

SECOR Capital Advisors, LP

Part 2A of Form ADV

The Brochure

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March 28, 2019

This brochure provides information about the qualifications and business practices of SECOR Capital Advisors, LP (“SCA”). If you have any questions about the contents of this brochure, please contact us at 212-980-7350. 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.

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

Information about SCA is also available on the SEC’s website at: www.adviserinfo.sec.gov.

Item 2: Material Changes

SCA has made no material changes since it's last annual update to Form ADV Part 2A dated March 29, 2018.

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Item 4: Advisory Business

A. General Description of Advisory Firm

SECOR Capital Advisors, LP (“SCA”) was established in October 2011 and has offices in New York, New York. SCA is a wholly owned subsidiary of SECOR Asset Management, LP. Raymond Iwanowski and Duen-Li (Tony) Kao collectively hold a majority stake in SECOR Asset Management, LP and together indirectly control SCA’s general partner, SECOR Partners III, LLC, which also is a wholly owned subsidiary of SECOR Asset Management, LP.

B. Description of Advisory Services

We are an asset management firm that provides investment management services to pooled investment vehicles and separately managed accounts.

With respect to our flagship alternative investment fund (the “Hedge Fund”), our objective is to generate high risk-adjusted returns by: (i) investing across a diverse set of asset classes, geographies, factors, themes and time horizons, (ii) identifying and exploiting temporarily pronounced market inefficiencies or risk premia, (iii) employing dynamic risk-budgeting to minimize tail risk and potentially enable alpha to be generated through timing of exposures and (iv) utilizing sophisticated modeling techniques supported by straight-forward economic intuition and sound fundamentals. The Hedge Fund seeks to target long-term annualized volatility of 10-12% and low long-term correlation to other asset classes and the broader markets.

Under certain circumstances, we may offer customized strategy sets or solutions to meet the needs of specific clients. (See Item 4.C.) Currently, we offer a customized solution to a client that is structured as a pooled investment vehicle.

In addition, SCA has investment management relationships with an institutional managed account and a public pension plan (the “Managed Accounts”). The institutional managed account (the “Institutional Managed Account”) invests solely in commodity interests. SCA is registered as a commodity pool operator (“CPO”) and commodity trading advisor (“CTA”) with the Commodity Futures Trading Commission (“CFTC”) and is a member of the National Futures Association (“NFA”).

C. Availability of Customized Solutions for Individual Clients

We have the ability to provide customized products or management services to individual clients through pooled investment vehicles, managed accounts or other structures. We currently offer a customized solution to one client.

D. Wrap Fee Programs

As of the date of this Brochure, we are not participating in any wrap fee programs.

E. Assets Under Management

As of December 31, 2018, our discretionary regulatory assets under management totaled \$1,161,103,604 as reported on Form ADV Part 1A.

Because we exclusively trade futures, options and swaps (and not securities) on behalf of the Institutional Managed Account, such Institutional Managed Account assets have been excluded from our calculation of regulatory assets under management.

Item 5: Fees and Compensation

A. Advisory Fees and Compensation

As we only provide this brochure to clients who are “qualified purchasers” under Section 2(a)(51) of the Investment Company Act of 1940, we have not included a fee schedule or the other information requested by Item 5.A.

B. Payment of Fees

For clients that are pooled investment vehicles, we generally deduct management fees directly from a client account, generally through a third-party administrator, on a monthly basis and in advance. For incentive fees or incentive-based allocations of profits for clients that are pooled investment vehicles, we follow a similar procedure and generally deduct these amounts directly from the client’s account, generally through a third-party administrator, on an annual basis and in arrears. For a managed account, this practice could vary depending on the specific arrangement with an individual client.

C. Additional Fees and Expenses

Expenses of SCA

SCA provides office space and utilities, computer equipment and certain administrative services, and secretarial, clerical and other personnel to the Hedge Fund. SCA will bear the costs of providing such goods and services, and all of its own overhead costs and expenses, except to the extent such goods, services, costs and expenses are Hedge Fund expenses as provided below.

Expenses of the Hedge Fund

The Hedge Fund will bear its own expenses and its pro rata share of the Hedge Fund’s expenses, which include, without limitation, all expenses relating to the activities of the Hedge Fund, such as the management fee; investment expenses, whether or not such investments are consummated including, without limitation, expenses that, in SCA’s discretion, are related to the investment of the Hedge Fund’s assets, such as research, brokerage, prime brokerage and futures commission merchant fees, expenses relating to short sales, clearing and settlement charges, custodial fees, bank service fees and interest expenses; investment-related travel expenses (which include travel expenses related to the purchase, sale or transmittal of, or due diligence regarding, the Hedge Fund’s investments, whether or not such investments are consummated, incurred by SCA); professional fees (including, without limitation, expenses of consultants, investment bankers, attorneys, accountants and other professionals or experts); expenses relating to research, market data and information technology related expenses incurred in investment and risk management activities of the Hedge Fund; administrative expenses (including, without limitation, fees and expenses of the Administrator); expenses incurred directly by the Hedge Fund or SCA or its affiliates in connection with the provision of administration services, legal expenses; external accounting and valuation expenses (including, without limitation, the cost of accounting software packages); external audit and tax preparation expenses; operational expenses, including, without limitation, the following: fees and expenses relating to information technology hardware, software or other technology (including, without limitation, costs of software licensing, implementation, data management and recovery services and custom development) used to research investments, evaluate and manage risk, facilitate valuations, facilitate accounting functions, facilitate compliance with the rules of any self-regulatory organization or applicable law (including, without limitation, reporting obligations), facilitate and manage the order execution of Financial Instruments by the Hedge Fund or otherwise manage the Hedge Fund, such as Bloomberg terminals, portfolio management systems, risk management systems and order management systems; fees and expenses of

third-party risk management products, models and services; third-party administrative fees and expenses; the cost of directors' and officers' insurance and, during periods when the assets of the Hedge Fund are not treated as "plan assets" for purposes of ERISA, insurance expenses for SCA including, without limitation, errors and omissions insurance, cybersecurity insurance and liability insurance; costs of printing and mailing reports and notices; entity-level taxes; expenses incurred in connection with negotiating and complying with provisions of any side letter agreement; corporate licensing; regulatory expenses (including fees and expenses incurred in connection with the preparation and filing of Form PF, Annex IV, Form CPO-PQR, Section 13 filings and other similar regulatory filings); organizational and reorganizational expenses; fees and expenses of the Hedge Fund Advisory Committee and its members and other similar expenses related to the Hedge Fund; start-up expenses (including, but not limited to, costs of market data and information technology utilized in connection with the development and testing of the Hedge Fund's models and strategies); expenses incurred in connection with the offering and sale of the Interests and other similar expenses related to the Hedge Fund; indemnification expenses; extraordinary expenses; and fees and expenses incurred in connection with any reorganization, dissolution, winding-up or termination of the Hedge Fund.

Generally, all expenses borne by the Hedge Fund, other than the management fee and any expenses which the SCA determines in its sole and absolute discretion should be allocated to a particular partner or partners (including taxes that are based on the status, action or inaction of a particular partner or partners), will be charged to the capital accounts of all the partners on a pro rata basis. To the extent that expenses to be borne by the Hedge Fund are paid by SCA, SCA will be entitled to reimbursement from the Hedge Fund of all such expenses.

Notwithstanding the foregoing, to the extent the aggregate expenses borne by the Hedge Fund pursuant to the previous paragraph (excluding the management fee) exceed 50 basis points (per annum) of the net asset value of the Hedge Fund, calculated as of the end of each month, the Hedge Fund will not be responsible for the amount of such excess. Instead, such excess will be borne by SCA.

If any of the expenses listed above are incurred for the account of the Hedge Fund as well as for any other accounts, such expenses will be allocated among the Hedge Fund and such other accounts in proportion to the relative sizes of the Hedge Fund and such other accounts, the sizes of the investments made by each to which such expense relates, or as SCA considers fair and equitable.

Organizational and Offering Expenses

SCA may pay or advance funds to the Hedge Fund to pay for the organizational expenses, start-up expenses and expenses incurred in connection with the offering and sale of the Interests and other similar expenses related to the Hedge Fund. SCA is entitled to reimbursement from the Hedge Fund of all such expenses.

Start-up expenses are being charged to the Hedge Fund over the first 60 months of the Hedge Fund's operations. In addition, certain of the Hedge Fund's organizational, offering and start-up expenses may, for accounting purposes, be amortized by the Hedge Fund for up to a 60-month period. If the Hedge Fund amortizes its expenses but terminates before such expenses are fully amortized, the unamortized portion of the organizational, start-up expenses and offering expenses will be debited against the Hedge Fund's assets at that time. If a limited partner withdraws all or part of its Interest prior to the end of the 60-month period during which the Hedge Fund is amortizing expenses, SCA may, but is not required to, accelerate a proportionate share of the unamortized expenses based upon the amount being withdrawn and reduce withdrawal proceeds by the amount of such accelerated expenses. SCA believes that such amortization treatment is more equitable than requiring the initial investors to bear all of the Hedge Fund's organizational, start-up and offering expenses as would otherwise be required by U.S. generally accepted accounting principles or any successor thereto ("GAAP"). The Hedge Fund may

recognize the unamortized expenses or make GAAP conforming changes solely for financial reporting purposes, but continue to amortize organizational offering and start-up expenses for determining the Hedge Fund's net asset value. As a result, the accounting method applied to these expenses in the Hedge Fund's audited financial statements may differ from the accounting method applied in the calculation of the Hedge Fund's net asset value.

