



Form ADV

Part 2A Brochure

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This brochure provides information about the qualifications and business practices of Laurion Capital Management LP ("Laurion"). If you have any questions about the contents of this brochure, please contact us at 212-938-6300 or compliance@laurioncap.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about Laurion is also available on the SEC's website at: www.adviserinfo.sec.gov.

Registration with the SEC does not imply a certain level of skill or training.

This brochure does not constitute an offer to sell or the solicitation of an offer to purchase any securities of any entities described in this brochure.

Item 2 - Material Changes

This brochure is an update to the Form ADV Part 2A brochure submitted by Laurion in June 2018. We recommend that you read this brochure in its entirety. While this update to our brochure contains changes and updates to certain information, we do not feel they constitute material changes from the last update.

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Item 4 - Advisory Business

Laurion Capital Management LP provides investment advisory services to pooled investment vehicles operating as private investment funds (i.e., hedge funds). Laurion was founded in 2005 and is primarily owned by Benjamin A. Smith and Janaka Sheehan Maduraperuma. As of December 31, 2018, Laurion had \$2.6267 billion in client assets under management. All of these assets are managed on a discretionary basis.

We act as investment adviser to the following funds:

- Laurion Capital Ltd. (the "Offshore Fund");
- Laurion Capital LP (the "Onshore Fund"); and
- Laurion Capital Master Fund Ltd. (the "Master Fund", and together with the Offshore Fund and the Onshore Fund, the "Funds").

The Master Fund pursues a global relative value strategy that seeks to quantitatively analyze common sense structural and behavioral inefficiencies in the markets then employ both model-based and discretionary trading strategies to capture these opportunities. The Master Fund seeks to generate attractive returns with controlled exposure to market direction, limited volatility and low correlation to traditional markets. The Master Fund pursues a diversified trading strategy which does not rely on favorable conditions in any particular market or on general appreciation of asset values.

Please see Item 8 of this brochure for a more detailed description of our investment strategy and method of analysis.

From time to time, we may create and act as investment adviser to other private investment funds or separate accounts. In this brochure, any reference to "Client" means the Funds, and any other Laurion advisory client, not to investors within the Funds (the "Investors").

We do not tailor our advisory services to the individual needs of Investors and do not allow Investors to impose restrictions on investing in any securities. Each person should consult its own advisor to determine the suitability of an investment in one of the Funds.

All discussions of the Funds in this brochure, including, among other things, their investments, strategies, fees and other costs, conflicts of interest and relevant material risks, are qualified in their entirety by reference to each Fund's respective confidential offering memorandum (if any) and governing documents (referred to collectively as the "Offering Documents").

Item 5 - Fees and Compensation

Laurion charges each Fund a management fee plus a performance fee in accordance with each Fund's Offering Documents. Each Fund will pay a management fee of up to two percent (2%) per year of the market value of the Fund's net assets, as measured at the end of each fiscal quarter and payable quarterly in advance. Management fees are prorated for capital contributions and withdrawals made at times other than the start or end of a calendar quarter, as applicable.

Laurion, and its affiliate that serves as general partner of the Onshore Fund, are eligible to receive incentive fees based on the net capital appreciation of a Fund's market value. The

performance-based fee consists of up to 20% of net capital appreciation for each fiscal year, and is reallocated to the Onshore Fund's general partner at the end of each fiscal year or paid to Laurion subsequent to year-end.

The fees for the Funds are not negotiable. However, Laurion, the affiliated general partner, and the Board of Directors, in their sole discretion, may waive, reduce or otherwise modify the management and performance fee for any Investor, including affiliates and employees of Laurion, members of their immediate families, and trusts or other entities formed for their benefit. In addition, the Funds may issue other classes of shares or enter into agreements with certain Investors, which may differ from the interests offered to other shareholders or limited partners in terms of, among other things, the performance fee and management fee.

