

## Item 1: Cover Page

# Dynamic Capital Management Limited Form ADV, Part 2A (the “Brochure”)

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March 29, 2019

This Brochure provides information about the qualifications and business practices of Dynamic Capital Management Limited (“Dynamic”). If you have any questions about the contents of this Brochure, please contact us at +1-212-246-9000 or [mail@dynamicfunds.com](mailto:mail@dynamicfunds.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

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

Dynamic is registered with the SEC as an investment adviser. Registration as an investment adviser does not imply a certain level of skill or training.

Registered in Jersey No 100556

Regulated by the Jersey Financial Services Commission for the conduct of Fund Services Business

## **Item 2: Material Changes**

The Brochure dated March 29, 2019 is Dynamic's annual updating amendment. Since our last annual updating amendment in March 2018, we have made no material changes. However this Brochure reflects recent updates to our business, including recent reorganization.

Currently, our Brochure may be requested by contacting the chief compliance officer, at +1-212-246-9000 or [mail@dynamicfunds.com](mailto:mail@dynamicfunds.com).

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## **Item 4: Advisory Business**

Dynamic, a corporation formed pursuant to the laws of the Island of Jersey, is owned by Mr. Camille Hayek and has acted as an investment advisor under the direction of Mr. Hayek since August 1, 2008. Prior thereto, Dynamic Capital Management LLC, a Delaware limited liability company (“DCM”) and a 100%-owned subsidiary of Dynamic, acted as the investment advisor to Dynamic’s clients, also under the direction of Mr. Hayek, from June 1999 through July 2008 and DCM continues to provide certain support services to Dynamic. Dynamic is also the 100% owner of Dynamic Capital Partners LLC, a Delaware limited partnership (“DCP”), and the 100% owner of Dynamic Capital Management (UK) Limited, a private limited company incorporated under the laws of England and Wales (“DCM-UK” and together with Dynamic, DCM and DCP the “Dynamic Group”).

Dynamic currently provides investment management services on a discretionary basis to one client: an offshore private fund. Dynamic’s client is a privately offered fund that is excluded from the definition of “investment company” pursuant to section 3(c)(7) of the Investment Company Act of 1940, as amended (the “1940 Act”). As noted above and more fully described in the fund’s offering document, DCM provides certain support services to Dynamic and its clients pursuant to a services agreement with Dynamic. DCM-UK and DCP are currently inactive. Dynamic does not manage client assets on a non-discretionary basis and does not offer wrap fee accounts.

Dynamic is a systematic manager that uses advanced quantitative and computational techniques to develop and execute trading strategies in long/short equities and futures. Dynamic’s investment approach is based on a rigorous mathematical framework, leverages extensive computing power and places a high degree of emphasis on research. All modeling and software development is conducted internally. The investment process consists of attempting to identify statistically robust patterns in financial instruments and a systematic execution intended to “monetize” a quantitative edge while enforcing a strict risk management framework. A high volume of small size trades across multiple strategies contributes to the overall performance. Please see Item 8: Methods of Analysis, Investment Strategy and Risk of Loss for additional information.

Dynamic’s strategy is designed to seek substantial return on capital through trading, on United States and non-United States exchanges and/or off-exchange, in (i) security interests including equity securities and contracts for differences (“CFDs”) with respect to equity securities and security indices and (ii) commodity interests including futures contracts, options and forward contracts. Dynamic is currently trading a portfolio of futures contracts on fixed income instruments, stock indices, currencies and physical commodities, and a portfolio of long/short equities and derivatives thereon on exchanges in the U.S., Europe and Asia for its client.

Dynamic has the exclusive responsibility for selecting the security interests and commodity interests to be purchased or sold for client accounts. There are no limitations or restrictions other than what is disclosed in the clients’ offering documents (if applicable) or imposed in writing by a client. Dynamic’s investment advice is provided directly to its clients and not individually to the clients’ owners/investors. Dynamic does not tailor its advisory services to the individual needs of its clients’ owners/investors.

As of December 31, 2018, Dynamic managed \$ 30,276,796 (net) on a discretionary basis on behalf of its client.

This Brochure and the material contained herein are not meant to be, nor shall it be construed as, an offer or solicitation of an offer for the purchase or sale of securities of Dynamic's clients.

## **Item 5: Fees and Compensation**

Dynamic's fees and other client expenses are described below and in greater detail in the governing documents specific to each client (such as its offering document).

### **Management Fees**

For providing investment advisory services, Dynamic currently receives from its client an asset-based monthly management fee that ranges from 1/8 to 1/12 of 2% (1.5% to 2% per year) of the month-end adjusted net asset value of the client. For purposes of calculating the management fee, net asset value is determined before any incentive fee (as described below) is made to Dynamic or its affiliates and is not reduced by the current month's management fee. The management fee is payable monthly in arrears.

The management fee is non-negotiable. Dynamic may, however, in its sole discretion, waive payment by clients of some or all of such management fees. Dynamic and certain of its affiliates and related parties are not subject to management fees.

### **Incentive Fee**

Dynamic and its affiliates are currently entitled to receive a performance-based incentive fee from its client payable annually in arrears equal to 20% of the trading profits as of the end of each quarter, subject to a "high water mark" and adjusted for any intra-period redemptions by clients' owners. Trading profits include both realized and unrealized profits and losses and are defined more specifically in the management agreement with each client.

The incentive fee is non-negotiable. Dynamic or its affiliate may, however, in their sole discretion, waive payment by the client of some or all of the incentive fee. Dynamic and certain of its affiliates and related parties are not subject to incentive fees.

### **Other Fee Information**

Dynamic's management and incentive fees are charged as set forth in each client's management agreement with Dynamic. For the current client, these fees are calculated independently by the client's administrator in accordance with the client's offering documents and the relevant calculation is sent to the Dynamic Group for review and approval. Once approved, client is billed for fees owed (monthly in the case of management fees and annually in the case of the incentive fees) and such fees are deducted from client accounts.

None of the Dynamic Group's entities or employees receives compensation for the sale of securities or other investment products.

## Other Expenses

Clients are subject to additional expenses in addition to the management and incentive fee paid to Dynamic and/or its affiliates. These include, but are not limited to:

- Ongoing administrative and offering costs such as ordinary and extraordinary legal, accounting, administrative and auditing fees, operating expenses as incurred such as costs of printing and mailing monthly, annual, tax and other reports and notices, expenses of offering interests in certain clients, insurance costs, charges of the registered agent, governmental filing fees, regulatory expenses, directors fees (if applicable), listing expenses, and taxes; and
- Transaction costs associated with trading and investment activities such as brokerage commissions, prime brokerage fees, execution, give-up, brokerage, floor, exchange, clearing and regulatory fees, NFA fees, user fees, exchange data fees and related costs and expenses, option premiums and other transaction costs and expenses, delivery and custody expenses, bank, broker and dealer service fees, interest and borrowing charges on margin accounts, borrowed money and other indebtedness, and related expenses and costs. Additional information regarding Dynamic's brokerage practices is disclosed in Item 12: Brokerage Practices.

## **Item 6: Performance-Based Fees and Side-by-Side Management**

For a description of performance-based fees charged by Dynamic, see Item 5: Fees and Compensation.