D. Prepayment of Fees

For our pooled investment vehicle clients we generally deduct management fees directly from a client account, usually on a monthly basis and in advance. The management fee will be prorated for any subscription or redemption/withdrawal by an investor that is effective other than as of the first day of a month. If an investor redeems or withdraws from a pooled investment vehicle client, other than as of the last day of a month, we will repay a pro rata portion of any applicable management fee based on the actual number of days remaining in the month to the pooled investment vehicle. The pooled investment vehicle will then pay such amount to the investor.

E. Additional Compensation and Conflicts of Interest

We do not accept, and none of our supervised persons accepts, any compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

Performance-based fees are fees based on an increase in value of the assets of a client. An adviser charging performance fees to only some accounts faces a variety of conflicts because the adviser can potentially receive greater fees from its accounts having a performance-based compensation structure than from those accounts it charges a fee unrelated to performance (e.g., an asset-based fee). As a result, the adviser may have an incentive to direct the best investment ideas to, or to allocate or sequence trades in favor of, the account that pays a performance fee.

We have entered into incentive fee and allocation arrangements with qualified clients in compliance with Section 205(a)(1) of the Investment Advisers Act of 1940 and the exemptions available thereunder (including Rule 205-3).

Item 7: Types of Clients

We provide investment advice to alternative investment funds (*i.e.*, pooled investment vehicles that are exempt from registration under the Investment Company Act of 1940), an institutional managed account, and a public pension plan. Pooled investment vehicle clients need to meet certain eligibility and qualification criteria (*e.g.*, requirements that investors represent that they are either “qualified purchasers” under the Investment Company Act of 1940 and “accredited investors” under the Securities Act of 1933, or non-“US Persons” under Regulation S) and minimum investment requirements. The requirements for any managed account will be determined on a case-by-case basis.

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

A. Methods of Analysis and Investment Strategies

Investment Objective and Overview

Our objectives are to generate high risk-adjusted returns by: (i) investing across a diverse set of asset classes, geographies, factors, themes and time horizons, (ii) identifying and exploiting temporarily pronounced market inefficiencies or risk premia, (iii) employing dynamic risk-budgeting to minimize tail risk and potentially enable alpha to be generated through timing of exposures and (iv) utilizing sophisticated modeling techniques supported by straight-forward economic intuition and sound fundamentals. We seek to target long-term annualized volatility of 10-12% and low long-term correlation to other asset classes and the broader markets.

Investment Strategy

We have a healthy respect for the general information efficiency of markets but believe that certain inefficiencies (or outsized risk premia) may exist in certain markets, and these or other inefficiencies (or risk premia) may periodically become more pronounced in particular market conditions. We believe that it is feasible to construct an investment strategy that seeks to capture such inefficiencies (premia) in pursuit of high risk-adjusted returns (or excess returns for benchmarked mandates) that are lowly correlated with broad stock and bond market returns (alpha).

We employ statistical techniques and empirical analysis to help determine whether we believe that observed or conjectured alpha opportunities are real and, more importantly, likely to be sustained in the future. If properly employed, these techniques may have certain advantages versus a purely judgmental approach including the potential ability to: control for the impact of particular factors, evaluate phenomena over longer history, systematically assess confidence levels based on availability of data, evaluate performance over certain sub-periods and market cycles, identify certain possible causation and lead/lag effects, reduce certain common behavioral biases in human judgment and evaluate a range of factors in a systematic way.

When determining whether a factor should be used in driving our models and strategies, conclusions derived from the statistical techniques are generally not sufficient. We also seek to reconcile whether the findings are consistent with some economic, theoretical or behavioral intuition. It is important to understand why we believe that a factor may lead to alpha and what conditions could cause a factor to cease to work at some point in the future. Although the statistical techniques that we use to conduct our empirical evaluations may be sophisticated, we strive to keep the models that drive the investment process as simple as practicable.

We use our proprietary models to systematically allocate and manage risk across a wide breadth of quantitative investment strategies, geographies and asset classes – a process known as risk budgeting. We employ these models to construct a portfolio, trade securities and manage risk. These strategies are offered in relatively unconstrained portfolios and any strategy may include sub-strategies in currencies, commodities, equities, fixed income/credit, volatility, cross-asset class trades and opportunistic strategies.

We strongly believe in the benefits of diversification and that diversification should be sought across many aspects of the investment process. On the level of portfolio construction and security selection, we adhere to the classic portfolio theory observation that there are significant risk mitigation benefits from not “putting all of our eggs in one basket”. Therefore, under most circumstances we attempt to

take positions in a large number of securities across a wide range of asset classes to enhance diversification.

We also seek diversification across strategies and across factors that drive its models within a given strategy. Diversification of risk across strategies may help to produce a more consistent stream of returns by reducing the impact of poor performance in any one strategy. Recognizing that none of our strategies will work at all times and, in fact, most strategies experience periods of significant negative performance, we seek to develop strategies in many asset classes and markets in which we identify potential value. Typically, even if we use similar factor themes (*e.g.*, value, momentum, macroeconomic factors) in each asset class, there is a possibility that the strategies in commodities will not experience its negative periods at the same time as strategies in equity. Within each strategy, it is also important to ensure that there is appropriate diversification across factors and themes and that the weightings of these themes can be controlled and easily changed dynamically as market conditions warrant, while taking into account factors such as liquidity, volatility, correlations, market impact and transaction costs.

In portfolio construction, our initial task is typically to identify tilts, premia, signals, relative value pairs, anomalies, liquidity events, temporary price pressure we believe may provide attractive risk/return contributions. We then use our predictions regarding the potential contributions and correlations of these exposures to help determine their allocations within the portfolio, utilizing a thoughtful, systemic risk-budgeting approach that seeks to enable these exposures to be dynamic, rather than static. This may enable the timing exposures, or identification of appropriate times to increase or decrease exposures and/or include or exclude exposures from the portfolio altogether. Though a significant majority of these recalibrations will be motivated by risk mitigation, there may be times where adapting the portfolio to the current environment might augment our alpha proposition.

Other Strategies

The foregoing is not a comprehensive list of the methods of analysis and/or investment strategies that may be employed by us. We intend to continually review and refine our strategies and to examine new ideas and opportunities. Additional strategies may be added from time to time and at any time without notice. The descriptions set forth herein about specific strategies that we may deploy should not be understood to limit our investment activities.

We may invest our excess funds in commercial paper, certificates of deposit, U.S. government obligations, and bankers' acceptances, among other instruments. Any income earned from such investments will be reinvested by us in accordance with the investment program.

B. Material. Significant or Unusual Risks Relating to Investment Strategies

Below is a representative, but not exhaustive, list of certain risks associated with our investment strategies.

Leverage and Borrowing. The Hedge Fund intends to use leverage as part of its investment process and in pursuit of its investment objective. Leverage may come through a variety of sources, including, without limitation, by investing in instruments that may have embedded leverage, short sales of securities and other financial instruments, the use of equity and fixed-income derivatives, securities lending and repurchase agreements, the purchase or sale of options, swap transactions, swaptions, contracts for differences and other such instruments as may be deemed appropriate by us. The Hedge Fund has the power to borrow, trade on margin, utilize derivatives and otherwise obtain leverage from brokers, banks and others on a secured or unsecured basis. The amount of (direct and/or indirect)

borrowing may vary depending on market conditions, in our discretion. Leverage use will vary over time, and there is no cap or other restriction on the type or amount of leverage utilized by the Hedge Fund. The amount of leverage utilized by the Hedge Fund may be significant. The Hedge Fund also has the authority to borrow for cash management purposes, such as to satisfy withdrawal requests.

Leverage may present opportunities for increasing the total return on investments but may also increase losses. Events that negatively affect the value of investments may be magnified as a result of the use of leverage and may result in a substantial loss to the Hedge Fund. In particular, portfolio positions and strategies of the Hedge Fund may experience significant and rapid losses in times of market disruption or when the predictions of the models are incorrect. In addition, a change in interest rates may have a material adverse effect on the Hedge Fund.

Systemic Risk. Systemic risk is the risk of broad financial system stress or collapse triggered by the default of one or more financial institutions, which results in a series of defaults by other interdependent financial institutions. Financial intermediaries, such as clearing houses, banks, securities firms and exchanges with which the Hedge Fund interacts, as well as the Hedge Fund, are all subject to systemic risk. A systemic failure could have material adverse consequences on the Hedge Fund and on the markets for the securities in which the Hedge Fund seeks to invest.

Retention and Motivation of Key Employees. Our success is dependent upon the talents and efforts of highly skilled individuals employed by us and our ability to identify and willingness to provide acceptable compensation to attract, retain and motivate talented investment professionals and other employees. There can be no assurance that our investment professionals will continue to be associated with us throughout the life of the Hedge Fund, and the failure to attract or retain such investment professionals could have a material adverse effect on the Hedge Fund. Competition in the financial services industry for qualified employees is intense and there is no guarantee that, if lost, the talents of our investment professionals could be replaced.

Significant Fees and Expenses. The fees and expenses of the Hedge Fund may be significant. These expenses may be higher than those incurred by other similar funds and other types of investments due to the purchase of data and technology required by robust quantitative processes. In addition, certain of the strategies employed by SCA may require more frequent trading, higher portfolio turnover, and, therefore, the possibility of higher brokerage commissions and other transaction fees and expenses. The Hedge Fund must generate sufficient income to offset such fees and expenses to avoid a decrease in the net asset value of the Hedge Fund.