In addition to our investment management fees and performance based fees, Investors indirectly bear the operating expenses of the Funds as set forth in the Offering Documents. These may include, among others, investment expenses, whether or not such investments are consummated (e.g. brokerage commissions and other trading expenses, expenses related to short sales and hedging instruments, interest charges and financing and other bank fees, clearing, settlement and custodial fees and expenses), consulting and other professional fees (including consulting and licensing fees paid to vendors who generate or gather trading ideas, trading models or model portfolios), investment-related travel expenses (including travel, lodging and meal expenses), research and market data expenses (including data lines incorporated into the cost of obtaining such research and market data), fees and expenses relating to information technology hardware, software, services or other technology (including software licensing, custom development, servers and data management and recovery services) used in any part to process, value or analyze trades or positions, facilitate research, evaluate and manage risk, facilitate and manage the order execution of securities or otherwise manage the Master Fund, such as portfolio management systems, risk management systems and order management systems, or for investment-related compliance and regulatory filings, fees and expenses of the fund administrator and its affiliates (including treasury and collateral management services), legal fees, organizational expenses, expenses related to the maintenance of a registered office, corporate licensing, regulatory expenses (including, among others, expenses in connection with compliance and regulatory filings relating to the Funds and investments, and fees and expenses of service providers providing services related thereto), board of directors remuneration, AML officers' remuneration for the Offshore Fund and the Master Fund, external accounting and valuation expenses, taxes assessed against the Funds, audit and tax preparation expenses, costs of directors and officers insurance and errors and omissions insurance, expenses relating to the offer and sale of shares and interests in the Funds, and extraordinary expenses.

Each Fund sets forth its specific fee structure (including how it charges fees) in their respective Offering Documents. The expenses incurred by each Fund are described in more detail in each Fund's Offering Documents. Therefore, this is not an exhaustive list of each Fund's respective expenses. Please see Item 12 of this brochure for more information on the Master Fund's brokerage and transaction costs.

The Funds may enter into side letters or similar agreements with certain Investors which may have the effect of establishing rights, terms or conditions (including, among others, reductions in management fees and performance-based compensation, additional transparency or other preferential terms) for such Investors that are more favorable than the rights, terms and conditions established in favor of other Investors in that Fund.

Neither Laurion nor any of our employees receives any transaction-based compensation for the sale of securities or other investment products, including securities of the Funds.

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

As described in Item 5 above, Laurion, or its affiliated general partner of the Onshore Fund, are eligible to receive performance based compensation from the Funds. Each Fund's performance based fee arrangement is described in detail in the respective Fund's Offering Documents.

Performance-based compensation creates a potential conflict of interest because Laurion may have an incentive to make investments that are riskier or more speculative than would be the case in the absence of the performance-based compensation. In addition, the performance on which performance-based compensation is calculated will include unrealized appreciation of investments that may not ultimately be realized.

Item 7 - Types of Clients

Laurion provides investment management services to privately offered pooled investment vehicles. Investors in the Funds are financially sophisticated, individual and institutional investors that may include endowments, corporations, family offices, banks, pension and profit sharing plans, government plans, trusts, estates, other business entities, and private investment funds (i.e., fund of funds). The minimum investment size varies by Fund and is negotiable. Fund interests are offered to a limited number of individual or institutional investors that qualify as "qualified purchasers" and meet certain other eligibility requirements described in each Fund's Offering Documents.

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

Investment Strategies:

The investment objective of the Funds is to seek to generate attractive returns on capital with controlled exposure to market direction. The Master Fund seeks to profit from a global multi-disciplinary approach that uses a variety of trading strategies, including, among others, volatility trading strategies, model-based strategies, relative value strategies, event-driven strategies, and discretionary and macro-style trading strategies. The Master Fund invests in a broad array of securities and derivatives under a range of different market scenarios, making use of these and other strategies. The Master Fund may use a substantial amount of leverage in its investment program. This may take the form of trading on margin, investing in derivative instruments that are inherently leveraged, and entering into other forms of direct or indirect borrowing.

The Master Fund effects its investment program principally by utilizing a range of equity and non-equity securities, hybrid securities, derivative instruments, and other financial instruments. These include, among others, U.S. and non-U.S. stock and equity-related securities, options, futures, forward contracts, warrants, swaps and other derivative instruments, currencies, commodities, U.S. government securities, money market funds, commercial paper, certificates of deposit and other cash equivalents. The Master Fund may invest in securities that are subject to legal or other restrictions on transfer or for which no liquid market exists. The Master Fund may invest through and otherwise utilize subsidiaries ("Trading Subsidiaries") for certain of its investments for tax, regulatory or other reasons.

