestic Fund") and QVT Mount Auburn Real Estate Century L.P., a Cayman Islands exempted limited partnership ("QVT Mount Auburn Overseas Fund"). QVT Mount Auburn Capital LP ("QVT Mount Auburn Capital"), is an affiliate and serves as investment manager to the QVT Mount Auburn Domestic Fund and the QVT Mount Auburn Overseas Fund. QVT Mount Auburn Associates and QVT Mount Auburn Capital represent a joint venture between the Adviser and Mount Auburn Capital Partners LLC, which is an affiliate of Mount Auburn Partners, LLC.

Fourth Avenue Capital Partners GP LLC, a Delaware limited liability company (“Fourth Avenue GP”), is an affiliate and serves as the general partner to Fourth Avenue Capital Partners LP and Fourth Avenue FF.

QVT Financial Investment GP LLC, a Delaware limited liability company (“QVT Financial Investment GP”), is an affiliate and serves as the general partner to QVT Financial Investment LP.

#### *Other Affiliated Foreign Advisers*

In addition to the above affiliated general partner, investment management and management companies, the Adviser retains and provides compensation to QVT Advisors Private Limited, a New Delhi-based affiliate (the “Relying Adviser”).

#### *Transaction Based-Compensation*

The Adviser or its Affiliates may receive directors' fees, break-up fees and other fees in connection with a Private Fund's investments.

Certain Advisory Personnel serve as directors, officers or agents of portfolio companies in which a Client and/or the Proprietary Funds (as defined below) invest. In such capacity, such Advisory Personnel may have competing fiduciary duties with respect to acting in the best interest of a Client and in the best interest of portfolio companies. To the extent Advisory Personnel serve on a board or committee on behalf of (or directly or indirectly related to an investment made by) one or more of the Private Funds, if such service affords any payment, stock option or incentive, excess travel stipend, or any other form of compensation or benefit, such compensation or benefit (or its equivalent, as determined by the Adviser) is the property of the Private Fund(s) on whose behalf the Advisory Personnel serves. In certain circumstances, Advisory Personnel may serve in a management or consulting capacity for a company in which the Clients may have a significant or controlling position. In such circumstances, the Advisory Person may receive compensation from the portfolio company. As described above, it is the Adviser's policy that when such Advisory Person receives compensation from a portfolio company solely for service as a director of such portfolio company, the applicable Client(s) who participate in such investment will be fully reimbursed for amounts received by such Advisory Person from the portfolio company; however, in the event that such Advisory Person receives compensation from the portfolio company for services in another capacity (*i.e.*, involvement in more day-to-day operations of such company), whether or not he or she serves on the board of such company, the applicable Client(s) who participate in such investment will be reimbursed for its or their share (calculated on a *pro rata* basis including all of the unaffiliated investors in the portfolio company) of all of the amounts received by such Advisory Person from the portfolio company.

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

Certain Clients may invest in pooled investment vehicles or managed accounts that are managed or advised in a joint venture arrangement between the Adviser and/or its Affiliates and a third-party (collectively, the “Affiliated Funds”). The Adviser will waive the management fees and incentive compensation payable by such Clients, in amounts equal to any management fee, incentive fee and/or incentive allocation assessed by any such Affiliated Funds or, to the extent necessary, will take such other actions as may be needed so that the Clients do not bear management fees, incentive fees and/or incentive allocations with respect to Affiliated Funds in excess of such fees and allocations set forth in such Clients' offering memoranda. The current Affiliated Funds in which certain Clients have invested are QVT Mount Auburn Domestic Fund and QVT Mount Auburn Overseas Fund, which pursue capital appreciation and current income through the investment in and management of a diversified portfolio of distressed and undervalued real estate and real estate-related investments. Notwithstanding the foregoing, the management fee and the incentive compensation of a Client will not be waived, and such other actions described above will not be taken, in connection with an investment in an Affiliated Fund, to the extent that the management fee, incentive fee and/or incentive allocation assessed by such Affiliated Fund is being paid or allocated to a third-party that is unaffiliated with the Adviser. Although the Adviser and its Affiliates will not receive duplicate compensation with respect to a Client's investments in an Affiliated Fund, such investment, if any, could be considered a conflict of interest because the investment by the Client might assist in raising capital from other third-party investors which will pay management fees and incentive fees to the Affiliated Fund's manager, which may include the Adviser or its Affiliates.

##### *Multiple Fee Layers*

In executing its investment strategies, the Adviser, on behalf of certain of the Private Funds, has entered into a strategic investment agreement (the “Strategic Investment”) with a specialized market intermediary, acting as the third-party manager of an investment vehicle formed for the exclusive benefit of such Private Funds, which arrangement should complement the Private Funds' expertise and enhance the Private Funds' ability to access specific investment opportunities. This Strategic Investment may, however, limit the Adviser's ability to exercise day-to-day management control of investments made through this relationship although the Adviser has the right to exercise substantial control over acquisition and disposition of investments under the terms of the Strategic Investment. The Adviser's management fees, incentive fees and/or incentive allocations will not be waived or reduced in connection with this arrangement, and will result in three or more levels of fees and expenses (*i.e.*, potentially (i) at the level of the underlying investments, (ii) at the level of the third-party manager of the Strategic Investment, and (iii) at the level of the Private Fund) being charged to Clients in connection with those investments made through the Strategic Investment. Under the terms of the Strategic Investment, the relevant Private Funds are responsible for funding investments approved in writing by Adviser and certain management fees, incentive fees and indemnification obligations.

The Private Funds may make direct purchases of shares or interests in other Private Funds on the secondary market. In addition, the Private Funds may purchase investments that contain or that have invested in one or more Private Funds. The Adviser will not waive any management fees, incentive fees and/or allocations, respectively assessed by such Private Funds.



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

**A. Code of Ethics.**

This Item 11(A) provides a general overview of the Adviser's Code of Ethics.