Limited Liquidity. An investment in the Hedge Fund has limited liquidity because investors will generally have only limited rights to withdraw or redeem from the Hedge Fund or transfer their interests or shares, and the Hedge Fund has the right to suspend withdrawals or redemptions. Investors must be prepared to bear the financial risks of an investment in the Hedge Fund for an indefinite period of time.

Systems Risks. The Hedge Fund depends on us to develop and implement appropriate systems for the Hedge Fund's activities. The Hedge Fund relies heavily, and on a daily basis, on financial, accounting and other data processing systems to execute, clear and settle transactions across numerous and diverse markets and to evaluate certain financial instruments, to monitor its portfolio and capital, and to generate risk management and other reports that are critical to oversight of the Hedge Fund's activities. Certain of our activities will be dependent upon systems operated by third parties, including prime brokers, the Hedge Fund's administrator, market counterparties and other service providers, and we may not be in a position to verify the risks or reliability of such third-party systems. Failures in the systems employed by SCA, prime brokers, the Hedge Fund's administrator, counterparties, exchanges and similar clearance and settlement facilities and other parties could result in mistakes made in the

confirmation or settlement of transactions, or in transactions not being properly booked, evaluated or accounted for. Disruptions in the Hedge Fund's operations may cause the Hedge Fund to suffer, among other things, financial loss, the disruption of its businesses, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing failures or disruptions could have a material adverse effect on the Hedge Fund and the investors' investments in the Hedge Fund.

Cybersecurity Risk. As part of its business, SCA processes, stores and transmits large amounts of electronic information, including information relating to the transactions of the Hedge Fund and personally identifiable information of the investors. Similarly, service providers of SCA or the Hedge Fund, especially the Hedge Fund's administrator, may process, store and transmit such information. SCA has procedures and systems in place to protect such information and prevent data loss and security breaches. However, such measures cannot provide absolute security. The techniques used to obtain unauthorized access to data, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time. Hardware or software acquired from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Network connected services provided by third parties to SCA may be susceptible to compromise, leading to a breach of SCA's network. SCA's systems or facilities may be susceptible to employee error or malfeasance, government surveillance, or other security threats. On-line services provided by SCA to investors may also be susceptible to compromise. Breach of SCA's information systems may cause information relating to the transactions of the Hedge Fund and personally identifiable information of the investors to be lost or improperly accessed, used or disclosed.

The service providers of SCA and the Hedge Fund are subject to the same electronic information security threats as SCA. If a service provider fails to adopt or adhere to adequate data security policies, or in the event of a breach of its networks, information relating to the transactions of the Hedge Fund and personally identifiable information of its investors may be lost or improperly accessed, used or disclosed.

The loss or improper access, use or disclosure of SCA's or the Hedge Fund's proprietary information may cause SCA or the Hedge Fund to suffer, among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing events could have a material adverse effect on the Hedge Fund and the investors' investments therein.

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

The Hedge Fund may effect transactions in the "over-the-counter" or "OTC" derivatives markets. The stability and liquidity of OTC derivatives transactions depends in large part on the creditworthiness of the parties to the transactions. In the OTC markets, the Hedge Fund enters into a contract directly with dealer counterparties which may expose the Hedge Fund to the risk that a counterparty will not settle a transaction in accordance with its terms because of a solvency or liquidity problem with the counterparty. Delays in settlement may also result from disputes over the terms of the contract (whether or not bona fide). In addition, the Hedge Fund may have a concentrated risk in a particular counterparty, which may mean that if such counterparty were to become insolvent or have a liquidity problem, losses

would be greater than if the Hedge Fund had entered into contracts with multiple counterparties. Certain OTC derivative contracts require that the Hedge Fund post collateral.

If there is a default by a counterparty, the Hedge Fund under most normal circumstances will have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the net asset value of the Hedge Fund being less than if the Hedge Fund had not entered into the transaction. Furthermore, there is a risk that any of such counterparties could become insolvent and/or the subject of insolvency proceedings. In such case, the recovery of the Hedge Fund's financial instruments from such counterparty or the payment of claims therefor may be significantly delayed and the Hedge Fund may recover substantially less than the full value of the financial instruments entrusted to such counterparty. In addition, there are a number of proposed rules that, if they were to go into effect, may impact the laws that apply to insolvency proceeding and may impact whether the Hedge Fund may terminate its agreement with an insolvent counterparty.

Collateral that the Hedge Fund posts to its counterparties that is not segregated with a third party custodian may not have the benefit of customer-protected "segregation" of such funds. In the event that a counterparty were to become insolvent, the Hedge Fund may become subject to the risk that it may not receive the return of its collateral or that the collateral may take some time to return.

In addition, the Hedge Fund may use counterparties located in jurisdictions outside the United States. Such local counterparties usually are subject to laws and regulations in foreign jurisdictions that are designed to protect customers in the event of their insolvency. However, the practical effect of these laws and their application to the Hedge Fund's assets are subject to substantial limitations and uncertainties. For example, capital deposited at certain non-U.S. broker-dealers may not be subject to client money protection rules, which could subject the Hedge Fund to the risks of being an unsecured creditor in the event of a broker-dealer insolvency. Because of the range of possible factual scenarios involving the insolvency of a counterparty and the potentially large number of entities and jurisdictions that may be involved, it is impossible to generalize about the effect of such an insolvency on the Hedge Fund and its assets. Investors should assume that the insolvency of any such counterparty would result in significant delays in recovering the Hedge Fund's financial instruments from or the payment of claims therefor by such counterparty and a loss to the Hedge Fund, which could be material.

In addition to the risk of a counterparty default, there is also the risk that the Hedge Fund's counterparties may be required to restrict the amount of credit granted to the Hedge Fund due to their own financial difficulties, which could result in a forced liquidation of substantial portions of the Hedge Fund's accounts.

Competition; Availability of Investments. Certain markets in which the Hedge Fund may invest are extremely competitive for attractive investment opportunities. As a result, there can be no assurance that SCA will be able to identify or successfully pursue attractive investment opportunities in such environments.

Volatility Risk. The Hedge Fund's investment program may involve the purchase and sale of relatively volatile financial instruments and/or investments in volatile markets. Fluctuations or prolonged changes in the volatility of such financial instruments and/or markets can adversely affect the value of investments held by the Hedge Fund.

Model and Data Risk. Given the complexity of the investments and strategies of the Hedge Fund, SCA must rely heavily on quantitative models (both proprietary models developed by SCA, and those supplied by third parties) and information and data supplied by third parties ("Models and Data") rather

than granting trade-by-trade discretion to SCA's investment professionals. Models and Data are used to construct sets of transactions and investments, to value investments or potential investments (whether for trading purposes, or for the purpose of determining the net asset value of the Hedge Fund), to provide risk management insights, and to assist in hedging the Hedge Fund's investments.

When Models and Data prove to be incorrect, misleading or incomplete, any decisions made in reliance thereon expose the Hedge Fund to potential risks. For example, by relying on Models and Data, SCA may be induced to buy certain investments at prices that are too high, to sell certain other investments at prices that are too low, or to miss favorable opportunities altogether. Similarly, any hedging based on faulty Models and Data may prove to be unsuccessful. Furthermore, when determining the net asset value of the Hedge Fund, any valuations of the Hedge Fund's investments that are based on valuation models may prove to be incorrect.

Some of the models used by SCA are predictive in nature. The use of predictive models has inherent risks. For example, such models may incorrectly forecast future behavior, leading to potential losses on a cash flow and/or a mark-to-market basis. In addition, in unforeseen or certain low-probability scenarios (often involving a market disruption of some kind), such models may produce unexpected results, which can result in losses for the Hedge Fund. Furthermore, because predictive models are usually constructed based on historical data supplied by third parties, the success of relying on such models may depend heavily on the accuracy and reliability of the supplied historical data.

All models rely on correct market data inputs. If incorrect market data is entered into even a well-founded model, the resulting valuations will be incorrect. However, even if market data is input correctly, "model prices" will often differ substantially from market prices, especially for securities with complex characteristics, such as derivative securities.

Quantitative Model Risks. SCA employs quantitative, mathematical and statistical models to select investments for the Hedge Fund. The success of the Hedge Fund's investment and trading activities depends, in large part, on the viability of these quantitative models. There can be no assurance that these models will continue to be viable. The use of a model that is not viable or not completely viable could, at any time, have a material adverse effect on the performance of the Hedge Fund. There can be no assurance that the Hedge Fund will achieve its investment objectives or that the models (even if completely or partially viable) will continue to further or ultimately be capable of furthering the Hedge Fund's investment objectives.

Obsolescence Risk. The Hedge Fund is unlikely to be successful unless the assumptions underlying SCA's models are realistic and either remain realistic and relevant in the future or are adjusted to account for changes in the overall market environment. If such assumptions are inaccurate or become inaccurate and are not promptly adjusted, it is likely that profitable trading signals will not be generated. If and to the extent that the models do not reflect certain factors, and SCA does not successfully address such omission through its testing and evaluation and modify the models accordingly, major losses may result. SCA will continue to test, evaluate and add new models, as a result of which the existing models may be modified from time to time. Any modification of the models or strategies will not be subject to any requirement that investors receive notice of the change or that they consent to it. There can be no assurance as to the effects (positive or negative) of any modification on the Hedge Fund's performance.

Crowding/Convergence. There is significant competition among quantitatively-focused managers and the ability of SCA to deliver returns that have a low correlation with the broader global markets and other hedge funds is dependent on its ability to employ models that are simultaneously profitable and differentiated from those employed by other managers. To the extent that SCA is not able to

develop sufficiently differentiated models, the investors' investment objectives may not be met, irrespective of whether the models are profitable in an absolute sense. In addition, to the extent that SCA's model comes to resemble those employed by other managers, the risk that a market disruption that negatively affects predictive models will adversely affect the Hedge Fund is increased, as such a disruption could accelerate reductions in liquidity or rapid re-pricing due to simultaneous trading across a number of funds in the marketplace.