Mr. Hayek is the sole owner and a director of Dynamic, which will receive the asset-and performance-based fees from its clients described in Item 5: Fees and Compensation. The Dynamic Group and/or Mr. Hayek may, therefore, have a conflict of interest in that they may have an incentive to favor the account of a client for which they will receive a higher performance-based fee, or to favor proprietary accounts. However, Dynamic does not anticipate conflicts of interest in connection with the side-by-side management of its accounts. Please refer to the discussion of Aggregated Trades in Item 12: Brokerage Practices for additional information.



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

As disclosed in Item 4: Advisory Business, Dynamic's current client is a private fund.

The minimum account size for an investor in a Dynamic client is \$1,000,000, which, subject to certain limits, may be waived by the client's board of directors/general partner.

Please see the offering document of each client for additional information.

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

Mr. Hayek, Dynamic's portfolio manager, supervises a team of IT research analysts to develop Dynamic's trading and order execution models and infrastructure. As previously noted, all research and development is conducted internally. Please see Item 4: Advisory Business for additional information.

Dynamic focuses on managing capital primarily in security interests and commodity interests through the use of computerized quantitative programs. It has a multi-strategy investment process based on quantitative trading models. These models are supported by a strong theoretical framework implemented through a robust technology solution. Dynamic is currently trading a portfolio of equity securities and futures contracts, as well as contracts for differences ("CFDs") on non-U.S. equity securities as defined later in this section. All equity securities and futures transactions are effected on U.S. and non-U.S. securities and futures exchanges. CFDs on equity securities and indices are principal transactions and will be entered into with counterparties, including the clients' prime broker(s) and other broker/dealers. Foreign currency trading is conducted in the interbank market or on the appropriate U.S. futures exchange. When appropriate, interbank positions may be exchanged for futures positions via the exchange-for-physicals mechanics of the various exchanges. Equities are traded on a margined basis and through enhanced leverage arrangements with the clients' prime brokers.

Although Dynamic normally follows a disciplined systematic approach to trading, on occasion it may override the signals generated by its models. Such modifications may not necessarily achieve beneficial results. Dynamic reserves the right to change trading methods and strategies and to modify models currently in use (including technical and fundamental trading factors or analyses, instruments or contracts traded and/or risk management principles utilized) at any time without prior notice to or approval by Dynamic's clients.

Risk is managed by using a combination of quantitative and operational measures. For example, the portfolio construction follows a strict framework encompassing instrument diversification, market neutrality by geography for the equities component as well as an overall target cap on Value at Risk and specific target caps on Value at Risk per instruments. Furthermore, Dynamic has developed an automated order execution and trade reconciliation platform to reduce human error and execution risk.

Dynamic intends to engage mainly in short-term trading on behalf of its clients. As a result, client portfolios may incur significant turnover and, consequently, increased transaction costs such as brokerage commissions. In addition, it is likely that income derived by clients will be classified as ordinary income/loss and/or short-term capital gain/loss for U.S. federal income tax purposes. See Item 12: Brokerage Practices for a description of brokerage related costs.

All investing involves risks, including loss of principal, and clients should be prepared to bear such risks. Advisory clients should be aware that many factors affect the value of their accounts and investment performance and should consider the risks, including the risks set forth below although the following does not purport to be a complete explanation of all of the risks involved in investing.

## **I. General Risks**

### **1. Clients May Incur Losses On Their Investment**

There can be no assurance that Dynamic will be able to generate positive returns for its clients or that any returns will be commensurate with the risks of investing in the types of transactions described herein. Futures markets and certain other markets in which clients invest are highly volatile. Market prices can be influenced by, among other things, changing supply and demand relationships, governmental, agricultural, commercial and trade programs and policies, national and international political and economic events, weather and climate conditions, insects and plant disease, purchases and sales by foreign countries and changing interest rates. Participation in a market that is highly volatile could produce substantial losses for clients and could result in the loss of some or all of the investment.

### **2. Systemic Risk**

Severe weakness in the financial system, or the prospect of severe weakness, may adversely affect clients or counterparties of the clients and may result in losses. Such weakness or prospect of weakness could trigger a liquidity event, even if the adverse prospect was never realized. Or, a liquidity event itself could present systemic risk, regardless of its cause. Such a liquidity event might cause partial or total loss of capital. A client's use of leverage, borrowings and short selling will increase its exposure to systemic risk, and neither Dynamic nor the client attempts to hedge against such risk.

### **3. Cyber Security Breaches and Identity Theft**

Dynamic, its clients, their brokers, FCMs, administrators and other service providers, the clearing systems and/or counterparties relied on for trading by clients and the companies in which the clients invest each have information and technology systems that 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 their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Although Dynamic 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, any such parties may incur specific time or expense to fix or replace them and to seek to remedy the effects of such issues. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in the operations of such parties 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). Such a failure could lead to significant financial loss, harm the reputation of such parties, could subject any such entity and its respective affiliates to legal claims or could otherwise affect their business and financial performance.

### **4. Trade Errors**

Although Dynamic and its affiliates (as applicable) exercise due care in making and implementing investment decisions, errors may occur from time to time with respect to trades made by Dynamic or its affiliates on behalf of the clients. Such errors could result from improper confirmation, settlement, booking, evaluation of or accounting for investment transactions or from

miscommunications with or between brokers, FCMs, counterparties and personnel of Dynamic and its affiliates, among other sources. A client would bear any losses or gains due to such errors on trades made on the client's behalf. Additionally, absent the gross negligence or intentional misconduct by Dynamic and its affiliates, a client will not be entitled to seek recovery from Dynamic of any losses resulting from such errors.

## **II. Risks Relating to the Structure of the Clients and Dynamic**

### **5. Dynamic's Reliance on a Single Principal**

To a significant extent, the profitability of a client account depends upon Mr. Hayek's ability to implement, expand and adjust Dynamic's trading and execution programs. If for any reason Dynamic were to lose the services of Mr. Hayek, the effectiveness with which Dynamic provides portfolio management services to client accounts could be materially reduced.

### **6. Charges to the Clients**

The clients bear management fees and their trading and operating expenses, as described in Item 5: "Fees and Compensation", regardless of whether the client realizes profits. Each client account will also bear any extraordinary expense or liability relating to its affairs. In the future, Dynamic may trade more or less frequently, thereby generating more or less commissions, and may charge different fees, thereby increasing or decreasing the percentage of the net assets used for such expenses.

### **7. Client's Performance May Be Hindered by Increased Competition for Positions**

Assets in managed futures have grown from an estimated \$300 million in 1980 to over \$348 billion in 2017. This has resulted in increased trading competition. Since futures are traded in an auction-like market, the more competition there is for the same contracts, the more difficult it may be for Dynamic to obtain the best prices for its client accounts. Dynamic has adopted an allocation methodology which is designed to promote fairness among its client accounts. However, such allocations or liquidations may benefit another client over another or may be detrimental to a client.

## **III. Risks of Specific Instruments and Trading Strategies**

### **8. Limitations of Systematic Trading Strategy**

Dynamic normally follows a disciplined, systematic approach to trading based on proprietary quantitative trading models. As with any model, there are inherent limitations on the models used by Dynamic. Such models are incomplete and may provide inaccurate forecasts, particularly when these models incorporate inaccurate assumptions or input data. In addition, quantitative trading models may be susceptible to flaws or reduced effectiveness due to market changes, including changes in market structure, government intervention in markets or an increase in similar models being used as part of others' trading strategies, among other factors. As a result of such limitations, the models used by Dynamic may fail to generate profitable signals and the clients may suffer a loss.