The Advisers are committed to the highest standards of ethical conduct. The Code of Ethics specifies and prohibits certain types of transactions deemed to create actual conflicts of interest, the potential for conflicts, or the appearance of conflicts, and establishes general guidelines for the conduct of the Adviser's and the Relying Adviser's "access persons" (as defined in Rule 204A-1 of the Investment Advisers Act of 1940 ("Advisers Act")) (collectively, "Advisory Personnel") as well as clearance and/or reporting requirements and enforcement procedures.

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

Advisory Personnel are required to certify their compliance with the Adviser's Compliance Manual (the "Compliance Manual"), including the Code of Ethics, on an annual basis.

The Adviser has implemented a Personal Trading Policy in the Adviser's Code of Ethics that prohibits Advisory Personnel from engaging in personal securities transactions without obtaining prior approval, subject to certain limited exceptions. The Adviser has created a Personal Trading Committee charged with the implementation of the Personal Trading Policy and for determining and addressing any conflicts that may arise out of the investment activities of any Advisory Personnel. Exceptions to the pre-approval and reporting requirements on personal trading generally include: (i) direct obligations of the U.S. government (*e.g.*, U.S. treasury securities); (ii) bank certificates of deposit and high-quality short-term debt obligations; (iii) shares issued by money-market funds; (iv) shares of open-end mutual funds registered in the U.S. that are not advised or sub-advised by the Adviser or its Affiliates; and (v) shares issued by unit investment trusts that are invested exclusively in one or more open-end mutual funds registered in the U.S., none of which are funds advised or sub-advised by Adviser or its Affiliates. Also, certain personal securities transactions in connection with which Advisory Personnel actively exercise no investment decision-making authority or that take place in accounts over which Advisory Personnel have no direct or indirect influence, control or discretion, are not subject to the pre-approval or reporting requirements set forth in the Personal Trading Policy, provided, however, that in such cases, Advisory Personnel must substantiate the nature of the account relationship with any third party investment adviser by furnishing either (i) a copy of the current agreement with the third party investment adviser or (ii) a letter from the third party investment adviser which delineates the control protocols. In addition, Advisory Personnel are permitted to trade the following types of investments without obtaining pre-approval; *provided, however*, that any such transaction must be reported to

the Adviser in accordance with the Adviser's procedures: (i) broad-based ETFs, as determined by a distinct list compiled by the Personal Trading Committee; (ii) short sales of broad-based ETFs (as defined by the aforementioned list) or broad-based market indexes such as the S&P 500; (iii) options on broad-based ETFs (as defined by the aforementioned list) and broad-based market index options; (iv) physical commodities; (v) foreign currencies; and (vi) shares of open-end mutual funds not registered in the U.S. that are not advised or sub-advised by the Adviser or its Affiliates. Consistent with the foregoing policies, it is possible that Advisory Personnel will buy or sell securities or other instruments of the type or kind of securities also recommended to the Clients in addition to buying or selling securities and instruments not recommended to the Clients.

From time to time the Adviser may be presented with investment opportunities that (i) have additional capacity in excess of the amount that would be allocated to the Private Funds or (ii) that would not be appropriate for allocation to any Private Funds (*e.g.*, different risk parameters, liquidity constraints, etc.) (each such opportunity, a "Co-Investment"). With respect to an investment for which the Adviser determines co-investment capacity is available, the Adviser may, in its sole discretion, offer any Co-Investment to Fund Investors, to the Adviser's or its Affiliates' own accounts, including the Proprietary Funds (as defined below) or other proprietary capital vehicles or to other third parties. A Co-Investment may be made through a separate vehicle formed for the purpose of making such investment. Investors in any Co-Investment may or may not be subject to management fees and/or incentive compensation, as the Adviser determines in its discretion.

The Advisers are under no obligation to provide Co-Investments to Fund Investors and any Co-Investments may be offered to Proprietary Funds or one or more third parties. Any allocation of Co-Investments to Fund Investors is likely not to correspond to their *pro rata* interests in the Private Funds. In determining allocations of Co-Investments, the Adviser may take into account any facts or circumstances it deems appropriate, including the size of the prospective co-investor's investment in a Private Fund; whether and the extent to which the prospective co-investor has expressed an interest in co-investment opportunities; any contractual agreements with Fund Investors and their affiliates with respect to co-investment opportunities (*e.g.*, side letters); the Adviser's evaluation of the financial resources, sophistication, experience and expertise of the potential co-investor, with respect to the execution of co-investment transactions generally; perception of past experiences and relationships with each prospective co-investor; whether or not such person has co-invested previously and the ability of any such co-investor to respond promptly and appropriately to potential investment opportunities; perception of the legal, regulatory, reporting, public relations, competitive, confidentiality or other issues that may arise with respect to any prospective co-investor; and any strategic value or other benefit resulting from offering such co-investment opportunity to a prospective co-investor including provisions of co-investment opportunities by such prospective co-investor.

Co-Investments where the Private Funds also invest may result in conflicts between the Private Funds and other co-investors (for example, over the price and other terms of such

investment, exit strategies and related matters, including the exercise of remedies of their respective investments). Each co-investor, including the Proprietary Funds and/or Advisers, will bear its *pro rata* portion of all investment-related expenses; to the extent the underlying Co-Investments are illiquid, such expenses may be funded via capital calls to co-investors or may be funded by the Adviser and later reimbursed by co-investors, depending on the arrangement negotiated at the time of closing. Conflicts exist relating to broken deal expenses. The Adviser will attempt to negotiate for any co-investors to be responsible for their *pro rata* portion of broken deal expenses, however, this may not be feasible as agreements generally will be entered into contemporaneous with a deal closing. Accordingly, to the extent that a deal has progressed enough such that a co-investor has made an indication of interest (*i.e.*, size of prospective investment), if that co-investor will not agree to bear its *pro rata* portion of broken deal expenses, the Adviser will bear the *pro rata* portion of such co-investor's broken deal expenses. If a deal breaks at a stage that is so preliminary that co-investors have not made any indication of prospective investments, given that there would be no basis for an equitable split, the Private Funds (and the Proprietary Funds and Advisers, as the case may be) that would have participated in such investment will bear such broken deal expenses in proportion to their proposed allocation.