Risk of Programming and Modeling Errors. The research and modeling process engaged in by SCA is extremely complex and involves financial, economic, econometric and statistical theories, research and modeling; the results of that process must then be translated into computer code. Although SCA seeks to hire individuals skilled in each of these functions and to provide appropriate levels of oversight, the complexity of the individual tasks, the difficulty of integrating such tasks, and the limited ability to perform "real world" testing of the end product raises the chances that the finished model may contain an error; one or more of such errors could adversely affect the Hedge Fund's performance and likely would not constitute a trade error under SCA's policies.

Involuntary Disclosure Risk. The ability of SCA to achieve its investment goals for the Hedge Fund is dependent in large part on its ability to develop and protect its models and proprietary research. The models and proprietary research and the Models and Data are largely protected by SCA through the use of policies, procedures, agreements, and similar measures designed to create and enforce robust confidentiality, non-disclosure, and similar safeguards. However, aggressive position-level public disclosure obligations (or disclosure obligations to exchanges or regulators with insufficient privacy safeguards) could lead to opportunities for competitors to reverse-engineer SCA's models, and thereby impair the relative or absolute performance of the Hedge Fund.

Proprietary Trading Methods. Because the trading methods employed by SCA on behalf of the Hedge Fund are proprietary to SCA, an investor will not be able to determine any details of such methods or whether they are being followed.

Risk of Loss. No guarantee or representation is made that the Hedge Fund's investment program, including, without limitation, the Hedge Fund's investment objective, diversification strategies or risk monitoring goals, will be successful. Investment results may vary substantially over time. No assurance can be made that profits will be achieved or that substantial or complete losses will not be incurred. Past performance is no guarantee of future results.

General Economic and Market Conditions. The success of the Hedge Fund's activities will be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of the Hedge Fund's investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of the prices and the liquidity of the Hedge Fund's investments. Volatility or illiquidity could impair the Hedge Fund's profitability or result in losses. The Hedge Fund may maintain substantial trading positions that can be adversely affected by the level of volatility in the financial markets.

Global Macro. The Hedge Fund may employ investment strategies based on global macroeconomic themes. The success of these strategies depends upon SCA's ability to identify and exploit perceived fundamental, economic, financial and political imbalances that may exist in and between markets throughout the world. Identification and exploitation of such imbalances involves significant uncertainties. There can be no assurance that SCA will be able to locate investment opportunities or to exploit such imbalances. In the event that the theses underlying the Hedge Fund's positions fail to be

borne out in developments expected by SCA, the Hedge Fund may incur losses, which could be substantial.

Long/Short. The Hedge Fund may employ various long/short investment strategies. The success of these strategies depends upon our ability to identify and purchase financial instruments that are undervalued and identify and sell short financial instruments that are overvalued. The identification of investment opportunities in the implementation of the Hedge Fund's long/short investment strategies is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. In the event that the perceived opportunities underlying the Hedge Fund's positions were to fail to converge toward, or were to diverge further from values expected by SCA, the Hedge Fund may incur a loss. In the event of market disruptions, significant losses can be incurred which may force the Hedge Fund to close out one or more positions. Furthermore, the valuation models used to determine whether a position presents an attractive opportunity consistent with SCA's long/short strategies may become outdated and inaccurate as market conditions change.

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

Relative Value. Relative value investment strategies generally use spread trades consisting of a long position in one financial instrument offset by a short position in another. Such offsetting positions are meant to neutralize or reduce risk. The portfolio profits if SCA's relative valuation leads to a rise in the value of the long position(s) and/or a decline in the value of the short position(s). The Hedge Fund may employ a variety of relative value investment strategies whose success depends upon SCA's ability to identify and exploit perceived inefficiencies in the pricing of financial instruments, financial products, or markets. Identification and exploitation of such inefficiencies involve uncertainty. There can be no assurance that SCA will be able to locate investment opportunities or to exploit pricing inefficiencies in the securities markets. Mispricings, even if correctly identified, may not be corrected by the market, at least within a timeframe over which it is feasible for SCA to maintain a position. Even pure arbitrage positions can result in significant losses if SCA is not able to maintain both sides of the position until expiration/maturity. A reduction in the pricing inefficiency of the markets in which SCA seeks to invest will reduce the scope for the Hedge Fund's investment strategies. In the event that the

perceived mispricings underlying the Hedge Fund's positions were to fail to converge toward, or were to diverge further from, relationships expected by SCA, the Hedge Fund may incur losses. Even if the Hedge Fund's relative value investment strategies are successful, they may result in high portfolio turnover and, consequently, high transaction costs.

Long-Term Investment Strategies. SCA may pursue investment opportunities for the Hedge Fund that seek to maximize asset value or create market opportunities on a long-term basis. In pursuing such long-term strategies, the Hedge Fund may forego value in the short term or temporary investments in order to be able to avail the Hedge Fund of additional and/or longer-term opportunities in the future. Consequently, the Hedge Fund may not capture maximum available value in the short term, which may be disadvantageous, for example, for investors who withdraw or redeem all or a portion of their investments before such long-term value may be realized by the Hedge Fund.

Short-Term Market Considerations. SCA's trading decisions may be made on the basis of short-term market considerations, and the portfolio turnover rate could result in significant trading related expenses.

Leverage and Borrowing.

Leverage for Investment Purposes. The Hedge Fund may use leverage as part of the investment program. Leverage may take the form of, among other things, certain of the financial instruments described herein, including, without limitation, derivative instruments which are inherently leveraged and products with embedded leverage such as options, short sales, swaps and forwards, as well as borrowing on margin. The use of leverage will allow the Hedge Fund to make additional investments, thereby increasing its exposure to assets, such that its total assets may be greater than its capital. However, leverage will also magnify the volatility of changes in the value of the Hedge Fund's portfolio. The effect of the use of leverage by the Hedge Fund in a market that moves adversely to its investments could result in substantial losses to the Hedge Fund, which would be greater than if the Hedge Fund were not leveraged.

Borrowing for Cash Management Purposes. The Hedge Fund will have the authority to borrow for cash management purposes, such as to satisfy withdrawal requests. The rates at and terms on which the Hedge Fund can borrow will affect the operating results of the Hedge Fund.

Collateral. The instruments and borrowings utilized by the Hedge Fund to leverage investments may be collateralized by all or a portion of the Hedge Fund's portfolio. Accordingly, the Hedge Fund may pledge its financial instruments in order to borrow or otherwise obtain leverage for investment or other purposes. Should the financial instruments pledged to brokers to secure the Hedge Fund's margin accounts decline in value, the Hedge Fund could be subject to a "margin call", pursuant to which the Hedge Fund must either deposit additional funds or financial instruments with the broker or suffer mandatory liquidation of the pledged financial instruments to compensate for the decline in value. The banks and dealers that provide financing to the Hedge Fund can apply essentially discretionary margin, haircut, financing and collateral valuation policies. Changes by counterparties in any of the foregoing may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous prices. Lenders that provide other types of asset-based or secured financing to the Hedge Fund may have similar rights. There can be no assurance that the Hedge Fund will be able to secure or maintain adequate financing.

Costs. Borrowings will be subject to interest, transaction and other costs, and other types of leverage also involve transaction and other costs. Any such costs may or may not be recovered by the return on the Hedge Fund's portfolio.

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

Diversification and Concentration. SCA may select investments that are concentrated in a limited number or types of financial instruments. In addition, the Hedge Fund's portfolio may become significantly concentrated in financial instruments related to a single or a limited number of issuers, industries, sectors, strategies, countries or geographic regions. This limited diversification may result in the concentration of risk, which, in turn, could expose the Hedge Fund to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in such financial instruments.

Hedging Transactions. The Hedge Fund may utilize financial instruments for risk management purposes in order to: (i) protect against possible changes in the market value of the Hedge Fund's investment portfolio resulting from fluctuations in the markets and changes in interest rates; (ii) protect the Hedge Fund's unrealized gains in the value of its investment portfolio; (iii) facilitate the sale of any financial instruments; (iv) enhance or preserve returns, spreads or gains on any financial instrument in the Hedge Fund's portfolio; (v) hedge against a directional trade; (vi) hedge the interest rate, credit or currency exchange rate on any of the Hedge Fund's financial instruments; (vii) protect against any increase in the price of any financial instruments the Hedge Fund anticipates purchasing at a later date; or (viii) act for any other reason that SCA deems appropriate. The Hedge Fund will not be required to hedge any particular risk in connection with a particular transaction or its portfolio generally. While the Hedge Fund may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Hedge Fund than if it had not engaged in any such hedging transaction. Moreover, the portfolio will always be exposed to certain risks that cannot be hedged.

Fundamental Analysis. Certain trading decisions made by SCA may be based on fundamental analysis. Data on which fundamental analysis relies may be inaccurate or may be generally available to other market participants. To the extent that any such data are inaccurate or that other market participants have developed, based on such data, trading strategies similar to the Hedge Fund's trading strategies, the Hedge Fund may not be able to realize its investment goals. In addition, fundamental market information is subject to interpretation. To the extent that SCA misinterprets the meaning of certain data, the Hedge Fund may incur losses.