In addition, the clients are subject to the risk that any quantitative trading models used to generate trading signals may not perform as intended. Issues with the design, development, implementation, maintenance or operation of the model, any component of the model; or any process or procedure related to the model may cause losses to the clients, which may be substantial. These issues could be caused by a number of factors, including but not limited to hardware or software malfunctions, programming errors, software bugs or viruses, technological failures, or errors of interpretation of the model's output. Such failures may be due to third-party service providers or other factors outside of Dynamic's control. Such issues may be difficult to detect and may cause negative consequences that compound over time. See "Cyber Security Breaches and Identity Theft" above.

## **9. Turnover**

Since the clients may engage in short term trading, the clients' portfolios might incur a significant turnover rate and significant brokerage commissions.

## **10. Equity Securities**

The client accounts may invest in equity securities. The value of these securities generally will vary with the performance of the issuer and movements in the equity markets. As a result, a client account may suffer losses if it invests in equity securities and equity-like securities of issuers whose performance diverges from Dynamic's expectations or if equity markets generally move in a single direction against the client's positions and the client has not hedged against such a general move.

Since the client accounts have limited restrictions relating to the diversification or concentration of their investments, the client accounts may be more vulnerable to losses due to events affecting a particular issuer or particular economic, political, regulatory or other developments than would be a more diversified portfolio. The client accounts may conduct their investment activities on a purely speculative basis. Any portion of the clients' assets may be invested in high-risk securities, which are especially subject to changes in general economic conditions, in the financial condition of their issuers and in interest rates. In addition, although the securities which the client accounts acquire are traded on public exchanges, each exchange typically has the right to suspend or limit trading in all securities that it lists. Such a suspension could render it difficult or impossible for the client to liquidate its positions and would thereby expose the client to losses. The client therefore may be locked into an adverse price movement for several days or more which may result in immediate and substantial loss to the investor.

## **11. Short Sales**

The clients may engage in "short sales" (i.e., the sale of a security that the client does not own in the hope of purchasing the same security at a later date at a lower price) in which there is no limit to the amount of potential loss. A client will incur a loss as a result of a short sale if the price of the security increases or does not decline sufficiently to cover transaction costs between the date of the short sale and the date on which the clients covers its short position (i.e., purchases the security in the open market). The client will realize a gain if the security declines in price between these dates by an amount sufficient to offset net expenses of the short sale. A short sale involves a risk of a theoretically unlimited loss occasioned by an increase in the market price of the security that is the subject of the short sale.

Short selling activities are also subject to restrictions imposed by the U.S. federal securities laws and the various international, national and regional securities exchanges, which restrictions could limit the investment activities of the clients.

In addition, many jurisdictions have imposed restrictions and reporting requirements on short selling. In September 2008, the SEC temporarily suspended short selling on stocks of over 950 publicly traded companies. In July 2009, the SEC adopted a rule that requires broker-dealers to promptly purchase or borrow securities to deliver on a short sale. In February 2010, the SEC adopted a rule restricting the price at which securities may be sold short when the price of the security decreases by a certain percentage.

On November 1, 2012, the European Union ("EU") Regulation on Short Selling and Certain Aspects of Credit Default Swaps (the "EU Short Selling Regulation") became directly applicable in all EU member states. The EU Short Selling Regulation applies to short sales of, and short positions relating to: (1) shares admitted to trading on a regulated market or multilateral-trading facility in the EU (unless the principal trading venue for the relevant shares is located in a country outside the EU) ("EU listed shares"); and (2) debt instruments issued by an EU sovereign issuer ("EU sovereign debt"). The EU Short Selling Regulation imposes certain disclosure obligations in respect of net short positions in EU listed shares and EU sovereign debt which apply to all position holders, irrespective of their location, and contains prohibitions on uncovered or "naked" short sales of EU listed shares and EU sovereign debt. In addition, the EU Short Selling Regulation prohibits uncovered positions in credit default swaps referencing EU sovereign debt issuers ("naked CDS"). EU member state regulators, and in some circumstances the European Securities and Markets Authority ("ESMA"), are able to take emergency measures (including complete bans on short-selling activities) if certain conditions are met.

The restrictions and reporting requirements that are currently in place and any regulation that may be enacted with respect to short selling may prevent Dynamic from expressing its negative views in relation to certain issuers and, accordingly, may constrain its ability to implement the investment approach and fulfill the investment objectives of the client.

## **12. Use of Leverage and Securities on Margin; Borrowing**

The clients employ leverage to enable them to make investments substantially in excess of their equity. They reserve the right to use as much borrowing and leverage as permitted under applicable law and under limits imposed by the clients' brokers. Inability of a client to secure borrowings could adversely impact the client's ability to execute its investment strategy. In addition, a client may not be able to borrow on terms favorable to the client account and/or terms comparable to terms obtained by other private investment funds, including with respect to interest rates. Any costs of incurring or maintaining leverage, including interest, will be borne by the client. Any government or regulatory activity restricting the use of leverage may have a significant adverse effect on the client account. Although the use of leverage may increase the opportunity for a higher return on investment, it also increases the risk and potential magnitude of losses.

The client accounts are authorized to borrow money from banks and other entities. They may use the proceeds of such borrowings for temporary or emergency purposes. No assurance can be given that the client will be able to borrow on terms acceptable to it.

### 13. Derivatives

Derivative financial instruments, collectively referred to herein as “derivatives”, include, without limitation, futures, equity options, non-equity options such as options on futures contracts and on commodities, interest rate swaps, forward currency contracts, CFDs, and credit derivatives such as credit default swaps (“CDS”).

The trading of derivatives subjects the client accounts to a variety of risks including: 1) counterparty risk; 2) basis risk; 3) interest rate risk; 4) settlement risk; 5) legal risk; and 6) operational risk. Counterparty risk is the risk that one of the client’s counterparties might default on its obligation to pay or perform generally on its obligations. Such counterparty risk is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a client has concentrated its transactions with a single or small group of counterparties. Basis risk is the risk attributable to the movements in the spread between the derivative contract price and the future price of the underlying instrument. Interest rate risk is the general risk associated with movements in interest rates. Settlement risk is the risk that a settlement in a transfer system does not take place as expected. Legal risk is the risk that a transaction proves unenforceable in law because it has been inadequately documented. Operational risk is the risk of unexpected losses arising from deficiencies in a firm’s management information, support and control systems and procedures. Transactions in derivatives may also involve other risks as discussed under “U.S. Regulation of Derivatives”, “European Regulation of Derivatives” and “Regulatory Changes Could Restrict the Client’s Operations and Increase the Costs of Operation.”