The Managing Members formed Fourth Avenue Capital Partners LP, a Delaware limited partnership ("Fourth Avenue"), in February 2008. Fourth Avenue makes investments on behalf of the Managing Members and certain other participating Advisory Personnel. Fourth Avenue has invested and may continue to invest in hedge funds, funds of hedge funds, private equity funds, private equity or illiquid investments managed by third parties and other illiquid or long-term investment opportunities in both private and public companies. All investments by Fourth Avenue are subject to pre-approval by the Adviser's Chief Compliance Officer. The Adviser's Chief Compliance Officer, in consultation with the Adviser's General Counsel, is responsible for determining and addressing any conflicts that may arise out of Fourth Avenue's investment activities. It should be noted that each of the Adviser's Chief Compliance Officer and General Counsel has participated and may in the future participate (either directly or indirectly), in Fourth Avenue investments.

In January 2016, the Managing Members formed Fourth Avenue FF (together with Fourth Avenue, the "Fourth Avenue Funds"). Fourth Avenue FF at times makes investments for Fourth Avenue, and/or on behalf of friends and family of the Managing Members and other Advisory Personnel. All investments by Fourth Avenue FF are similarly subject to pre-approval by the Adviser's Chief Compliance Officer. The Adviser's Chief Compliance Officer, in consultation with the Adviser's General Counsel, is responsible for determining and addressing any conflicts that may arise out of Fourth Avenue FF's investment activities. Investors in Fourth Avenue FF have generally agreed to limit their protections in the event of conflicts and to be treated in the same manner as the Managing Members and are subject to additional risks in connection with their investment in a particular series.

In May 2018, the Managing Members formed QVT Financial Investment LP and in September 2018, the Managing Members formed QVT Financial Investment Cayman Ltd. (together, the “QVT Financial Investment Funds” and together with the Fourth Avenue Funds, the “Proprietary Funds”). The QVT Financial Investment Funds hold investments of the Managing Members and Advisory Personnel, certain of which are also held by the Private Funds. The Advisers also hold investments which are also held by the Private Funds. The QVT Financial Investment Funds and the Advisers may in the future invest in a variety of investment types, including those that may overlap with the mandates of the Clients. All investments by the QVT Financial Investment Funds and the Advisers are subject to pre-approval by the Adviser’s Chief Compliance Officer. The Adviser’s Chief Compliance Officer, in consultation with the Adviser’s General Counsel, is responsible for determining and addressing any conflicts that may arise out of the QVT Financial Investment Funds’ and the Advisers’ investment activities. It should be noted that each of the Adviser’s Chief Compliance Officer and General Counsel has participated and may in the future participate (either directly or indirectly), in investments in the QVT Financial Investment Funds, and have been and may continue to be allocated portions of investments held by the Advisers.

Investments made by the Proprietary Funds and the Advisers may overlap with investments recommended by the Adviser to the Clients. To the extent the Adviser determines that any opportunity is an appropriate investment opportunity for (i) one or more Clients and (ii) the Proprietary Funds and/or Advisers, based on their respective portfolio compositions, risk tolerances and liquidity needs, the Adviser’s compliance department will document the suitability analysis and the opportunity to invest will first be allocated to such Clients in accordance with the Adviser’s allocation procedures. The Proprietary Funds and/or the Advisers will make their contemplated investments only after the Clients’ contemplated subscriptions for the investment, if any, are filled. To the extent the Adviser determines that any investment is not an appropriate investment opportunity for the Clients, but is an appropriate investment opportunity for one or more of the Proprietary Funds and/or the Advisers, the Adviser’s compliance department will document the analysis regarding the suitability of such investment.

A Client’s existing investments and relationships may generate new investment opportunities for such Client, other Clients, Advisory Personnel, the Advisers and the Proprietary Funds. If the Adviser determines, in its sole discretion, that such an investment would not be an appropriate investment opportunity for a Client, then other Clients, Advisory Personnel, the Advisers and/or the Proprietary Funds may nonetheless participate in such investment.

In recognition of the trust and confidence placed in the Adviser by Fund Investors and to give effect to the Adviser’s belief that its operations should be directed to the benefit of the Clients, the Adviser adopted the following general principles to guide the actions of its Advisory Personnel:

- (i) Client interests come first. Advisory Personnel must scrupulously avoid serving their own personal interests ahead of the interests of the Clients and their investors.
- (ii) Avoid taking advantage. Advisory Personnel may not make personal investment decisions based on their knowledge of the Clients' holdings or transactions.
- (iii) Safeguard confidential information. Information relating to the Clients' or their investors' securities and financial circumstances must be kept confidential and safeguarded in accordance with the Adviser's Privacy Policy and Implementing Procedures and may not be used in any way except for the purposes intended by the Adviser.
- (iv) Exercise independent decision-making. Independent decision-making, especially in the investment process, must be maintained at all times.
- (v) Properly handle conflicts of interests. Advisory Personnel must handle potential conflicts of interest in a manner consistent with the Adviser's fiduciary duty and must not abuse their positions of trust and responsibility. Among other things, the Adviser seeks to handle potential conflicts of interests through the personal trading pre-approval and reporting requirements established in the Code of Ethics. If Advisory Personnel are uncertain whether a real or apparent conflict exists in any particular situation, they are to consult immediately with the Adviser's compliance and legal departments.