Discretion of SCA; New Strategies and Techniques. While SCA will generally seek to employ the representative investment strategies and techniques discussed herein, SCA has considerable discretion in the types of financial instruments the Hedge Fund may trade and has the right to modify the investment program, strategies and techniques of the Hedge Fund without the consent of the limited partners. New investment strategies and techniques may not be thoroughly tested in the market before being employed and may have operational or theoretical shortcomings which could result in unsuccessful trades and, ultimately, losses to the Hedge Fund. In addition, any new investment strategy or technique developed by the Hedge Fund may be more speculative than earlier investment strategies

and techniques and may involve material and as-yet-unanticipated risks that could increase the risk of an investment in the Hedge Fund.

Systems Risks. The Hedge Fund depends on SCA to develop and implement appropriate systems for trading and investing activities. SCA relies extensively on computer programs and systems (and may rely on new systems and technology in the future) for various purposes including, without limitation, to trade, clear and settle transactions, to evaluate certain financial instruments, to monitor portfolio positions and net capital, and to generate risk management and other reports that are critical to oversight of trading activities. Certain operations will be dependent upon systems operated by third parties and the Hedge Fund and SCA may not be in a position to verify the risks or reliability of such third-party systems. These programs or systems may be subject to certain limitations, including, but not limited to, those caused by incorrect code, computer “worms,” viruses and power failures. The failure of one or more systems or the inability of such systems to satisfy the Hedge Fund’s or SCA’s needs could have a material adverse effect on the Hedge Fund’s performance.

Correlation Risk. The Hedge Fund may be exposed to correlated risks. For example, in the recent crisis in the global markets, the poor performance of hedge funds and other investment vehicles led to increased difficulties in obtaining and maintaining financing, increased illiquidity, and increased valuation uncertainty, among other risks. To the extent various risks are correlated, losses could be accelerated or exacerbated.

Trading Judgment. The success of the Hedge Fund is subject to the judgment and skills of SCA’s research and trading personnel. Additionally, SCA’s trading abilities with regard to execution and discipline are important to the returns of the Hedge Fund. There can be no assurance that SCA’s investment decisions or actions will be correct. Incorrect decisions or poor judgment may result in substantial losses.

C. Risks Associated With Particular Types of Securities

We trade a wide range of instruments for our clients’ accounts.

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

Derivatives Regulation. Since the introduction of the Dodd-Frank Act in 2010, the CFTC has promulgated many final rules related to derivatives and such regulations may negatively affect the Hedge Fund. Parties that act as dealers in swaps, for example, are subject to extensive business conduct standards, additional “know your counterparty” obligations, recordkeeping, reporting, portfolio reconciliation, documentation standards and capital requirements and, when regulations are finalized, will become subject to margin requirements. Similar rules related to security-based swaps will soon be published. Requirements such as these will raise the costs of entering into derivative transactions, and these increased costs will likely be passed on to the Hedge Fund. The new rules also add additional operational and technological burdens on the Hedge Fund. Currently, with respect to swaps, the Hedge Fund must engage in portfolio reconciliation, recordkeeping, reporting and other transaction level obligations, which increase the compliance burdens and costs to the Hedge Fund. These compliance obligations require certain training of employees and technology, and there are operational risks as the Hedge Fund implements procedures to comply with many of these additional obligations. Certain swap

transactions have become (or will become) subject to anonymous “real time reporting”, meaning that transactions entered into by the Hedge Fund will become visible to the market in ways that may harm the Hedge Fund’s ability to enter into additional transactions at comparable prices or could enable competitors to “front run” or replicate the Hedge Fund’s strategies. In addition, certain swap transactions have become (or will become) subject to mandatory trading on regulated trading venues such as swap execution facilities (“SEFs”), which will require the Hedge Fund to subject itself to regulation by these venues and subject the Hedge Fund to the jurisdiction of the CFTC. It is not clear whether these trading venues will benefit or impede liquidity, or how they will fare in times of market stress. Trading on these trading venues may increase the pricing discrepancy between assets and their hedges as products may not be able to be executed simultaneously, therefore increasing basis risk. It may also become relatively expensive for the Hedge Fund to obtain tailored swap products to hedge particular risks in its portfolio due to higher collateral requirements on bilateral transactions as a result of the new regulations. The SEC still is at a nascent stage for implementing rules related to security-based swaps. It is possible that security-based swaps will be subject to different rules and regulations than swaps. Since the division of “swaps” (regulated by the CFTC) and “security-based swaps” (regulated by the SEC) is a regulatory distinction rather than a product distinction, substantively similar products may have significantly different regulatory treatment. This may mean that the operational complexities of trading various derivative instruments are increased. Overall, new regulations may also render certain strategies in which the Hedge Fund might otherwise engage impossible or so costly that they will no longer be economical to implement. The impact of the Dodd-Frank Act or comparable regulations in other jurisdictions on the Hedge Fund is uncertain, and it is unclear how the over-the-counter derivatives markets will adapt to this new regulatory regime or any additional regulation in the future.

Call Options. The seller (writer) of a call option which is covered (*i.e.*, the writer holds the underlying financial instrument) assumes the risk of a decline in the market price of the underlying financial instrument below the purchase price of the underlying financial instrument less the premium received, and gives up the opportunity for gain on the underlying financial instrument above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying financial instrument above the exercise price of the option. The financial instruments necessary to satisfy the exercise of an uncovered call option may be unavailable for purchase, except at much higher prices, thereby reducing or eliminating the value of the premium. Purchasing financial instruments to cover the exercise of an uncovered call option can cause the price of the financial instruments to increase, thereby exacerbating the loss. The buyer of a call option assumes the risk of losing its entire premium investment in the call option.

Put Options. The seller (writer) of a put option which is covered (*i.e.*, the writer has a short position in the underlying financial instrument) assumes the risk of an increase in the market price of the underlying financial instrument above the sales price (in establishing the short position) of the underlying financial instrument plus the premium received, and gives up the opportunity for gain on the underlying financial instrument if the market price falls below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying financial instrument below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option.

Index or Index Options. The value of an index or index option fluctuates with changes in the market values of the assets included in the index. Because the value of an index or index option depends upon movements in the level of the index rather than the price of a particular asset, whether the Hedge Fund will realize appreciation or depreciation from the purchase or writing

of options on indices depends upon movements in the level of instrument prices in the assets generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular assets.

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

Credit Default Swaps. A credit default swap is a contract between two parties which transfers the risk of loss if a company fails to pay principal or interest on time or files for bankruptcy. In essence, an owner of corporate debt instruments can purchase default protection by entering into a credit default swap with a bank, broker-dealer or other party. Upon an event of default, the swap may be terminated in one of two ways: (i) by the purchaser of credit protection delivering the referenced instrument to the swap counterparty and receiving a payment of par value, or (ii) by the parties pairing off payments, with the purchaser of the protection receiving a payment equal to the par value of the reference security less the price at which the reference security trades subsequent to default. Credit default swaps can be used by the Hedge Fund to hedge a portion of the default risk on a single corporate bond or a portfolio of bonds or to implement a view that a particular credit, or group of credits, will experience credit improvement. In the case of expected credit improvement, the Hedge Fund may sell credit default protection in which it receives a premium to take on the risk. In such an instance, the obligation of the Hedge Fund to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. The Hedge Fund may also "purchase" credit default protection even in the case in which it does not own the referenced instrument if, in the judgment of SCA, there is a high likelihood of credit deterioration. Swap transactions dependent upon credit events are priced incorporating many variables, including the pricing and volatility of the common stock, potential loss upon default and the shape of the U.S. Treasury Yield Curve, among other factors. As such, there are many factors upon which market participants may have divergent views. The Hedge Fund may also enter into credit default swap transactions, even if the credit outlook is positive, if it believes that participants in the marketplace have incorrectly valued the components which determine the value of a swap.

Futures Contracts. The value of futures contracts depends upon the price of the financial instruments, such as commodities, underlying them. The prices of futures contracts are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, as well as national and international political and economic events and policies. In addition, investments in futures contracts are also subject to the risk of the failure of any of the exchanges on which the Hedge Fund's positions trade or of its clearing houses or counterparties. Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits". Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits.

Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Hedge Fund from promptly liquidating unfavorable positions and subject the Hedge Fund to substantial losses or prevent it from entering into desired trades. Also, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a financial instrument or contract can produce a disproportionately larger profit or loss. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

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

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

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

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

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

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

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

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

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

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

Dealer Market Making. The value of the Hedge Fund’s fixed-income investments will be affected by general fixed income market conditions, such as the volatility and liquidity of the fixed income market, which are affected by the ability of dealers to “make a market” in fixed-income investments. In recent years, the market for bonds has significantly increased while dealer inventories have significantly decreased, relative to market size. This reduction in dealer inventories may be attributable to regulatory changes, such as capital requirements, and is expected to continue. As dealers’ inventories decrease, so does their ability to make a market (and, therefore, create liquidity) in the fixed income market. Especially during periods of rising interest rates, this could result in greater volatility and illiquidity in the fixed income market, which could impair the Hedge Fund’s profitability or result in losses.

Interest Rate Risk. Changes in interest rates can affect the value of the Hedge Fund’s investments in fixed-income instruments. Increases in interest rates may cause the value of the Hedge Fund’s debt investments to decline. The Hedge Fund may experience increased interest rate risk to the extent it invests, if at all, in lower rated instruments, debt instruments with longer maturities, debt instruments paying no interest (such as zero coupon debt instruments) or debt instruments paying non-cash interest in the form of other debt instruments.

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

obligations. Similarly, floating rate issuers and borrowers tend to prepay their obligations when spreads narrow.