**Clearing.** Derivatives may be “exchange-traded” or may be traded over-the-counter (“OTC”). Exchange-traded derivatives generally are cleared through a central clearinghouse. OTC derivatives can be cleared (i.e., executed through an OTC derivatives dealer intermediary that is registered with the CFTC or SEC to act as a clearing member of a central clearinghouse) or not cleared (i.e., executed on a bilateral basis between two contracting parties). With respect to any OTC transaction that is not cleared, a client is exposed to the credit risk of each counterparty. With respect to cleared derivatives, a client is exposed to credit risk of the clearing member as well as the indirect credit risk of the clearinghouse.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd Frank”) grants the CFTC authority to regulate OTC options and swaps contracts (see “U.S. Regulation of Derivatives” below). However, until the CFTC’s rules are fully implemented, client accounts’ trading of such instruments may not be regulated by the CFTC and not all of the protections provided under CFTC regulations will apply. Once the CFTC rules regulating swaps under Dodd Frank are fully implemented and following requirements to trade additional derivatives on an exchange and to clear them, clients may be subject to increased costs in connection with trading such instruments.

**Futures.** Client accounts engage in trading of futures and may engage in trading of options on futures. Futures contracts are exchange-traded and “marked-to-market” each day. Futures markets are highly volatile and are influenced by factors such as changing supply and demand relationships, governmental programs and policies, national and international political and economic events and changes in interest rates.

**Futures trading is speculative and highly leveraged.** A high degree of leverage is typical of a futures trading account because of the low margin deposits normally required in futures trading. As a result, a relatively small price movement in a futures contract may result in substantial losses to the client. Moreover, because exchange-traded futures positions are marked-to-market each day, variation margin payments must be paid to or by the account. Good faith or margin deposits normally required in commodity futures trading may range from 1% to 25% of the face value of the contract. Dynamic estimates that between approximately 1% and 30% of its clients' assets may generally be committed to margin. As a result of this leverage, a small change in the market price of a contract can produce major losses for the clients. For example, \$3,000 in margin may be required to hold one U.S. Treasury Bond contract with a face value of approximately \$100,000. Thus, a \$3,000 or three percent (3%) decrease in the value of that contract would cause a total loss of the margin deposit (assuming the position is long).

**Futures trading may also be illiquid.** Most commodity exchanges limit fluctuations in commodity futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." During a single trading day, no trades may be executed at prices beyond the daily limit. Once the price of a futures contract has increased or decreased by an amount equal to the daily limit, positions in such contract can be neither taken nor liquidated unless traders are willing to effect trades at or within the limit. Commodity futures prices have moved the daily limit for several consecutive days with little or no trading in the past. Similar occurrences could prevent the client from promptly liquidating unfavorable positions and thus subject the client to substantial losses. The "daily limit" rule does not limit losses that might be suffered by a trader because it may prevent the liquidation of unfavorable positions.

As part of its emergency powers, an exchange or regulatory authority can suspend or limit trading in a particular investment or commodity interest, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only. The possibility also exists that governments may intervene to stabilize or fix commodity prices or exchange rates, restricting or substantially eliminating trading in the affected commodities or currencies.

**Options.** The client accounts may engage in the trading of equity and/or non-equity options, including options on physical commodities and on futures contracts. Some of these trades may be OTC derivatives regulated under Dodd Frank. Such trading involves risks substantially similar to those involved in trading commodity futures contracts, in that options are speculative and highly leveraged. Specific market movements of the equities, commodities, futures contracts or other instruments underlying an option cannot accurately be predicted. The purchaser of an option is subject to the risk of losing the entire purchase price of the option. The writer of an option is subject to the risk of loss resulting from the difference between the premium received for the option and the price of the equity, commodity or futures contract underlying the option which the writer must purchase or deliver upon exercise of the option. The client accounts may also engage in the trading of options on baskets of securities and stock indices.

**Contracts for Differences.** The client accounts may engage in CFDs with respect to equity securities or securities indexes. A CFD is a contract between a buyer and a seller to pay, in cash, when the contract is terminated, the difference between the value of, among other things, the security or index on which the contract is based on the date the contract is entered into and the date at



which it terminates. Parties to CFDs may require a deposit of 10% to 20% of the contract value as collateral. CFDs, like futures contracts, involve a high degree of leverage due to the modest upfront investment relative to the overall contract value. A relatively small movement in value in the underlying security or index will therefore disproportionately affect the value of the trade. If the CFD moves against a party, such party can incur losses substantially in excess of its initial deposit. In addition, because CFDs involve contracting with a counterparty, a client will be subject to the risk that the counterparty will be unable to, or will refuse to, perform with respect to the underlying contract.

***OTC Swaps.*** Swaps are derivatives historically traded OTC but which may be required to be exchange-traded or cleared in the future. See “U.S. Regulation of Derivatives” below. The definition of “swap” includes: (i) options, such as puts, calls, caps and floors on most reference assets; (ii) swaps, such as those on interest rates, broad-based securities indices and most other reference assets; (iii) credit default swaps; (iv) any other instrument “that is or becomes commonly known as a swap;” (v) foreign exchange swaps and foreign exchange forward contracts (with limited exceptions); and (vi) an instrument that combines any of the above. It is most common for OTC swap transactions to be documented using definitions, master agreements and protocols published by the International Swaps and Derivatives Association, Inc. (“ISDA”), although other sources of documentation may be used for certain transactions, products and markets. Regardless of their source, all swap documentation, including the Equity Derivatives Definitions and the Credit Derivatives Definitions published by ISDA commonly used for certain standard swap transactions, may contain ambiguous provisions that are subject to interpretation and may result in consequences that are adverse to the client. A client will be subject to the risk that derivatives markets generally may evolve in a manner adverse to the client. Clients do not currently enter into other OTC swaps, but may do so in the future.

***Forward Contracts on Foreign Currencies.*** Contracts on foreign currencies would involve a contract with a counterparty to make or take future delivery of a particular foreign currency. Such transaction are currently executed as OTC derivatives, although Dodd Frank includes such contracts in the definition of “swap” and therefore contemplates that such contracts are to be exchange-traded, cleared by a clearinghouse and regulated by the CFTC in the future (a limited category of forward foreign currency contracts, however, were excluded from Dodd Frank regulations, as permitted thereunder, by the Secretary of Treasury). Clients do not currently engage in forward contracts on foreign currencies, but may do so in the future.

#### **IV. Regulatory Risks**

##### **14. U.S. Regulation of Derivatives**

Futures exchanges in the U.S. and the intermediaries trading thereon are generally subject to regulation under the CEA by the CFTC. Since 1974, the CFTC has been the governmental agency responsible for the regulation of U.S. commodity futures trading. The function of the CFTC is to implement the objectives of the CEA of preventing price manipulation and other disruptions to market integrity, avoiding systemic risk, preventing fraud and promoting innovation, competition and financial integrity of transactions. Pursuant to authority in the CEA, the NFA was formed and registered with the CFTC as an SRO in order to relieve the CFTC of the burden of direct regulation of commodity professionals. The NFA is required to establish and enforce for its members training standards and proficiency tests, minimum financial requirements and standards of fair practice. Pursuant to permission

granted in the CEA, the CFTC has delegated some of its registration functions to the NFA. Dynamic and certain of its affiliates are members of the NFA.

The CEA was significantly amended by the Commodity Futures Modernization Act of 2000 (the “CFMA”). On July 21, 2010, the President signed into law major financial services reform legislation in the form of Dodd Frank. Dodd Frank grants the CFTC and SEC broad rulemaking authority to implement various provisions of Dodd Frank, including comprehensive regulation of the derivatives market.