The Code of Ethics requires that Advisory Personnel disclose any situation, including situations pertaining to Advisory Personnel's family members, which reasonably could be expected to give rise to a conflict of interest. The Code of Ethics also contains general prohibitions against fraud, deceit and manipulation, as well as additional restrictions and requirements regarding gifts, entertainment and outside activities. Subject to certain limited exceptions, the Code of Ethics requires that any gift provided to or accepted from any employee of a broker-dealer, investor, prospective investor, an individual appointed by the Adviser to serve as an independent director, data provider, accounting firm, law firm or any other person or entity that does or seeks to do business with or on behalf of the Adviser must be reported to the Adviser's compliance department.

Certain Advisory Personnel serve as directors, officers or agents of portfolio companies in which a Client and/or the Proprietary Funds or Advisers invest. In such capacity, such Advisory Personnel may have competing fiduciary duties with respect to acting in the best interest of a Client and in the best interest of portfolio companies. To the extent Advisory Personnel serve on a board or committee on behalf of (or directly or indirectly related to an investment made by) one or more of the Private Funds, if such service affords any payment, stock option or incentive, excess travel stipend, or any other form of compensation or benefit, such compensation or benefit (or its equivalent, as determined by the Adviser) is the property of the Private Fund(s) on whose behalf the Advisory Personnel serves. In certain circumstances, Advisory Personnel may serve in a

management or consulting capacity for a company in which the Clients may have a significant or controlling position. In such circumstances, the Advisory Person may receive compensation from the portfolio company. As described above, it is the Adviser's policy that when such Advisory Person receives compensation from a portfolio company solely for service as a director of such portfolio company, the applicable Client(s) who participate in such investment will be fully reimbursed for amounts received by such Advisory Person from the portfolio company; however, in the event that such Advisory Person receives compensation from the portfolio company for services in another capacity (*i.e.*, involvement in more day-to-day operations of such company), whether or not he or she serves on the board of such company, the applicable Client(s) who participate in such investment will be reimbursed for its or their share (calculated on a *pro rata* basis including all of the unaffiliated investors in the portfolio company) of all of the amounts received by such Advisory Person from the portfolio company.

Certain Advisory Personnel also serve as directors, officers, trustees or other formal or informal positions of outside organizations. Service on boards and in other capacities for outside organizations, including for the Proprietary Funds and Advisers, could lead to the potential for conflicts of interest. Accordingly, Advisory Personnel are prohibited from agreeing to serve in such capacities unless they have obtained prior approval from the Adviser's Chief Compliance Officer and the Managing Members. Advisory Personnel acting in such capacities are required to act at all times consistent with their duties to the Adviser and the Private Funds and, accordingly, the Adviser generally discourages Advisory Personnel from participating in outside business activities that may (i) involve a significant time commitment during the Adviser's normal business hours; (ii) keep Advisory Personnel from devoting their full attention to the Adviser's business matters; or (iii) pose reputational risks or potential liability for the Adviser or the Private Funds.

The Adviser has charged its compliance department with the implementation of the policies in the Compliance Manual. The policies and procedures contained in the Compliance Manual are designed to (i) highlight the Adviser's responsibilities under the Advisers Act and the role of Advisory Personnel in executing those responsibilities; and (ii) detect and prevent violations of certain other applicable laws, including the laws designed to prevent the misuse of material, non-public information. In furtherance thereof, the Compliance Manual prohibits Advisory Personnel from misusing material non-public information and/or non-public proprietary information, and sets forth the "Insider Trading Prevention Policies and Procedures" to restrict the flow of material non-public information. Such procedures include a requirement that Advisory Personnel notify the Adviser's compliance department if they have any reason to believe that a violation has occurred or is about to occur.

#### **B. Securities in Which You or a Related Person Has a Material Financial Interest.**

On occasion, the Adviser may, on behalf of the Clients, engage in cross trades. If the Adviser determines that it is advisable to engage in such a cross trade, the Adviser will (i) provide and document the rationale for the cross trade, and will ensure that the trade is in the respective best interest of the Clients involved; (ii) ensure that the transaction is consistent with the duty to obtain best execution; and (iii) rely on the Advisers' valuation

procedures to determine the appropriate price at which to effect the transaction. The Adviser will receive no transaction-based compensation in connection with cross trades (other than incentive allocations/fees and management fees received in the ordinary course of business). To the extent a proposed cross trade may be viewed as a principal transaction due to the ownership interest in a Client by the Adviser or its Advisory Personnel, the Adviser will either not effect such transactions or comply with the requirements of Section 206(3) of the Advisers Act, including that the Adviser will notify the Clients (or an independent representative of the Clients) in writing of the transaction and obtain the consent of the Clients (or an independent representative of the Clients). In particular, the relevant investors have consented to, and the Adviser has formed, an independent committee to evaluate and pre-approve any transactions between (i) the Special Liquidity Vehicles or Special Investment Funds; and (ii) any other Client that is or may be principally owned.

From time to time, a Client may enter into a participation agreement, forward contract or other derivative granting an economic interest with respect to an investment in exchange for value to one or more other Clients in accordance with a pre-arranged allocation schedule. There are a number of reasons why the Adviser might pre-arrange an allocation where an investment opportunity is participated between or among the Clients at the time of an investment rather than allocate such investment directly to each participating Client. The Adviser does not consider such a pre-arranged participation arrangement between or among the Clients to constitute a cross trade for purposes of the Advisers Act.

See also response to Item 10(D).

**C. Investing in Securities That You or a Related Person Recommends to Clients.**

See response to Item 11(A).

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

The Adviser seeks to allocate investment opportunities in a manner that is fair and equitable to all advisory client accounts. When it is determined that it would be appropriate for more than one multi-strategy Client<sup>1</sup> to participate in a new investment (whether long or short), the Adviser generally will allocate such investment among such Clients *pro rata* in proportion to respective estimated net asset value as of the end of the prior day (the “Default Allocation”). For additions to existing positions, allocations among multi-strategy Clients also are generally made *pro rata* using the Default Allocation. The Default Allocation will be based upon (i) official net asset value using final month end prices for the last closed month; and (ii) the Adviser’s estimate of certain changes since the last closed month end, in particular: estimated profits and losses, expenses and fees accrued and any Fund Investor subscriptions and redemptions. In general, the Default Allocation will be updated daily.