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

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

Corporate Debt. The Hedge Fund may invest in bonds, notes and debentures issued by corporations. These instruments may pay fixed, variable or floating rates of interest, and may include zero coupon obligations. The Hedge Fund may invest in corporate debt instruments that have experienced or are contemplated to experience ratings downgrades. Other instruments may have the lowest quality ratings or may be unrated. Credit ratings evaluate the safety of the principal and interest payments, not the market value risk of lower-rated instruments. Such ratings also do not reflect macroeconomic or systemic risk, including the risk of increased illiquidity in the credit markets. It is also possible that a rating agency might not change its rating of a particular issue on a timely basis and, as a result, outstanding ratings may not reflect the issuer’s current credit standing. Conversely, rating agencies may re-rate an instrument which could cause substantial loss as the ratings are downgraded. The Hedge Fund’s investments may experience significant credit rating volatility. In addition, the Hedge Fund may be paid interest in kind in connection with its investments in corporate debt and related financial instruments (*e.g.*, the principal owed to the Hedge Fund in connection with a debt investment may be increased by the amount of interest due on such debt investment). Such investments may experience greater market value volatility than debt obligations that provide for regular payments of interest in cash and, in the event of a default, the Hedge Fund may experience substantial losses.

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

Non-Performing Nature of Debt. Certain debt instruments purchased by SCA for the Hedge Fund may be non-performing and possibly in default. Furthermore, the obligor or relevant

guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to the loans.

Sovereign Debt. The Hedge Fund may invest in financial instruments issued by a government, its agencies, instrumentalities or its central bank ("Sovereign Debt"). Sovereign Debt may include financial instruments that SCA believes are likely to be included in restructurings of the external debt obligations of the issuer in question. The ability of an issuer to make payments on Sovereign Debt, the market value of such debt and the inclusion of Sovereign Debt in future restructurings may be affected by a number of other factors, including such issuer's (i) balance of trade and access to international financing, (ii) cost of servicing such obligations, which may be affected by changes in international interest rates, and (iii) level of international currency reserves, which may affect the amount of foreign exchange available for external debt payments. Significant ongoing uncertainties and exposure to adverse conditions may undermine the issuer's ability to make timely payment of interest and principal, and issuers may default on their Sovereign Debt.

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

Convertible Securities. A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by the Hedge Fund is called for redemption, the Hedge Fund will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on the Hedge Fund's ability to achieve its investment objective.

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

Fund under such laws and regulations are unavailable for transactions on non-U.S. exchanges and with non-U.S. counterparties.

ABS Generally. The investment characteristics of asset-backed securities (“ABS”) differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that the principal may be prepaid at any time because the underlying loans or other assets generally may be prepaid at any time.

ABS Securities. Investments in ABS involves greater credit risk of default than the senior classes of the issue or series. Default risks may be further pronounced in the case of ABS secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying loans. Certain subordinated securities absorb all losses from default before any other class of securities is at risk, particularly if such securities have been issued with little or no credit enhancement or equity. Such securities, therefore, possess some of the attributes typically associated with equity investments.

ABS. Through the use of trusts and special purpose corporations, various types of assets, primarily automobile and credit card receivables, are securitized in pass through structures. The Hedge Fund may invest either directly or indirectly, through CDOs (as defined below), in these and other types of ABS that may be developed in the future.

ABS does not have the benefit of a security interest in the related collateral. Credit card receivables, for example, are generally unsecured and the debtors are entitled to the protection of a number of state and federal consumer loan laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. Most issuers of ABS backed by automobile receivables permit the servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related ABS. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the ABS may not have a proper security interest in all of the obligations backing such ABS. Therefore, there is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor.

The collateral supporting ABS is of shorter maturity than certain other types of loans and is less likely to experience substantial prepayments. ABS are often backed by pools of any variety of assets, including, for example, leases, mobile home loans and aircraft leases, which represent the obligations of a number of different parties and use credit enhancement techniques such as letters of credit, guarantees or preference rights. The value of an ABS is affected by changes in the market’s perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement.

Collateralized Obligations Generally. There are a variety of different types of collateralized debt obligations (“CDOs”) and collateralized loan obligations (“CLOs”), including CDO and CLO equity, multi-sector CDO equity, trust preferred CDO equity and CLO debt. CDOs are subject to credit, liquidity and interest rate risks, which are each discussed in greater detail above. The CDO equity may be unrated or non-investment grade. As a holder of CDO equity, the Hedge Fund will have limited remedies available upon the default of the CDO. The Hedge Fund may be unable to find a sufficient number of attractive opportunities to meet its investment objective or fully invest its committed capital.

For example, from time to time, the market for CDO transactions has been adversely affected by a decrease in the availability of senior and subordinated financing for transactions, in part in response to regulatory pressures on providers of financing to reduce or eliminate their exposure to such transactions. CDOs often invest in concentrated portfolios of assets. The concentration of an underlying portfolio in any one obligor would subject the related CDOs to a greater degree of risk with respect to defaults by such obligor and the concentration of a portfolio in any one industry would subject the related CDOs to a greater degree of risk with respect to economic downturns relating to such industry.

The value of CDOs generally fluctuates with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CDO ("CDO Collateral"), general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. Consequently, holders of CDOs must rely solely on distributions on the CDO Collateral or proceeds thereof for payment in respect thereof. If distributions on the CDO Collateral are insufficient to make payments on the CDOs, no other assets will be available for payment of the deficiency and following realization of the CDOs, the obligations of such issuer to pay such deficiency generally will be extinguished. CDO Collateral may consist of high-yield debt securities, loans, asset-backed securities and other securities, which often are rated below investment grade (or of equivalent credit quality). High-yield debt securities generally are unsecured (and loans may be unsecured) and may be subordinated to certain other obligations of the issuer thereof. The lower ratings of high-yield securities and below investment grade loans reflect a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the related issuer or obligor to make payments of principal or interest. Such investments may be speculative.

Undervalued Securities. The Hedge Fund may invest in securities of companies which SCA believes to be undervalued. However, the identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued securities offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the Hedge Fund's investments may not adequately compensate for the business and financial risks assumed.

Distressed Obligations. The Hedge Fund may invest in obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These obligations are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate, recharacterize debt as equity or disenfranchise particular claims. Such companies' obligations may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to the Hedge Fund's investments in any financial instrument, and of the obligations in which the Hedge Fund invests may be less than investment grade. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that value of the assets collateralizing the Hedge Fund's investments will be sufficient or that prospects for a successful reorganization or similar action will

become available. In any reorganization or liquidation proceeding relating to a company in which the Hedge Fund invests, the Hedge Fund may lose its entire investment, may be required to accept cash or financial instruments with a value less than its original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Hedge Fund's investments may not compensate the limited partners adequately for the risks assumed. In addition, under certain circumstances, payments and distributions may be disgorged if any such payment is later determined to have been a fraudulent conveyance or a preferential payment. In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new financial instrument, the value of which will be less than the purchase price to the Hedge Fund of the financial instrument in respect to which such distribution was made.

Exchange-Traded Funds. The Hedge Fund may invest in Exchange-Traded Funds ("ETFs"), which are shares of publicly traded unit investment trusts, open-end funds or depository receipts that seek to track the performance and dividend yield of specific indexes or companies in related industries. These indexes may be either broad-based, sector, or international. However, ETF shareholders are generally subject to the same risk as holders of the underlying financial instruments they are designed to track. ETFs are also subject to certain additional risks, including, without limitation, the risk that their prices may not correlate perfectly with changes in the prices of the underlying financial instruments they are designed to track, and the risk of trading in an ETF halting due to market conditions or other reasons, based on the policies of the exchange upon which the ETF trades. In addition, the Hedge Fund may bear, along with other shareholders of an ETF, its *pro rata* portion of the ETF's expenses, including management fees. Accordingly, in addition to bearing their proportionate share of the Hedge Fund's expenses (e.g., management fees and operating expenses), investors may also indirectly bear similar expenses of an ETF.

Micro-, Small- and Medium-Capitalization Companies. The Hedge Fund may invest in securities of micro- and smaller-capitalization companies. Such securities involve higher risks in some respects than do investments in securities of larger "blue-chip" companies. For example, prices of securities of micro- and small-capitalization and even medium-capitalization companies are often more volatile than prices of securities of large-capitalization companies and may not be based on standard pricing models that are applicable to securities of large-capitalization companies. Furthermore, the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) may be higher than for larger, "blue-chip" companies. Finally, due to thin trading in the securities of some micro- and small-capitalization companies, an investment in those companies may be less liquid than large-capitalization companies.

Currencies. A principal risk in trading currencies is the rapid fluctuation in the market prices of currency contracts. Prices of currency contracts traded by the Hedge Fund are affected generally by relative interest rates, which in turn are influenced by a wide variety of complex and difficult to predict factors such as money supply and demand, balance of payments, inflation levels, trade deficits, budget deficits, national savings rates, fiscal policy, and political and economic events. In addition, governments from time to time intervene, directly and by regulation, in these markets, with the specific effect, or intention, of influencing prices which may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations.

The Hedge Fund may enter into spot and forward currency contracts and options on currencies to trade currencies or to shift exposure to foreign currency fluctuations from one currency to another with respect to the Hedge Fund. Currency transactions made on a spot basis are for cash at the spot rate

prevailing in the currency market for buying or selling currency. A forward currency contract, which involves an obligation to purchase or sell a specific currency at a future date at a price set at the time of the contract, reduces the Hedge Fund's exposure with respect to its investment to changes in the value of the currency it will deliver and increases its exposure to changes in the value of the currency it will receive for the duration of the contract.