Dodd Frank reversed many of the amendments to the CEA provided under the CFMA by bringing a wide range of OTC derivative instruments under the jurisdiction of the CFTC and SEC. Dodd Frank (i) granted the CFTC jurisdiction over “swaps;” (ii) repealed certain safe harbors of the CEA that previously excluded or exempted OTC derivative transactions, including swap transactions, from most or all provisions of the CEA; (iii) granted the SEC jurisdiction over SBS; (iv) created new registration categories for certain swap and SBS market participants (i.e., major swap participants (“MSPs”), major SBS participants (“MSBSPs”), swap dealers and SBS dealers); and (v) authorized the CFTC to impose capital and margin requirements and business conduct rules on such swap market participants.

Dodd Frank introduced an extremely broad definition of the term “swap” into the CEA that captures many of the derivatives in which the client may transact.

Dodd Frank contemplated that a substantial portion of swaps must be executed in regulated markets and submitted for clearing to regulated clearinghouses. However, as with forward foreign currency and spot contracts, currently most swap contracts are not traded on an exchange or cleared by an exchange or clearinghouse. The CFTC has issued rules requiring the clearing of certain OTC derivatives transactions, including certain swaps, that were previously executed on a bilateral basis in the OTC markets to be executed through a regulated securities, futures or swap exchange or execution facility that fall within its jurisdiction. It is expected that the CFTC and the SEC will require the clearing of more transactions in the future. Swaps and other OTC derivatives submitted for clearing are subject to minimum initial and variation margin requirements set by the relevant clearinghouse, as well as possible SEC- or CFTC-mandated margin requirements. The regulators also have broad discretion to impose margin requirements on non-cleared OTC derivatives. OTC derivative dealers will be required to post the collateral received from customers as margin to the clearinghouses through which they clear their customers’ trades instead of using such collateral in their operations, as they previously allowed to do. This may further increase the dealers’ costs, which costs are expected to be passed through to other market participants in the form of higher fees and less favorable dealer marks. In addition, a client may also be required to post higher margin amounts to certain of the dealers with which it trades, reducing the amount of available capital with which to implement the client’s investment strategy.

Such requirements may make it more difficult and costly for the clients to enter into highly tailored or customized transactions. They may also render certain strategies in which the clients might otherwise engage impossible or too costly to implement. The clients may be a member of the CME and therefore subject to all rules of such exchange and exchange regulations applicable to CME members. Similarly, if a client decides to become a direct member of one or more additional exchanges or execution facilities, the client would be subject to all of the rules of the exchange or

execution facility, which would bring additional risks and liabilities, and potential additional regulatory requirements.

Swap dealers, MSPs, SBS dealers and MSBSPs are required to register with the CFTC and/or SEC, as applicable, and are subject to minimum capital and margin requirements. Swap dealers, MSPs, SBS dealers and MSBSPs are also subject to business conduct standards, disclosure requirements, reporting and recordkeeping requirements, transparency requirements, position limits, limitations on conflicts of interest, and other regulatory requirements. These requirements may increase the overall costs for market participants in OTC derivatives transactions. The overall impact of Dodd Frank on the client accounts is highly uncertain and it is unclear how the OTC derivatives markets will adapt to this new regulatory regime.

The CFTC also has exclusive jurisdiction to regulate the activities of CPOs and CTAs. Dynamic is registered as a CPO and a CTA. Registration as a CPO or as a CTA requires annual filings setting forth the organization and identity of the management and controlling persons of the CPO or CTA. In addition, the CFTC has authority under the CEA to require and review books and records of, and review documents prepared by, a CPO or a CTA. The CFTC imposes certain disclosure and record-keeping requirements on CPOs and CTAs. The CFTC also imposes certain reporting requirements on CPOs and CTAs. The CFTC is authorized to suspend a person's registration as a CPO or CTA if the CFTC finds that such person's trading practices tend to disrupt orderly market conditions, that any controlling person thereof is subject to an order of the CFTC denying such person trading privileges on any exchange, and in certain other circumstances.

Each of the clients' commodity brokers are also subject to regulation by and registration with the CFTC as an FCM. With respect to domestic futures and options trading, the CEA requires all FCMs to meet and maintain specified fitness and financial requirements, account separately for all customers' funds, property and positions and maintain specified books and records on customer transactions open to inspection by the staff of the CFTC. The CEA authorizes the CFTC to regulate trading by commodity brokerage firms and their employees, permits the CFTC to require exchange action in the event of market emergencies and establishes an administrative procedure under which commodity traders may institute complaints for damages arising from alleged violations of the CEA. Under such procedures, members may be afforded certain rights for reparations under the CEA.

The above-described regulatory structure may be modified by additional rules and regulations promulgated by the CFTC or by legislative changes enacted by Congress.

## **15. Possible Effects of Speculative Position Limits**

The CFTC and U.S. exchanges have established speculative position limits on the maximum net long or net short position that any person or group of persons acting together, may hold or control in particular commodities. The position limits established by the CFTC currently apply to grains, soybeans and cotton. Additionally, the CFTC has authority to impose aggregate position limits on all other commodity contracts, including swaps, under Dodd Frank. For such other contracts, U.S. exchanges have established position limits or position accountability levels, in accordance with the CEA. Most exchanges also limit the amount of fluctuation in commodity futures contract prices on a single trading day outside of the spot month.

The CFTC has adopted rules with respect to the treatment of positions held by a commodity pool, such as one or more of Dynamic's clients, for purposes of determining compliance with speculative position limits. Generally, CFTC rules require that positions held by all accounts owned or controlled by Dynamic and its principals be aggregated with the positions of the client established by Dynamic for purposes of calculating Dynamic's compliance with the limits. Depending upon the number and types of futures contracts managed in both a client's account and the other accounts controlled directly or indirectly by Dynamic, position limits may limit the ability of Dynamic to establish particular positions in certain commodities for the a client or may require the liquidation of positions.

In November 2013, the CFTC proposed new rules that, if adopted in substantially the same form, will impose position limits on certain futures and option contracts and physical commodity swaps that are "economically equivalent" to such contracts. These rules could have an impact Dynamic's trading for its clients, and therefore the operations and profitability of its client accounts.

## **16. European Regulation of Derivatives**

The EU Regulation (EU) No 648/2012 on OTC derivatives, central counterparties and trade repositories ("EMIR") entered into force on August 16, 2012. EMIR introduced certain requirements in respect of OTC derivative contracts applying to financial counterparties ("FCs"), such as EU-regulated investment firms, credit institutions, insurance companies, managers of UCITS and alternative investment funds and certain non-financial counterparties ("NFCs"). Specifically, (i) EMIR requires eligible OTC derivative contracts entered into between FCs and NFCs above the "clearing threshold" to be cleared through an authorised central counterparty ("CCP"); (ii) FCs and NFCs are required to implement risk mitigation techniques for OTC derivative contracts not cleared by a CCP, which include timely confirmation, portfolio reconciliation, portfolio compression, dispute resolution arrangements, and margin requirements; and (iii) counterparties established in the EU are required to report details of all derivative contracts to an authorised trade repository. Certain aspects of EMIR apply to counterparties established outside the EU, such as Dynamic's clients. These types of counterparties are referred to as "third country entities" in EMIR.