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<sup>1</sup> As of the date hereof and other than as described in dedicated sections below, the only current multi-strategy Clients that are actively investing in new opportunities are the Family Office Funds, which typically invest through one master fund (QVT FO).

During periods leading up to a redemption date (or a sizeable notified subscription), the Adviser may calculate near-term expected net asset values, taking into account those anticipated Fund Investor capital movements (the “Next Default Allocation”). The Next Default Allocation may be used in lieu of the Default Allocation where a Portfolio Manager believes that the timing and rarity of the trading opportunity presents a circumstance where the more fair and equitable manner of allocation is forward-looking.

From time to time, the Adviser may elect to apply a Leveling Allocation in the course of executing a normal-course purchase pursuant to the Adviser’s investment thesis, as described below under the section headed “Rebalancing.”

For unwinds or closings of positions, allocations among the participating Clients are generally made *pro rata* based on the proportion of the positions held by each Client at the time of the unwind or closing.

From time to time, the Adviser may elect to apply a Leveling Allocation in the course of executing a normal-course sale pursuant to the Adviser’s investment thesis, as described below under the section headed “Rebalancing.”

The Quintessence Funds and the Special Liquidity Vehicles generally will not be allocated any new positions or increases to their existing positions unless such allocations are in connection with follow-on investments (*i.e.*, investments that are expected to preserve, protect or enhance an existing position in the Special Liquidity Vehicles or the Quintessence Funds). For unwinds or closings of positions held by only the Special Liquidity Vehicles, allocations among the Special Liquidity Vehicles are generally made *pro rata* based on the proportion of the positions held by each of the Special Liquidity Vehicles at the time of the unwind or closing. In situations where (i) the Special Liquidity Vehicles and/or the Quintessence Funds and (ii) one or more of the multi-strategy Clients both hold a certain position, with respect to unwinds or closings, the Adviser feels that no particular pre-set ratio or ratios (including *pro rata*) necessarily would be in the best interest of, most appropriate for, or most fair and equitable to the Special Liquidity Vehicles, the Quintessence Funds or the multi-strategy Clients, due to their differing mandates. Accordingly, all unwinds and closings of such positions will be evaluated on an *ad hoc* basis and therefore must be discussed with and pre-approved by a Managing Member and QVT Compliance.

To the extent that the Adviser determines that any opportunity is an appropriate investment opportunity for one or more Private Funds and the Proprietary Funds and/or Advisers, based on their respective portfolio compositions, risk tolerances and liquidity needs, the opportunity to invest will be allocated first among the Private Funds, in the manner described above. Prior to making a sale or disposition of, or withdrawal or redemption request from, an investment on behalf of the Proprietary Funds and/or Advisers, the Adviser will consider whether it would be appropriate for the Private Funds also to sell, dispose, redeem or withdraw, based on their respective needs and requirements. The Adviser’s compliance department will document the analysis of any such sale, disposition or withdrawal or redemption requests. If appropriate, then the Private Funds generally shall make such sale or disposition or withdrawal or redemption



requests *pro rata* with the Proprietary Funds and/or Advisers, based on their respective investment amounts in the investment. To the extent that the capacity for withdrawals or redemptions is limited with respect to a particular investment, such that aggregating the Proprietary Funds', Advisers' and the invested Private Funds' requests for withdrawal or redemption could result in the invested Private Funds' inability to fully liquidate their positions, the Adviser will first request withdrawals or redemptions for the invested Private Funds, on a *pro rata* basis, and only after the invested Private Funds' orders are filled will the Proprietary Funds and Advisers request their withdrawals or redemptions.

The Private Funds' existing investments and relationships based on such existing investments may generate new investment opportunities for the Private Funds, Advisory Personnel, the Advisers and the Proprietary Funds. If the Adviser determines, in its sole discretion, that such an investment would not be an appropriate investment opportunity for the Private Funds, then Advisory Personnel, the Advisers and/or the Proprietary Funds may nonetheless participate in such investment.

### Exceptions

In certain cases, allocations differing from the above descriptions, non-*pro rata* allocations (or no allocation at all), among the Clients may be made for a variety of reasons, including without limitation, the following: (i) in the case of a hedging transaction, to reflect the *pro rata* allocation at which the hedged position was initiated; (ii) the risk tolerance of a Client is greater than that of another Client (*i.e.*, a Client seeks more concentrated, longer-term, less liquid and/or more volatile positions); (iii) an investment is more appropriate for an existing or new investment account that focuses on a specific investment strategy/product type/sector niche; (iv) specific investment restrictions applying to investments by certain Clients and not others; (v) available cash and liquidity requirements may differ among the Clients (*e.g.*, disparity in degree of actual or targeted leverage of an account relative to other accounts); (vi) *pro rata* allocations would result in odd-lots or a *de minimis* allocation to one or more Clients; (vii) legal or regulatory considerations making it disadvantageous or impracticable to allocate an investment to a particular Client or imposing legal and/or regulatory burdens; (viii) to generate or avoid tax consequences, tax payments or undesirable tax compliance requirements, both U.S. and non-U.S., that may be unnecessarily burdensome for, or especially advantageous on an after-tax basis to, one or more Clients or Fund Investors and, as such, the Adviser may deem that the after-tax rewards or penalties are appropriate only for certain Clients. Additionally, certain investments may have different tax considerations for one or more Clients based on the timing or method of their purchase or sale, in which case, the Adviser may effect transactions with respect to such investments at different times or using different methods for different Clients. The Adviser will allocate based on its judgment of the potential tax considerations at such time and will not amend such investment allocations, even if, in hindsight, or if further information was available, it later appears a trade should have been allocated on a different basis. If appropriate and possible, the Adviser may make further non-*pro rata* allocations across similar investments traded contemporaneously with the tax burdensome trades if, when taken in aggregate, in the opinion of the Adviser, such non-*pro rata* allocations are

equitably distributed among the Clients; (ix) a Client provides specific directions with respect to the management of its portfolio including, for example, an accelerated liquidation of its investment positions or the avoidance of securities of a particular country or industry classification; (x) in the case of a follow-on investment, to allocate in accordance with the original allocation of the investment; or (xi) the Adviser's assessment of the administrative burden of an investment relative to the size of the applicable Client.