Currency trading is subject to risks different from those of other transactions. In countries where exchange rate control is of great importance and influences economic planning and policy, purchases and sales of currency and related instruments can be negatively affected by government exchange controls, blockages, and manipulations or exchange restrictions imposed by governments. These government actions can result in losses to the Hedge Fund if it is unable to deliver or receive currency or funds in settlement of obligations. Furthermore, settlement of a currency forward contract for the purchase of most currencies must occur at a bank based in the issuing nation.

Under normal market conditions, transactions involving the U.S. Dollar and other currencies are expected to be executed quickly and with low transaction costs. However, in periods of market stress, the instruments necessary to permit the Hedge Fund to execute its investment program may not generally be available or may not, in SCA's judgment, be economically priced. In addition, following a significant decline in the net asset value of the Hedge Fund, or a significant loss by the Hedge Fund on a currency portfolio, counterparties may be unwilling to continue to offer currency instruments to the Hedge Fund and may have the ability to terminate the master agreements relating to the existing currency instruments and all currency transactions documented thereunder. Finally, the Hedge Fund's counterparties are not contractually obligated to offer currency instruments to the Hedge Fund following the maturity of a given transaction or to increase the size of a transaction at the Hedge Fund's request.

Commodities.

Factors Affecting Commodities Prices. The values of commodities which underlie the commodity futures contracts and other types of financial instruments are generally affected by, among other factors, the cost of producing commodities, changes in consumer demand for commodities, the hedging and trading strategies of producers and consumers of commodities, speculative trading in commodities by commodity pools and other market participants, disruptions in commodity supply, weather and climate conditions, changes in interest rates, rates of inflation, currency devaluations and revaluations, embargoes, tariffs, regulatory developments, governmental, agricultural, trade, fiscal, monetary and exchange control programs and policies, political and other global events and global economic factors. In addition, governments from time to time intervene, directly and by regulation, in certain markets, often with the intent to influence prices directly. The effects of governmental intervention may be particularly significant at certain times in certain markets and this intervention may cause these markets to move rapidly. The Hedge Fund and SCA have no control over the factors that affect the price of commodities. Accordingly, the value of the Hedge Fund's investments could change substantially and in a rapid and unpredictable manner.

Agricultural Commodities. Agricultural commodities are particularly sensitive to changes in, among other things, climate, crop and livestock health, world political events, government action (including export and import restrictions and embargoes), international and regional trade contracts, labor contracts, transportation systems and crop predictions. Significant production declines and volume decreases of agricultural commodities can occur as a result of,

among other things, hurricanes, tornadoes, floods, fires and other natural disasters. In addition, agricultural commodities are subject to price volatility as a result of disruptions relating to the facilities necessary to produce, transport, store and deliver the agricultural commodity. As a result, the net assets of the Hedge Fund may be affected by such factors.

Precious Metals. Prices of precious metals (e.g., gold, silver, platinum and palladium) are affected by factors such as cyclical economic conditions, political events, and monetary policies of various governments and countries. In addition, certain precious metals are geographically concentrated, and events in those parts of the world in which such concentration exists may affect their values. Gold and other precious metals are also subject to governmental action for political reasons. The markets for precious metals are volatile and there may be sharp fluctuations in prices even during period of rising prices.

Energy. Markets for energy-related commodities, including, without limitation, electricity, coal, natural gas, crude oil and other petroleum products, can be susceptible to substantial price fluctuations over short periods of time and are particularly affected by political events, natural disasters, exploration and development success or failure, and technological changes. In addition, significant short-term price volatility can be caused by the inability to store electricity, tariff regulation and consumer advocacy.

Cash Commodities. Contracts governing the purchase and sale of specific commodities (known as “cash commodities”) for immediate or deferred delivery may differ from each other with respect to terms such as quantity, grade, mode of shipment, terms of payment, penalties and risk of loss. There is no limit on daily price movements of cash commodities and banks, brokerage firms, and dealers in cash commodities are not required to continue to make markets in any commodity. Lastly, the CFTC does not comprehensively regulate cash transactions, which are subject to the risk of the foregoing entities’ failure, inability or refusal to perform with respect to such contract.

Illiquid financial instruments. We anticipate that the Hedge Fund will predominantly hold readily tradable financial instruments. While it is not expected, the Hedge Fund may also invest in, or come to hold, financial instruments that are subject to legal or other restrictions on transfer or for which no liquid market exists. There may be limited information available about the issuers of illiquid financial instruments that may make valuation of such financial instruments difficult or uncertain. The market prices, if any, for such investments tend to be volatile and may not be readily ascertainable, and the Hedge Fund may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid financial instruments often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of financial instruments eligible for trading on national securities exchanges or in the over-the-counter markets. The Hedge Fund may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. As a result, the Hedge Fund may be required to hold such financial instruments despite adverse price movements. In addition, even those markets that SCA expects to be liquid can experience periods, possibly extended periods, of illiquidity. Occasions have arisen in the past where previously liquid investments have rapidly become illiquid.

Item 9: Disciplinary Information

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

Item 10: Other Financial Industry Activities and Affiliations

A. Broker-Dealer Registration Status

We have no disclosures to make under Item 10.A.

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

SCA is a member of the NFA and is registered with the CFTC as a CPO and CTA.

C. Material Relationships or Arrangements with Industry Participants

SCA is one of three investment advisory firms that are wholly-owned by SECOR Asset Management, LP (“SAM”) and registered with the SEC. The other two firms are SECOR Investment Management, LP (“SIM”) and SECOR Investment Advisors, LP (“SIA”). SIA provides non-discretionary and discretionary advice concerning the structuring of investment portfolios to institutions and non-discretionary investment advisory services to a pooled investment vehicle that is a “fund of funds”. SIM provides discretionary investment management services to institutional clients and pooled investment vehicles. SECOR Investment Advisors (UK), LLP (“SIA UK”), which is indirectly owned by SAM, is a limited liability partnership formed in the United Kingdom that is authorized and regulated by the United Kingdom Financial Conduct Authority (FCA) and registered with the SEC as a relying adviser under umbrella registration with SIA. SIA UK provides non-discretionary investment advisory services similar to those provided by SIA, including non-discretionary investment advisory services to a pooled investment vehicle that is a “fund of funds”. SAM owns SECOR Partners (UK), Ltd., the controlling parent entity of SIA (UK). SECOR Partners, LLC is the governing entity of SAM. Its managing members are Tony Kao and Raymond Iwanowski.

MassMutual’s Babson Capital Management, LLC (“Babson”) purchased a minority, passive non-controlling interest in SAM in September 2011. Babson acquired less than 10% of SAM. In September 2016, Babson completed the integration of four Massachusetts Mutual Life Insurance Company (MassMutual) institutional affiliates (previously announced on March 9, 2016). Babson and its subsidiaries, Cornerstone Real Estate Advisers LLC, Wood Creek Capital Management, LLC, and Baring Asset Management Limited are now operating as a unified company under the “Barings” name. SECOR does not believe that Barings’ ownership interest creates any material conflict of interest with clients.

SAM and its affiliates are collectively referred to herein as the “SECOR Management Group”. Entities within the SECOR Management Group share certain personnel and other resources.

The interrelationships among the above entities present potential conflicts of interest, including but not limited to the following:

Resource Allocation: SECOR Management Group personnel may have conflicts in allocating their time and services among their clients. Such personnel will devote as much time to each client as is appropriate for the SECOR Management Group to perform its duties in accordance with its client agreements.

Trade Allocation: SECOR Management Group may face conflicts in allocating limited investment opportunities among clients with similar investment objectives or hedging requirements. While SECOR Management Group personnel will attempt to allocate such

limited investment opportunities on a fair and equitable basis; however, there is no guarantee that every client will participate in such opportunities as fully as every other client.

Potential Impact of Trades: The purchase or sale of a security or investment position with limited liquidity in one client's account may temporarily inflate or depress the market price of the security or investment position, thereby having an adverse impact upon the value of any account holding that position and/or the ability of such account to liquidate its position;

Potential Impact of Liquidations: The liquidation of a securities or investment position with limited liquidity in one client's account may temporarily depress the market price of that security or investment instrument, thereby having an adverse impact upon the value of any account holding that position and/or the ability of such account to liquidate its position.

Potential Impact of Aggregation: The positions of clients of the SECOR Management Group may be aggregated for purposes of position limits, reporting requirements and other regulatory requirements and prohibitions. As a result, some clients may not be able to hold as large a position in a particular security as they would be able to hold if their position were not aggregated with those of other clients.

D. Material Conflicts of Interest Relating to Other Investment Advisers

We have no disclosures to make under Item 10.D.

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

A. Code of Ethics

SCA recognizes and believes that (i) high ethical standards are essential for its success and to maintain the confidence of its clients; (ii) its long-term business interests are best served by adherence to the principle that the interests of clients come first; and (iii) it has a fiduciary duty to its clients to act for their benefit. All SCA personnel must put the interests of its clients before their own personal interests and must act honestly and fairly in all respects in dealings with clients. All SCA personnel must also comply with all federal securities laws.

SCA has adopted a Code of Ethics governing personal trading by its personnel. Among other requirements, all personnel must seek pre-approval from the Chief Compliance Officer (“CCO”) for certain personal trades, must report their personal securities transactions and holdings to the CCO, and must report to the CCO when they believe that a violation of the Code of Ethics has occurred. Clients or prospective clients may review the Code of Ethics by contacting SCA’s Chief Compliance Officer via phone at 212-980-7350. Inquiries can also be sent via email to cco@secor-am.com.