Methods of Analysis:

Model-based trading strategies are implemented predominantly by computer driven programs. These strategies are based on systematic and qualitative analysis of common-sense insights into market behavior. We focus on capturing likely market inefficiencies based on our market experience and understanding, and then aim to quantify those observations. From this research, models are created to either implement and execute strategies or aid our trading decisions. Where appropriate, we back-test systematic signals. We monitor the performance of each signal and the Master Fund's portfolio. We regularly seek to enhance, refine and/or expand our set of strategies and models over time.

These strategies may have mean-reverting, trend following, fundamental or technical elements and may have a rapid portfolio turnover, with daily trades in excess of the Master Fund's portfolio size. These strategies may also have longer-term positions that are held for months. The model-based strategies are global in nature, and could include positions across various asset classes and instruments in emerging market securities in addition to the major developed markets in North America, Europe and Asia.

Volatility trading strategies look to exploit mispricings in volatility. Strategies employed could include, among others, dispersion and relative value volatility. Products traded in volatility trading could include, among others, listed and over-the-counter derivatives, correlation swaps, variance swaps, equity swaps and credit default swaps. In addition, if a derivative is being used, it's underlying asset (e.g., stock, FX, commodity, etc.) could also be used as a hedge. Proprietary models are one of the tools employed by the Master Fund to find trading opportunities.

Relative value, discretionary and macro-style trading strategies focus on opportunities in and between global equities, fixed income, futures and commodities and these markets' derivatives. We pursue fundamental and perceived technical trading opportunities across merger arbitrage, event-driven, corporate action, and rebalancing opportunities globally. Our approach combines qualitative insights into the structural inefficiencies in various asset classes and their derivatives with systematic models that we believe aid in identifying trading opportunities. We believe that relative mispricing across and within various asset classes, combined with supply-demand imbalances, results in trading opportunities. We may have trades that include multiple positions (often times these trades include positions that have both long and short exposure), or individual trades that have either long or short exposure in various asset classes and their underlying instruments.

Relative value, discretionary and macro opportunities include both single-asset and cross-asset trades. A single-asset trade involves creating a position or portfolio of positions on the same underlying asset. In contrast, a cross-asset trade generally involves taking offsetting positions on different assets. We invest using both single-asset and cross-asset transactions.

We trade global equity, fixed income, commodities and foreign exchange and related derivatives, and any other instruments we deem appropriate in order to execute the Master Fund's investment objectives.

Our goal is to continue to extend our global multi-disciplinary trading approach. Laurion reserves the right to alter or modify our investment programs or to invest in additional strategies where we conclude that such alterations or modifications are consistent with the Master Fund's investment objective, subject to what we consider an acceptable level of risk.

Risk Management:

Laurion's risk management approach attempts to measure risk, allocate capital based on expected risk-reward and reduce material draw-downs by managing risk concentrations and factors.

Laurion measures risk in several integrated ways. Portfolio risk monitoring and management is designed to be multi-faceted and may include analysis of gross and net exposures, sensitivity measures, leverage and Value at Risk. For example, we estimate equity exposure by a covariance matrix as well as calculating equity exposure to various factors. For options and options related positions, Laurion estimates and analyzes the option risks caused by changes in implied volatility using a multi-factor volatility risk model, and uses Monte-Carlo simulations, among other tools relevant to options risk. Additionally, the portfolio is shocked by simulating various event scenarios (e.g., market crash and rise in implied volatility).

The risk capital allocated to each strategy is determined by Laurion's founding partners. Risk is allocated taking into account both the expected return of the strategy and the risk associated with such strategy. In addition, consideration is given to the correlation between strategies.

Risk of Loss:

The Master Fund's investment program is speculative and entails substantial risks, including the risk that the entire amount invested may be lost. It is designed for sophisticated investors who fully understand and are capable of bearing the risk of investment in the respective Fund. Market risks are inherent in all securities to varying degrees. The practices of leverage, short selling and engaging in futures, forwards and options transactions, which the Master Fund employs, can, in certain circumstances, increase the adverse impact to which the Master Fund's investment portfolio may be subject. No assurance can be given that the Master Fund's investment objective will be realized or that Investors will receive a return of their investment.

The descriptions contained below are a brief overview of material market risks related to our investment strategies; however, it is not intended to serve as an exhaustive list or a comprehensive description of all risks and conflicts that may arise in connection with the management and operation of the Funds. Investors should review the Funds' Offering Documents to understand the risks and potential conflicts of interest.