### Rebalancing

The Adviser may determine that the proportion of a certain position held by each of the multi-strategy Clients has diverged too significantly from the current Default Allocation or Next Default Allocation or desired leverage ratios or liquidity targets and may wish to address that divergence. Certain of these rebalancing trades may be motivated solely by changes in net asset value of the multi-strategy Clients where a sizeable redemption or subscription has been notified or taken place. In each of these circumstances, the Adviser may initiate rebalancing trades, where allocations among the participating multi-strategy Clients generally will be made *pro rata* based on the amount of divergence from the intended value.

With respect to the multi-strategy Clients, in general, the intention of rebalancing trades is to reduce, after the completion of all planned orders, inequivalent position concentration across each of the multi-strategy Clients, based on a fixed allocation percentage – generally, on the basis of net asset values, *i.e.*, the Default Allocation or the Next Default Allocation. At times, the fixed allocation percentages could reference leverage or liquidity targets of the multi-strategy Clients instead of net asset values. It may not be possible or practical, given market conditions or investment considerations, to achieve equivalent position concentrations, and in such cases the Adviser may utilize a Leveling Allocation to reduce inequivalent position concentration to the degree deemed appropriate by the Adviser, in its sole discretion. In order to achieve substantially equivalent position concentration (or reduce inequivalent position concentration, as the case may be), the Adviser may utilize a "Leveling Allocation," which seeks to equalize all participating multi-strategy Clients' exposure to a security as a percentage of each multi-strategy Client's net assets (or leverage or liquidity targets, as the case may be). Depending on the circumstances, the Adviser may apply a Leveling Allocation:

- (i) In a manner whereby the Client that is farthest from its intended position concentration (the most underweight in the case of position increases, or the most overweight in the case of position decreases) receives all of the order fills until that Client's ratio reaches the ratio of the next most underweight/overweight Client, then only those two Clients receive all of the order fills in tandem until they reach the ratio of the next most underweight/overweight Client, etc.; or
- (ii) In a manner whereby the allocation necessary to achieve equivalent position concentration, assuming the entire order quantity will be filled, is determined at the initiation of the order and is applied *pro rata* to each order fill (provided that a

Client may not participate in any one fill if its *pro rata* allocation is less than the applicable lot size).

The Adviser, in its sole discretion, will determine if, when and to what extent to rebalance portfolio positions of the multi-strategy Clients, taking into account myriad factors, including, but not limited to, divergence from intended values, liquidity of the instrument held and rarity of the opportunity to trade it, impact of position size or timing on the investment strategy and any special circumstances listed in the section above headed “Exceptions.” The Adviser may choose to rebalance positions via orders placed for that specific purpose, or, in instances where the Adviser feels doing so would be fair and equitable to all participating multi-strategy Clients, may choose to utilize a Leveling Allocation in the course of executing a normal-course purchase or sale pursuant to the Adviser’s investment thesis, provided however, that allocation shall be determined at the time of order placement. Any time that the Adviser utilizes a Leveling Allocation, it is likely that certain of the multi-strategy Clients will not participate in the relevant purchase or sale at all. Separately, the Adviser may determine not to rebalance a particular position if it deems such action to be in the best interest of one or more of the multi-strategy Clients and/or other Clients.

Except as described above, non-*pro rata* allocations must be approved by a Managing Member and the Adviser's compliance department. Situations may occur where Clients could be disadvantaged because of the investment activities conducted by the Adviser and resulting allocations for other Clients. A Client's positions may not be *pro rata* to those of other Clients.

Inadvertent deviations from our trade allocation policies, in the event that they are not identified in time to correct before settlement, are not trade errors unless a security has been allocated to a Client for which it is not suitable. In a circumstance where a security has been allocated to a Client for which it is suitable, but was not allocated consistent with the Adviser’s policies and/or the intentions of the Portfolio Manager, the appropriate remedy, if any, will be determined by a Managing Member (if not the Portfolio Manager), the Portfolio Manager and QVT Compliance. The Adviser will seek to address such situations in the most fair and equitable manner possible.

See also response to Item 11(A).

## **ITEM 12**

### **BROKERAGE PRACTICES**

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

The Adviser has complete discretion in deciding which brokers and dealers the Clients will use and in negotiating the rates of compensation the Clients will pay for the Clients' securities transactions. The Adviser will effect transactions with broker-dealers ("Brokers") that (with respect to U.S. securities) are registered with the SEC and are members of the Financial Industry Regulatory Authority. In selecting Brokers to effect portfolio transactions for a Client, the Adviser take into account the relative importance of the execution factors listed below, as applicable, in addition to any other relevant factors, against the characteristics of the particular order and the available execution venues or intermediaries to which that order can be directed: the price, the ability and expertise to source the specific securities or sectors in which the Adviser seeks to trade; the liquidity of the market for the security; the willingness to provide margin debt or leverage; the service and the timeliness and cost of execution; the ability to maintain confidentiality/anonymity; the financial strength, integrity, reputation and stability; the quality, comprehensiveness, timeliness, and frequency of available research and market information provided; the ability to execute transactions (and commit capital) of size in liquid and illiquid markets without disrupting the market for the security; the adequacy of trading and operational infrastructure, technology and capital; the ability and willingness of the counterparty to correct its own errors; the ability to accommodate any special execution or order handling requirements that may surround a particular transaction; responsiveness; and the nature of the security and available market makers.

The Adviser has created a Trade Oversight Committee charged with the responsibility of evaluating the overall value of the Clients' Brokers and counterparties and making recommendations for the allocation of future business.