Gifts and Entertainment

SCA has considered the risk that employees might be improperly influenced by excessive gifts or entertainment. SCA has also considered the risk that employees might try to use gifts or entertainment to exert improper influence on another individual or entity. SCA has established a policy to mitigate such risks by establishing limits and reporting obligations relating to gifts and entertainment.

Political and Charitable Contributions

Political contributions by SCA or SCA’s supervised persons to politically connected individuals or entities with the intention of influencing such individuals or entities for business purposes are strictly prohibited.

SCA strictly prohibits its supervised persons, as well as any affiliated entity, from making political contributions to any state or local government entity, official, candidate, political party, or political action committee.

B. Securities in Which SCA or a Related Person Has a Material Financial Interest

We have no disclosures to make under Item 11.B.

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

We require that our personnel obtain preapproval prior to engaging in any transaction in a “reportable security” within the meaning of SEC Rule 204A-1 (with certain limited exceptions).

D. Conflicts of Interest Created by Contemporaneous Trading

Our personal trading policy allows employees to purchase or sell similar securities to those purchased and sold for our investment products, subject to our approval process. In general, we expect that our pre-approval process will reduce the risk of contemporaneous trading.

Item 12: Brokerage Practices

A. Factors Considered in Selecting or Recommending Broker-Dealers

Research and Other Soft Dollar Benefits

We do not engage in so-called “soft dollar” agreements with broker-dealers to pay for research-related expenses. However, we do intend to cause or allow our clients to take advantage of certain services offered directly to them by brokers and dealers (*e.g.*, exchange connectivity and certain execution applications), which we will review under an overall “best execution” analysis. In addition, we may receive periodic client updates, capital introduction “market color” reports, seminar invitations, or consulting services relating to technology and office space and other services from service providers (including prime brokers, counterparties, law firms and auditors) by virtue of being a client or prospective client of such providers (and/or by virtue of being an advisor to a client or prospective client of such providers).

Brokerage for Client Referrals

We do not direct brokerage activity to specific broker-dealers in exchange for client referrals. We do, however, utilize certain capital introduction services offered by a number of our prime brokers, pursuant to which we receive introductions to qualified prospective investors in the Hedge Fund. We will review the performance and costs of the brokerage services provided by these prime brokers as part of our “best execution” analysis.

Directed Brokerage

As of the date of this brochure we do not permit our clients to recommend, request or require us to execute transactions through a specified broker-dealer.

B. Order Aggregation and Trade Allocation

We will combine trade orders when aggregation is: (1) consistent with our duty to seek to obtain best execution, (2) consistent with the terms of the investment guidelines and restrictions of each client for which trades are being aggregated, (3) feasible based on the arrangements that exist with exchanges, clearing houses, and other intermediaries in the markets in which we trade, and (4) possible absent a number of various other potential issues, such as but not limited to, instances in which clients do not have trading relationships with certain counterparties, tax or regulatory considerations applicable to clients, and limitations in execution or operational technology that do not make aggregation feasible. If an aggregated order is filled in its entirety, it will generally be allocated among participating client accounts in accordance with the intended pre-trade allocations. If an aggregated order is executed at different clearing prices within a specific execution throughout the trading day, the multiple clearing prices will generally be distributed amongst the applicable participating client accounts pro rata according to the intended pre-trade allocations to ensure the same average execution price across the applicable portfolios or in such a manner that the overall price allocated may not be beneficial to any one client. If an aggregated order quantity exceeds the amount ultimately executed during the relevant trading day, the resulting partial fill will be distributed among the applicable client accounts pro rata based on the intended pre-trade allocation.

SECOR's trading process generally endeavors to allocate executed transactions on a pro-rata basis among participating clients and in a way that furnishes each client with the same average fill price. SECOR intends to allocate investment opportunities on a fair and equitable basis in view of the respective clients' investment objectives and restrictions and available capital and SECOR maintains trade allocation and order aggregation policies that are regularly reviewed by the Chief Compliance Officer and members of SECOR's Investment Team.

C. Trade Errors

A client may on occasion experience errors with respect to trades made on its behalf. Trade errors may include, for example, (i) the placement of orders (either purchases or sales) in excess of the amount of securities the client intended to trade; (ii) the sale of an asset when it should have been purchased; (iii) the purchase of an asset when it should have been sold; (iv) the purchase or sale of the wrong asset; (v) the purchase or sale of an asset contrary to regulatory restrictions or a client's investment guidelines or restrictions; (vi) incorrect allocations of trades; (vii) keystroke errors that occur when entering trades into an electronic trading system; and (viii) typographical or drafting errors related to derivatives contracts or similar agreements. Trade errors may result in losses or gains. SECOR will endeavor to detect trade errors prior to settlement and correct and/or mitigate them in an expeditious manner. To the extent an error is caused by a counterparty, such as a broker-dealer, SECOR will seek to recover any losses associated with such error from the counterparty.

Pursuant to the indemnification provided by clients via investment management or similar agreements, SECOR will generally not be liable to clients for any trade errors, absent certain "Disabling Conduct" by SECOR or breach of ERISA fiduciary responsibilities, if applicable, and the client, as applicable, will generally be required to indemnify SECOR against any losses they may incur by reason of any act or omission related to the client, as applicable, absent Disabling Conduct by SECOR or breach of ERISA fiduciary responsibilities, if applicable.

As a result of these provisions, clients will generally benefit from any net gains resulting from trade errors and will be responsible for any net losses (including additional trading costs) resulting from trade errors and similar human errors, absent Disabling Conduct. As of each month-end, SECOR will offset any net gains and net losses resulting from trade errors and, in the case of net losses for which it is responsible, SECOR will reimburse clients for such net losses. Given the potentially large volume of transactions executed by SECOR on behalf of clients, investors should assume that trade errors (and similar errors) will occur and that, to the extent permitted by law and under prevailing agreements, and during periods of time in which the clients assets are not treated as "plan assets" for purposes of ERISA, clients will be responsible for any resulting losses, even if such losses result from SECOR's negligence (but not gross negligence).

Item 13: Review of Accounts

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

Our senior personnel, including certain of our individual portfolio managers and researchers, conduct periodic reviews of our clients' portfolios. These reviews consider, but are not limited to, a review of performance, transactions, compliance to guidelines and strategy. A review of a client's portfolio may be triggered by any activity or unusual circumstances.

We provide investors with monthly, unaudited reports containing performance information and certain risk metrics and with annual audited financial statements within 120 days of the applicable pooled investment vehicle client's fiscal year end.

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

Item 13.B. is not applicable as we do not provide these services to clients.

C. Content and Frequency of Account Reports to Clients

With respect to clients that are pooled investment vehicles, we arrange for audited financial statements to be provided on an annual basis. We also arrange for written monthly statements to be provided to investors.

To the extent we have clients that are not pooled investment vehicles, the reporting obligations would be specified in the relevant investment management agreement.

Item 14: Client Referrals and Other Compensation

A. Economic Benefits for Providing Services to Clients

We have no disclosures to make under Item 14.A.

B. Compensation to Non-Supervised Persons for Client Referrals

We have no disclosures to make under Item 14.B.

Item 15: Custody

Our clients that are pooled investment vehicles are audited in accordance with U.S. generally accepted accounting principles (“GAAP”) by an independent public accounting firm that is registered with, and subject to regular inspections by, the Public Company Accounting Oversight Board (“PCAOB”). The audited financial statements are distributed to investors in the client pooled investment vehicles within 120 days of year-end. Client assets are held at “qualified custodians.”

Item 16: Investment Discretion

We provide investment advisory services on a discretionary basis to our clients. We are granted this power through investment management agreements that give us broad authority to buy and sell securities and other financial instruments for client accounts. In some cases we may obtain additional resolutions, powers of attorney, or other authorizations from a client (including from the board of directors or general partner of a client) specifically granting us these powers.

We also generally have the ability to transfer assets among a client's accounts and to leverage and otherwise encumber the assets in such accounts. We may also withdraw cash or securities from client accounts for certain purposes, including, without limitation, to satisfy obligations to us or third parties in respect of incentive fees or allocations, management fees, for expense reimbursement or for payments of expenses.

Item 17: Voting Client Securities

A. Policies and Procedures Relating to Voting Client Securities

We engage an independent proxy voting service to assist us in fulfilling any duties or obligations that we may have with respect to voting proxies. The independent proxy voting service may provide our clients with proxy analysis and voting recommendations, vote execution, and periodic reports indicating how individual votes have been cast. We adopt the voting service's voting guidelines. However, we may, from time to time, determine that it is in the best interests of our clients to depart from such voting recommendations. In such circumstances we can override their voting guidelines and provide specific voting instructions.

Clients may obtain information from us on how we voted their proxies upon request and may obtain a copy of our proxy voting policy and procedures upon request. We currently believe that it is unlikely that we will be faced with any direct or indirect conflicts of interest with respect to the voting of proxies, in part because of our expected engagement of an independent proxy voting service to handle all proxy votes and our intention to adopt its voting guidelines.

In the event that we manage specific separate accounts, the allocation of responsibilities for the proxy voting function would be subject to the relevant investment management agreement (and therefore some or all of the disclosures in the remainder of this Item 17 could be inapplicable to those clients).

B. No Authority to Vote Client Securities and Client Receipt of Proxies

Item 17.B. currently does not apply to us.

Item 18: Financial Information

A. Balance Sheet

This item is inapplicable as we do not require or solicit prepayment of fees six months or more in advance.

B. Financial Conditions Likely to Impair Ability to Meet Contractual Commitments to Clients

We have no disclosures to make under Item 18.B.

C. Bankruptcy Filings

We have no disclosures to make under Item 18.C.