Investment and Trading Risks

Investment and Trading Risks. The Master Fund will invest in and actively trade securities and other financial instruments using strategies and investment techniques with significant risk characteristics, including risks arising from the volatility of the global equity, currency, and fixed income markets, the risks of short sales, the risks of leverage, the potential illiquidity of derivative instruments, the risk of loss from counterparty defaults and the risk of borrowing to meet withdrawal requests. The investment program of the Master Fund may utilize such investment techniques as option transactions, short sales, margin transactions, leverage, swap and futures and forward contracts, which practices involve substantial volatility and can, in certain circumstances, substantially increase the adverse impact to which the Master Fund's portfolio may be subject.

Quantitative Strategies and Analysis

Trading Decisions Based on Systematic and other Quantitative Analysis. Our systematic trading decisions are generally based on quantitative models, signals, and other analyses. Any factor that would lessen the prospect of major trends occurring in the future may reduce the prospect that a particular trading method or strategy will be profitable in the future. In the past, there have been periods without discernible trends and, presumably, these periods will continue to occur in the future. Moreover, any factor that would make it more difficult to execute trades at desired prices in accordance with the signals of the trading method or strategy (such as a significant lessening of liquidity in a particular market) can be detrimental to the profitability of that method or strategy.

Quantitative Model Risk and Risk Management Dangers. There can be no assurance that the models we use 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 Master Fund's performance. There can be no assurance that the models (even if completely or partially viable) will continue to further or ultimately be capable of furthering the Master Fund's investment objectives.

Investment and risk management techniques are based in part on the observation of historical market behavior, which may not predict market divergences that differ from historical indicators. Also, information used to manage risks may not be accurate, complete or current, and such information may be subject to misinterpretation. In the complex environment in which we operate, effective risk management depends upon many factors, not all of which may be properly identified, and effective assessment, analysis, process creation, control or treatment of risks could be difficult to implement.

To the extent that our systems execute trades autonomously, undesired results may only be detected after the fact, perhaps after a significant number of transactions have occurred. At times we may manually override or shut down the operations of a quantitative model. This would generally be done in an effort to mitigate the damage from a deteriorating or malfunctioning model or a model that is reacting negatively to unforeseen market conditions. Such an override or intervention could result in greater losses than would be the case if there had been no intervention and/or could result in the model being overridden or inactive at a time when the model would have achieved gains for the portfolio.

Model and Data Risk. We rely heavily on quantitative and systematic models (both proprietary models developed by us, and those supplied by third parties) and information and data supplied by third parties ("Models and Data"). Models and Data can be 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 Master Fund), to provide risk management insights, and to assist in hedging the Master Fund's exposure.

When Models and Data prove to be incorrect, misleading or incomplete, any decisions made in reliance on them expose the Master Fund to potential risks. For example, by relying on Models and Data, we 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.

All models rely on market data inputs that are assumed to be correct. Because our models are usually constructed based on, or employ, historical or current market data supplied by third parties, the success of relying on Models and Data may depend heavily on the accuracy and reliability of the supplied data, which can contain errors.

Though Model and Data risks could adversely affect the Master Fund's performance, losses that arise as a result of the use of Models and Data likely would not constitute reimbursable trade errors under our policies or the investment management agreement between us and the Master Fund.

Obsolescence Risk. Our systematic trading strategies are unlikely to be successful unless the assumptions underlying our models used to implement those strategies 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 we do not successfully address such omission through our testing and evaluation and modify the models accordingly, major losses may result.

Models we employ in connection with our systematic trading strategies cannot fully match the complexity of the financial markets; therefore, unanticipated changes in underlying market conditions can significantly impact these strategies' performance. As market dynamics shift over time, a previously highly successful strategy may become outdated. Even without becoming completely outdated, a given strategy's effectiveness may decay in an unpredictable fashion as other market participants adopt similar strategies or market dynamics shift. We will continue to test, evaluate and potentially add new models, as a result of which the existing models may be modified from time to time. There can be no assurance as to the effects (positive or negative) of any modification on the Master Fund's performance.

Crowding/Convergence. Advisors other than Laurion may utilize similar analyses or models in making trading decisions, in which event bunching of buy and sell orders may occur, making it more difficult for a particular position to be taken or liquidated. There is significant competition among quantitatively-focused investment managers. To the extent that our models come to resemble those employed by other managers, the risk that a market disruption that negatively affects predictive models will adversely affect the Master Fund is increased, as such a disruption could accelerate reductions in liquidity or rapid repricing due to simultaneous trading across a number of funds in the marketplace. In addition, certain strategies which have performed well in the past may not continue to perform well in the future, and as similar strategies develop and grow, the margins of profitability of these strategies may narrow.