Recent regulatory reforms in the European Union may have an impact on Dynamic, its affiliates and its clients. For example, certain recent market infrastructure reforms in the EU increase regulation of trading platforms and market participants through which non-equity securities and derivatives are traded by mandating the publication of certain pre- and post-trade transparency data. This may lead, in certain circumstances, to a reduction in liquidity in these instruments and/or the increase in costs and spreads. Holders of client accounts should be aware that the regulatory changes arising from EMIR may in due course: (i) significantly raise the costs of entering into derivative contracts, (ii) adversely affect the ability of the clients to engage in transactions in derivatives, (iii) impact the ability of the clients to employ its investment strategy, and (iv) adversely impact the performance of client accounts.

Other recent EU regulatory reforms, such as the increase in the scope of commodities and commodity derivatives regulation could similarly see liquidity reduction and/or an increase in costs and spreads. Recent EU reforms that will bring all algorithmic trading within the scope of EU regulation may see some other sources of liquidity exit European markets.

## **17. EU Directive on Alternative Investment Fund Managers**

The Alternative Investment Fund Managers Directive 2011/61/EU (“AIFMD”) regulates: (i) alternative investment fund managers (“AIFMs”) based in the European Economic Area (“EEA”); (ii) the management of any alternative investment fund (“AIF”) established in the EEA (irrespective of where its AIFM is based); and (iii) the “marketing” (as defined in the AIFMD) of any AIF to professional investors in the EEA.

## **18. Regulatory Changes Could Restrict the Client’s Operations and Increase the Costs of Operation**

Regulatory changes could adversely affect the clients by restricting their trading activities and/or increasing the costs or taxes to which the investors are subject. Dodd Frank, among other things, granted the CFTC and SEC broad rulemaking authority to implement various provisions of Dodd Frank including comprehensive regulation of the OTC derivatives market. The implementation of Dodd Frank could increase the clients’ transaction and/or regulatory compliance costs. In addition, greater regulatory scrutiny may increase the clients’, Dynamic’s and DCM’s exposure to potential liabilities. In addition to the enactment of Dodd Frank, the regulatory environment for private investment funds is evolving, and changes in regulation could occur that may adversely affect the clients and their investment results. There is a possibility that, in the future, client accounts may be subject to new or revised legislation or regulations, which may be enforced by entirely new governmental agencies. Similarly, the clients may be adversely affected as a result of new or revised legislation, or regulations imposed by the SEC, the CFTC, the IRS, the European Commission, the European Parliament, the Council of the European Union, or other U.S. or non-U.S. governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. The clients also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations.

Increased regulatory oversight could also impose administrative burdens on Dynamic and its affiliates, including, without limitation, responding to investigations and implementing new policies and procedures. As a result, the time, attention and resources of Dynamic and its affiliates may be diverted from portfolio management activities.

Other regulatory initiatives, which could potentially adversely affect the client accounts, could develop suddenly and without notice.

## **V. Other Risks**

### **19. Trading on Non-U.S. Exchanges**

The client’s portfolios trade on commodity and securities exchanges outside the United States. Trading on such exchanges is not regulated by the NFA, the CFTC, the SEC or any other United States governmental agency and may involve certain risks not applicable to trading on United States exchanges. For example, some non-U.S. futures exchanges, in contrast to United States exchanges, are “principals’ markets” in which performance is the responsibility only of the individual member with whom the trader has entered into a futures contract and not of an exchange or clearing corporation. Due to the absence of a clearinghouse system on certain non-U.S. markets, such markets are significantly more susceptible to disruptions than are United States exchanges and therefore

trading thereon is potentially subject to greater risks. Moreover, such trading is governed by applicable foreign laws and regulations, which vary depending on the foreign country in which the trading occurs. Neither the CFTC, NFA nor the SEC regulates activities of any non-U.S. exchanges, including the execution, delivery and clearing of transactions. Similarly, U.S. regulators have no power to compel enforcement of the rules of a non-U.S. exchange or any applicable foreign laws.

Trading on non-U.S. exchanges involves the additional risks of expropriation, burdensome or confiscatory taxation, moratoriums and investment controls or political or diplomatic events which might adversely affect Dynamic's trading activities on behalf of its clients. Engaging in trading on non-U.S. exchanges, as noted above, is also subject to the risk of changes in the exchange rate between U.S. dollars and the currencies in which contracts traded on such exchanges are settled. Dynamic may have to convert assets of the clients into other currencies to meet margin requirements. Other considerations include exchange control regulations, reduced and less reliable information about issuers and markets, different accounting standards, illiquidity of securities and markets, higher brokerage commissions and custody fees, local economic or political instability and greater market risk in general. In addition, dividends paid by non-U.S. issuers may be subject to withholding and other non-U.S. taxes that may decrease the net return on these investments.

A broker may use an affiliate to carry and clear transactions on non-U.S. exchanges. While the use of affiliates can provide certain benefits, it can also pose certain risks. In particular, if a broker or an affiliated foreign broker were to fail, it is likely that all of its affiliated companies would fail or be placed in administration within a relatively brief period of time. Each of these companies would be liquidated in accordance with the bankruptcy laws of the local jurisdiction. Moreover, return of a client's assets held at affiliated foreign brokers would be delayed, perhaps for a significant period of time, and would be subject to additional administrative costs. If, on the other hand, the broker had cleared its customers' foreign transactions through unaffiliated foreign brokers, such broker likely would not have failed and the broker's bankruptcy trustee could have directed the foreign broker to liquidate all of the client's positions and return the balance to the trustee for distribution to the client.

Foreign brokers are not subject to the jurisdiction of the CFTC, the SEC or any other United States regulatory body or SRO.

## **20. Risks of Client Funds Held in non-U.S. Depositories**

The clients' funds held in connection with contracts on U.S. contract markets that are priced and settled in a foreign currency may be held in accounts denominated in a foreign currency with a depository located outside the United States or its territories. Non-U.S. depositories are not subject to U.S. regulation. Such accounts are subject to the risk that events could occur which would hinder or prevent the availability of these funds for distribution to customers and are held in accordance with the client assets protection regime and the insolvency laws of the applicable jurisdiction. Such events might include actions by the government of the jurisdiction in which the depository is located, including expropriation, taxation, moratoria and political or diplomatic events. In the event of the insolvency of a foreign broker carrying such accounts, the broker would be liquidated in accordance with the laws of the jurisdiction in which it is located. Such accounts may also be subject to foreign currency exchange rate risks.

## **21. Prime Brokers, Clearing Brokers and Futures Commission Merchants**

Securities and cash held in customers' accounts at prime brokers that are U.S.-registered broker-dealers will not be available to the non-customer creditors of the prime broker. Nonetheless, if a prime broker became insolvent and there were not sufficient customer assets to pay all customers in full, then the securities and cash held in customers' accounts at the prime broker would be distributed pro rata among customers. Different results may occur in the event that a U.S. prime broker sub-custodies its assets with a foreign sub-custodian outside the United States. Different results, including loss of U.S. regulatory protections, may also occur in the event that the customer of a U.S. prime broker permitted the prime broker to (i) rehypothecate or lend its assets or (ii) transfer its assets to a prime broker or other entity that is not a U.S.-registered broker-dealer. If assets are held by a prime broker that is not a U.S.-registered broker-dealer, the U.S. regulatory protections do not apply. In certain jurisdictions, with authority from the customer, assets may be borrowed, lent or otherwise used by the prime broker for its own purposes. In the event of the insolvency of the prime broker, customers may rank as unsecured creditors and may not be able to recover equivalent assets in full. Cash held by a client's prime broker as collateral will earn interest for the client but will not be treated as client money. Investments classified as collateral for the purposes of the SEC rules may not be segregated by the prime broker from its own investments. Such cash and investments will not be segregated from the prime broker's own assets and may be used by the prime broker in the course of its investment business and the client will therefore rank as one of the prime broker's general creditors in relation thereto. Accordingly, such assets of the client may be exposed to the creditworthiness of the prime broker.