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

It is not the Adviser's practice to negotiate "execution only" commission rates; thus the Adviser, in paying commissions, may be deemed to be using "soft dollars" for research, brokerage or other services provided by a Broker. The Adviser may consider the value of any research when selecting Brokers to execute a Client's transactions. However, the Adviser does not enter into commission-sharing arrangements where excess commission paid to one dealer is used to buy research for another vendor. The Adviser does not use "soft" dollars to pay for trading-related hardware and software (e.g., Bloomberg terminals). The level of commissions versus the total value of services may be reviewed by the Trade Oversight Committee.

Generally, the use of commission or "soft" dollars to pay for research products or services falls within the safe harbor created by Section 28(e) of the U.S. Securities

Exchange Act of 1934, as amended. It should be noted, however, that the Adviser may receive “soft” dollars to pay for research products or services in connection with its futures transactions, which “soft” dollar arrangements may not be within Section 28(e)’s safe harbor. The Adviser or its Affiliates have not entered into written soft dollar arrangements.

The provision by a Broker of research and other services and property to the Adviser creates an incentive for the Adviser or its Affiliates to select such Broker since the Adviser and its Affiliates would not have to pay for such research and other services and property as opposed to solely seeking the most favorable execution for a Client. Any research, services or property provided by a Broker may benefit any Client of the Adviser and such benefits may not be proportionate to commission dollars spent by such Client to obtain such research, services or property.

## 2. Brokerage for Client Referrals

As discussed above, subject to best execution, the Advisers may consider, among other things, capital introduction, marketing assistance and other services or items in selecting broker-dealers for Client transactions.

## 3. Directed Brokerage

The Adviser does not recommend, request or require that a Client direct the Adviser to execute transactions through a specified broker-dealer.

# **B. Aggregated Orders for Various Client Accounts.**

The Adviser generally executes transactions on an aggregated basis, because the Adviser believes that doing so allows it to obtain best execution, to negotiate more favorable commission rates or other transaction costs than it might have otherwise paid had such orders been placed independently, and to provide the most fair allocation to the Clients. The Adviser will aggregate orders unless aggregation is inconsistent with the investment guidelines and restrictions of each Client for which trades are being aggregated. Each Client that participates in an aggregated order will participate at the average price for all of the Adviser’s transactions in that security on a given business day, with transaction costs shared *pro rata* based on each Client’s participation in the transaction. Similarly, if an order on behalf of more than one Client cannot be fully executed under prevailing market conditions, the investment will be allocated among the Clients on a basis that the Adviser considers equitable. The Adviser will not reallocate or rebalance filled orders to reflect changes in the current proportion of net asset value of a Client, unless such reallocation or rebalancing is approved by a Managing Member and reviewed by the Chief Compliance Officer (the Adviser may, however, choose to rebalance certain positions of the multi-strategy Clients by means of applying a “Leveling Allocation” (as described in Item 11.D.) at the time it places an order (as opposed to after the order is filled).

Despite the Adviser's best intentions and efforts to avoid them, trade errors may occur as a result of mistakes made on the part of an executing broker or the Adviser or its Affiliates, including, but not limited to, its portfolio managers and traders. The Adviser's Trade Error Policy and Procedures seek to ensure that all trade errors are corrected in an expeditious manner and that the losses, if any, are borne appropriately. The Adviser's Trade Oversight Committee may scrutinize trade errors elevated by the Chief Compliance Officer, with a view toward identifying any patterns, providing guidance and supervision and, when appropriate, implementing further procedures to prevent or discourage errors. Trade errors are corrected by the Adviser as soon after discovery as is reasonably practicable, and in such a manner as to mitigate any profit and loss as a result of trade errors. The Adviser strives to correct all trade errors prior to settlement.

Any profit that results from a trade error is left in the account of the applicable Client. Similarly, the Clients (and not the Adviser) will be responsible for any losses resulting from trade errors and similar human errors, absent the fraud, willful misconduct or gross negligence of the Adviser.

To the extent a trade error is caused by a counterparty, such as a broker, the Adviser generally will attempt to recover any loss associated with such error from such counterparty, if the Adviser, in its sole discretion, determines that it would be in the best interest of a Client to attempt such recovery, taking into consideration various factors, including, but not limited to, such Client's and/or the Adviser's ongoing relationship with such counterparty, the likelihood of obtaining such recovery, the capital position of such counterparty, and, where such counterparty executed the relevant trade on an agent or riskless principal basis, the extent to which it can recover from its counterparty on the other side of the trade.

Inadvertent deviations from our trade allocation policies, in the event that they are not identified in time to correct before settlement, are not trade errors unless a security has been allocated to a Client for which it is not suitable.

Trade errors might include, for example, (i) the placement of orders (either purchases or sales) in excess of the amount of securities the Adviser intended to trade on behalf of the Clients; (ii) the sale of a security when it was intended to have been purchased; (iii) the purchase of a security when it was intended to have been sold; (iv) the purchase or sale of the wrong security; (v) typographical or drafting errors related to derivatives contracts or similar agreements; (vi) the purchase or sale of a security contrary to regulatory restrictions or investment guidelines or restrictions of the Clients or the Adviser; and (vii) the allocation of a security to an account for which it is not suitable. Given the nature of the Clients' business, investors are advised that trade errors (and similar errors) will occur and that the Clients, in such cases, will be responsible for any resulting losses, even if such losses result from the negligence (but not gross negligence) of the Adviser or its Affiliates.

## **ITEM 13**

### **REVIEW OF ACCOUNTS**

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

The Adviser performs various daily, weekly, monthly, quarterly and periodic reviews of each Client's portfolio. Such reviews are conducted by the members of the Adviser's investment team (in particular, the Investment Committee, as well as all portfolio managers and investment analysts) and members of the Adviser's Risk Committee.

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

A non-periodic review of a Client account may be triggered by any unusual activity or special circumstances.