The CEA requires an FCM to segregate funds deposited in a customer's commodity futures account. If an FCM fails to properly segregate customer funds, the customer may be subject to a risk of loss of its funds on deposit in the event of such FCM's bankruptcy or insolvency. In addition, under certain circumstances, such as the inability of another customer of an FCM or its own inability to satisfy substantial deficiencies in such other customer's account, the customer may be subject to a risk of loss of its funds on deposit even if such funds are properly segregated. In the case of any such bankruptcy or customer loss, the customer might recover only a pro rata share of all property available for distribution to all of the FCM's customers. If no property is available for distribution, the customer would not recover any of its assets.

In the event of the insolvency of a broker or FCM, the client may encounter delays in establishing its rights to assets held by the insolvent prime broker and/or FCM and the return of assets held outside the United States by a foreign broker may be delayed.

Moreover, pursuant to the contracts entered into between a client and its prime brokers and/or FCMs, the client may be required to post significant margin amounts under certain circumstances. If unable to meet such requirements, the prime broker and/or FCM would be authorized to close out the positions of the client. An immediate closing of such positions would expose the client to the risk that its positions would be liquidated at unfavorable prices.

CFTC rules provide that collateral held by an FCM or derivatives clearing organization in connection with a customer's cleared swap transactions will be considered legally segregated from the assets and liabilities of other customers of the FCM or clearing organization, as applicable. In the event of default of an FCM or its swap customers, a derivatives clearing organization would not have

recourse to the collateral posted by the FCM's non-defaulting cleared swap customers. Customer collateral may, however, be operationally commingled in an account segregated from the FCM's own property. Such collateral may be invested by the FCM as provided in the CFTC rules.



## **Item 9: Disciplinary Information**

Neither the Dynamic Group nor any of its employees have been involved in any legal or disciplinary events in the past ten years that Dynamic believes would be material to a client's evaluation of the Dynamic Group or its personnel.

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

Dynamic is registered with the CFTC as a commodity trading advisor (“CTA”) and a commodity pool operator (“CPO”) and is a member of the National Futures Association (“NFA”). It serves as the CTA and/or CPO to its client. Dynamic is registered with the Jersey Financial Services Commission pursuant to Article 9 of the Financial Services (Jersey) Law 1998 to carry out “fund services business”. DCM is registered with the CFTC as a CPO and a CTA and is a member of the NFA.

Mr. Hayek is the sole owner, a director and an Associated Person of Dynamic. He is also the sole indirect owner and an Associated Person of DCM.

David Prevot and Nicolas Lamongie are Associated Persons of DCM.

Mr. Hayek has various responsibilities with respect to Dynamic’s private fund client or Dynamic’s affiliates, including as a member of the board of director of the fund. Mr. Hayek, Dynamic and its affiliates and their employees, and family members of Mr. Hayek own direct and indirect interests in Dynamic’s client as well. Thus, the receipt of the amounts described in Item 5: Fees and Compensation creates a potential conflict of interest for Dynamic, Mr. Hayek and their related parties, as discussed above in Item 6: Performance-Based Fees and Side-By-Side Management.

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

Dynamic has adopted a written Code of Ethics (the “Code”) pursuant to SEC rule 204A-1 which requires, among other things, that certain employees of the Dynamic Group (“Access Persons”):

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, and colleagues in the investment profession;
- Place the integrity of the investment profession, the interests of clients, and the interests of Dynamic above one’s own personal interests;
- Adhere to the fundamental standard that one should not take inappropriate advantage of one’s position;
- Attempt to avoid any actual or potential conflict of interest;
- Conduct all personal transactions in a manner consistent with Dynamic’s Code;
- Promote the integrity of, and uphold the rules governing, capital markets;
- Maintain and improve professional competence and strive to maintain and improve the competence of other investment professionals; and
- Comply with applicable provisions of the federal securities laws.

Dynamic and its affiliates, employees of the Dynamic Group and related persons may buy and sell the same trading instruments as recommended to clients, possibly at or about the same time as Dynamic’s clients. To avoid any potential conflicts of interest involving personal trades, Dynamic’s Code also requires Access Persons and certain persons living in the same household to: 1) pre-clear certain personal transactions, 2) report certain personal transactions on at least a quarterly basis, and 3) provide Dynamic with a detailed summary of certain holdings (both initially upon commencement of employment and annually thereafter) over which such Access Persons have a direct or indirect beneficial interest.

A copy of the Code shall be provided to any client or prospective client upon request.

Dynamic manages certain proprietary accounts (the “Incubator Accounts”) in order to develop, test and establish track record for investment strategies that may be suitable for clients at some point in the future. The Incubator Accounts employ strategies that may differ materially from those employed in client accounts due to differing investment objectives and risk tolerance, among other factors. Additionally, as these strategies are still in development, they may change materially over time. Consequently, the performance of the Incubator Accounts may be significantly different from that of Dynamic’s clients during the same time period.

The Incubator Accounts may buy or sell securities and other instruments at or about the same time that such instruments are being bought or sold on behalf of client accounts, which may impact the price and/or liquidity of those instruments. Dynamic recognizes that this presents a conflict of interest and has taken steps to ensure that clients are treated fairly. Trading activity in the Incubator Accounts and

in client accounts is reviewed on a continuous basis by appropriate Dynamic Group personnel, including Dynamic's Chief Compliance Officer.

## **Item 12: Brokerage Practices**

### Selection of Trading Counterparties

Dynamic will use its best efforts to obtain brokerage services for its clients at competitive rates, also taking into consideration, among other factors, the reliability and quality of the execution and the reputation, dependability, experience and financial stability of the broker. Dynamic may periodically evaluate the arrangements with such parties and re-negotiate on behalf of such clients in its sole discretion and as it deems appropriate. The allocation of assets among brokers is determined by Dynamic in its sole discretion. Currently, none of the brokers engaged by Dynamic on behalf of its clients is a sponsor of a client nor does any broker currently supervise Dynamic or take part in the management or investment decisions of any client.

Dynamic's clients pay commissions, prime brokerage fees, give-up fees, financing costs and certain other expenses on their transactions. Brokerage commissions may vary by the market traded and may be affected by fluctuations in foreign exchange rates for trades executed on non-U.S. exchange markets. In addition, Dynamic's clients pay all expenses incurred in connection with their trading and investment activities, including, but not limited to, all execution, brokerage, floor, exchange, clearing and regulatory fees, NFA fees, user fees, exchange data fees and related costs and expenses, option premiums, other transaction costs and expenses, delivery and custody expenses, bank, broker and dealer service fees, interest and borrowing charges on margin accounts, borrowed money and other indebtedness and related expenses and costs. Clients that are members of certain exchanges may be eligible for certain reduced costs. Transaction costs on non-U.S. markets may be higher than such costs on U.S. markets. Absent gross negligence or intentional misconduct by Dynamic, clients will also absorb the cost of all trade errors that may occur.

Dynamic intends to engage mainly in short-term trading on behalf of its clients. As a result, client portfolios may incur significant turnover and, consequently, increased transaction costs as described above.

None of Dynamic's current client or their owner/investors have the ability to direct trades or select brokers or other counterparties for execution.

### Aggregated Trades

If client accounts managed by Dynamic trade on a parallel basis (in the absence of client-imposed restrictions), lots and prices will be distributed proportionally according to account size. Using this method of allocation of executions, no account or accounts traded pursuant to the same methodology can be traded "in front" or have positions opposite of the other accounts under management. Nonetheless, the accounts may not have identical performance as a result of timing of additions and withdrawals to the accounts and the allocation of split or partial fills.

As described in Item 11 above, the Incubator Accounts are not traded on a parallel basis with client accounts due to the different investment strategies employed in such accounts. Consequently, the Incubator Accounts may trade before or after client accounts in the same securities and may take

positions that are opposite to those in client accounts. Such investment decisions will be made in accordance with the specific investment mandate applicable to each relevant client and Incubator Account.

A client's order for futures and equity securities may be bunched with Dynamic's other client accounts. Dynamic will allocate such futures and securities among client accounts on a basis which it considers fair and equitable. In general, aggregated orders will be allocated to clients proportionate to each account's intended participation in the aggregated order. However, Dynamic may employ another methodology that it considers fair and equitable in consideration of all factors relevant to the transaction. Orders on behalf of the Incubator Accounts generally will not be aggregated with client orders and may incur materially different transaction costs or be executed at materially different prices than trades on behalf of client accounts occurring at or about the same time.

### Client Referrals

Although Dynamic does not compensate brokers or any other custodian or broker-dealer for referring client accounts or potential investors in Dynamic's clients, such parties may introduce potential clients and/or investors in Dynamic's clients as part of their overall services. Therefore, a trading counterparty may have a conflict of interest between acting in the best interest of an introduced investor and their interest in continuing to receive commissions from clients or potential clients of Dynamic.

Although brokers may provide services to Dynamic that may influence Dynamic in deciding whether to use such broker in connection with brokerage, financing and other activities on behalf of clients, Dynamic will not commit to allocate a particular amount of brokerage to a broker in any such situation.

### Soft Dollar Arrangements

Dynamic does not currently have any soft dollar arrangements.

## **Item 13: Review of Accounts**

Dynamic has developed internal systems that monitor positions held, risk exposure and proper settlement on a daily basis. In addition, Dynamic regularly performs quantitative analysis of client account performance which includes, but is not limited to, benchmarking the quality of execution by its brokers. The results are reviewed by the appropriate Dynamic Group personnel, supervised by the portfolio manager and/or the board of directors. A review of a client account may also be triggered by any unusual activity or special circumstances. In addition, as previously disclosed in Item 8: Methods of Analysis, Investment Strategies and Risk of Loss, Dynamic may change trading methods and strategies and modify models currently in use (including technical and fundamental trading factors or analyses, instruments or contracts traded and/or risk management principles utilized) in its sole discretion.

Independent third-party administrators to Dynamic's private fund clients may provide some or all of the following services to clients and/or their owners: computing the client's net asset value and performance, keeping the accounts of the client and such financial books and records as are required by law or otherwise for the proper conduct of the financial affairs of the client, preparing or procuring the preparation of annual financial statements of the client and furnishing such statements to the client's investors, and preparing and disseminating a monthly written statement of investment for the client's investors, which monthly statement may include confirmation of contributions and withdrawal, performance and net asset value/price per unit.

Annual audited financial statements are provided to each client and their owners/investors and filed with the appropriate regulatory authorities, in each case as required by law. Investors in certain clients receive required U.S. federal, state and local tax documents as required by law.

In connection with an investment or potential investment in a client, certain parties may request, and Dynamic and/or the client may agree to provide, more frequent or detailed information with respect to one or more of Dynamic's advisory clients that is not ordinarily provided to all owners/investors. Finally, Dynamic may provide investors and potential investors in its clients with information through telephone calls, correspondence and meetings, as requested; such information may not be provided to all investors or potential investors.

In addition to the foregoing, Dynamic may provide additional information to its client's investors and potential investors on a regular basis, including, but not limited to, periodic performance updates, a monthly letter disclosing estimated performance for the previous month and certain investment statistics and access to Dynamic's password-protected website which provides information with respect to real-time performance and historical performance as well as daily risk metrics.

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

Dynamic does not receive any economic benefits from non-clients in connection with the provision of investment advice to clients, other than as previously disclosed in “Item 12: Brokerage Practices.”



## **Item 15: Custody**

Client accounts are held in custody by unaffiliated broker/dealers or banks in each client's name. However, Dynamic or its affiliates may be deemed to have custody of client assets under Rule 206(4)-2 of the Advisers Act because (i) Dynamic or its affiliates has authority to deduct asset-and performance-based fees from client accounts and (ii) Dynamic or its affiliates may serve as general partner, investment manager or managing member of its clients. Dynamic complies with the requirements of Rule 206(4)-2 by ensuring that each client is audited at least annually by an authorized independent accountant and that audited financial statements prepared in accordance with generally accepted accounting principles are distributed to clients and their owners within 120 days of the end of each client's fiscal year. Fund investors should carefully review these statements and contact Dynamic should they have any questions.

## **Item 16: Investment Discretion**

Dynamic has the exclusive responsibility for selecting the security interests and commodity interests to be purchased or sold for client accounts. This discretionary authority is obtained pursuant to a management agreement between Dynamic and each of its clients. There are no limitations or restrictions other than what is disclosed in each client's offering document or imposed in writing by the client.

## **Item 17: Voting Client Securities**

In accordance with Rule 206(4)-6 of the Advisers Act, Dynamic has adopted and implemented written policies and procedures governing the voting of client securities. All proxies that Dynamic receives will be treated in accordance with these policies and procedures.

Due to the nature of Dynamic's advisory services, and more specifically because Dynamic normally follows a disciplined, systematic approach to trading, rather than a long-term investment approach, its strategy is not dependent upon the outcome of proxy contests. Therefore, neither Dynamic nor its clients currently vote any proxies with respect to the securities held by clients, although Dynamic has the authority, and reserves the right, to do so in the future.

Similarly, based on the nature of the advisory services it provides, Dynamic has determined that the costs of participation in class actions on behalf of its clients outweigh the potential benefits to the clients. Therefore, Dynamic does not currently intend to participate in any class actions with respect to the securities held in the client accounts, although Dynamic reserves the right to do so in the future.

None of Dynamic's clients nor their owners have the right to instruct Dynamic with respect to these matters.

A copy of Dynamic's proxy voting policies and procedures will be provided to any client upon request.

## **Item 18: Financial Information**

Dynamic does not require or solicit prepayment of fees in advance.

Dynamic is not aware of any financial condition that is expected to affect its ability to manage client accounts.

Dynamic has never been the subject of a bankruptcy petition.

## **Item 19: Requirement for State Registered Advisers**

Dynamic is not registered with a state securities authority.