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

All Fund Investors receive from the Adviser or its Affiliates annual audited financial reports. Investors in the Special Liquidity Vehicles, the Special Investment Funds, QVT Fund and the Roiv Funds may receive quarterly update reports providing summary performance and other information. Investors in Fourth Avenue FF do not receive account reports (other than annual audited financial statements) on any predetermined schedule. Investors in certain other Private Funds may receive the following reports from the Adviser:

- *Performance Information*: monthly unaudited information regarding the Private Fund's performance and the NAV of the Private Fund, generally within several business days of the end of each month (the Adviser will use its reasonable best efforts to send such information within five business days of the end of each month);
- *NAV Statements*: monthly statements reflecting the value of a Fund Investor's interests; and
- *Financial Statements*: annual audited financial statements, prepared in accordance with GAAP.

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

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

The Adviser does 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 the Adviser nor any related person directly or indirectly compensates any person for Client referrals. However, the Adviser or its affiliates may in the future enter into arrangements with third party placement agents or distributors to solicit Fund Investors and such arrangements will generally provide for the compensation of such persons for their services at the Adviser's expense.



## **ITEM 15**

### **CUSTODY**

All Clients, with the exception of QVT Fund and the Special Investment Funds, are pooled investment vehicles which are subject to annual audits and which deliver audited financial statements to their respective investors within 120 days of the applicable fiscal year-end. QVT Fund and the Special Investment Funds are pooled investment vehicles which are subject to annual audits and which deliver audited financial statements to their respective investors within 180 days of the applicable fiscal year-end. Investors should carefully review the financial statements.

## **ITEM 16**

### **INVESTMENT DISCRETION**

The Adviser or its Affiliates have been appointed as the investment manager, management company, manager or general partner of the Clients with discretionary trading and investment authorization. Each of the Adviser or its Affiliates has full discretionary authority with respect to investment decisions, and its advice with respect to the Clients is made in accordance with the investment objectives and guidelines as set forth in the Clients' respective private placement memoranda, if any, investment management agreement or other organizational document. The Adviser or its Affiliates assume discretionary authority to manage the Clients through the execution of investment management agreements or through the organizational documents of the Clients (*e.g.*, limited partnership agreements).

## **ITEM 17**

### **VOTING CLIENT SECURITIES**

Rule 206(4)-6 under the Advisers Act requires registered investment advisers that exercise voting authority over client securities to implement proxy voting policies. In compliance with that rule, the Advisers have adopted proxy voting policies and procedures (the “Proxy Policies”). The Proxy Policies provide that the Adviser shall use reasonable care and diligence to monitor corporate events that call for exercise of a vote, and to cast votes in a manner that it believes is in the Clients' best interest and ultimately maximizes the value of the Clients' investments. While the decision whether or not to vote a proxy must be made on a case-by-case basis, the Adviser generally does not vote a proxy if it believes the proposal is not material to the investment strategy employed on behalf of the relevant Client or the proposal is relating to issuers in which the size of the positions held on behalf of the relevant Client(s) is relatively small. In the situations where the Adviser does vote a proxy, the Adviser generally votes proxies in accordance with specified guidelines set forth in the Proxy Policies. It is possible that conflicts (or appearance of conflicts) may arise between the interests of the Clients, on the one hand, and the interests of the Adviser and its Affiliates, on the other, in voting a proxy. It is also possible that such a conflict (or appearance of a conflict) may arise between Clients or between one or more Clients and the Proprietary Funds and/or Advisers. The Adviser will endeavor to identify any such conflicts and address matters involving such conflicts as follows:

(1) The portfolio manager is responsible for bringing any proxy vote that the portfolio manager determines may involve a conflict (or an appearance of a conflict) to the Adviser's Chief Compliance Officer and General Counsel, who will decide whether the vote should be elevated to the Managing Members of the Adviser. A vote will be elevated to the Managing Members when the Adviser's Chief Compliance Officer and General Counsel determine that (a) the vote involves a conflict (or appearance of a conflict) between the Adviser(s) and its Client(s) or (b) the vote involves a conflict (or perceived conflict) between Clients or between one or more Clients and the Proprietary Funds and/or Advisers. When a vote is elevated to the Managing Members, at least one Managing Member, in consultation with the Adviser's Chief Compliance Officer and General Counsel, will decide the final voting instructions. The Managing Members will base all voting decisions on their judgment of what will best maximize value for the Clients that beneficially own the securities or investment that are the subject of the vote.

(2) The Adviser's compliance and legal departments also will seek to identify conflicts or apparent conflicts by:

(a) review to determine whether any of the following are corporate entities that may be the subject of a proxy vote:

(i) investors in the Clients managed by the Adviser;

(ii) other parties that have a material relationship with the Adviser (for example, the Adviser's prime brokers and regular market counterparties); and

(iii) public companies whose representatives may be deemed to have a close personal relationship to Advisory Personnel.

(b) periodic review of the information reported annually by the Advisory Personnel, together with any updates to such information, provided pursuant to the Adviser's procedures regarding Advisory Personnel's relationships with participants in proxy contests, corporate directors or candidates for directorships (for example, a partner of the Adviser may have a spouse or other close relative who is standing for election as a corporate director for a company in which a Client is invested).

(3) If the Adviser's compliance and legal departments identify any conflict or apparent conflict in connection with a particular investment, the Adviser's compliance and legal departments will inform the portfolio manager responsible for the investment and any vote in connection with such investment will be handled in accordance with paragraph (1) above.

(4) In certain cases, in consultation with the Adviser's compliance and legal departments, the portfolio manager or the Managing Members of the Adviser may determine that the Adviser should seek the advice of an independent third party regarding the voting of a proxy.

Clients may request a copy of the Proxy Policies and/or information regarding the manner in which the Adviser has voted with respect to any particular proxy by contacting the Adviser.

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

The Adviser is not required to include a balance sheet for its most recent financial year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to the Clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.