Risk of Programming and Modeling Errors. Our research and modeling process is complex and involves financial, economic, econometric and statistical theories, research and modeling; the results of that process sometimes must then be translated into computer code. Although we seek 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 these tasks, and the limited ability to perform "real world" testing of the end product raise the chances that the finished model may contain an error or errors or may not lead to the intended outcome. Though losses arising from programming and modeling errors could adversely affect

the Master Fund's performance, those losses would likely not constitute reimbursable trade errors under our policies.

Involuntary Disclosure Risk. Our ability to achieve our investment goals for the Master Fund is dependent in large part on our ability to develop and protect our models and proprietary research. The models and proprietary research are largely protected by us 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 our models, and thereby impair the relative or absolute performance of the Master Fund.

Technical Trading Strategies. The buy and sell signals generated by certain of our strategies are not based on any analysis of fundamental supply and demand factors, general economic factors or anticipated world events but generally upon factors such as studies of actual daily, weekly and monthly price fluctuations, volume variations, changes in open interest and correlations and variance measures. The profitability of any technical trading strategy depends upon the future occurrence of major price moves or trends in the instruments traded. In the past there have been periods without discernible trends and presumably similar periods will occur in the future. The best trading strategy will not be profitable if there are no trends of the kind it seeks to follow. In addition, a technical trading strategy may be profitable for a period of time, after which the strategy fails to predict any future price movements. Accordingly, technical traders often modify or replace their strategy on a periodic basis. Any factor that may lessen the prospect of major trends in the future (for example, as increased governmental control of, or participation in, the markets) may reduce the prospect that the strategy will be profitable. Any factor that would make it more difficult to execute trades at the strategy's signal prices, such as a significant lessening of liquidity in a particular market, would also be detrimental to profitability.

Spread Trading. A part of our strategy may involve spread positions between two or more investment positions. To the extent the price relationships between these positions remain constant, no gain or loss on the positions will occur. These positions, however, do entail a substantial risk that the price differential could change unfavorably, thus causing a loss to the spread position. Our strategy also may involve arbitrage among two or more investments. This means, for example, that the Master Fund may purchase (or sell) investments (on a current basis) and take offsetting positions in the same or related investments. To the extent the price relationships between these positions remain constant, no gain or loss on the positions will occur. These offsetting positions entail substantial risk that the price differential could change unfavorably causing a loss to the position. Moreover, the arbitrage business is extremely competitive, and many of the major participants in the business are large investment banking firms with substantially greater financial resources, larger research staffs and more investment professionals than will be available to us. Arbitrage activity by other larger firms may tend to narrow the spread between the price at which the Master Fund may purchase an investment and the price we expect that the Master Fund will receive upon consummation of a transaction.

Self-Trades and Other Exchange Violations. Systematic and algorithmic trading strategies are more prone than other types of investing to cause "wash trade," cross trade and self-trade orders to be generated. These orders, if filled, can constitute

violations of exchange rules and expose the Master Fund to penalties and disgorgement orders. While we seek to limit these kinds of transactions, there is no guarantee that they will all be eliminated.

Correlation Risk. The Master Fund may be exposed to correlated risks. These occur when funds and other investors hold similar positions and employ similar strategies, resulting in intensified risks which may lead to potential cascading losses in times of market stress.

In extreme cases, to the extent other market participants using a similar strategy seek to divest one or more positions comprising of a particular strategy, "correlation crises" could occur. Quantitative traders can be particularly susceptible to this type of correlation risk as a result of convergence in their automated trading algorithms and positions held. The high leverage and hedging techniques that many arbitrage-driven quantitative hedge fund managers use can further magnify the effects of correlation risk.

Risk of Programming Implementation Error or Logical Error. Given our reliance upon the operation of our models and other software trading and analysis systems, it follows that the Master Fund is therefore at risk of errors of implementation (colloquially known as "bugs") and errors of design that may exist or arise in the software or models, and which may cause inappropriate or aberrant behavior under certain market conditions. While reasonable steps have been taken to ensure that the software is adequate in design and free from bugs, formal proof of bug-free code has not been undertaken, nor can the underlying logical and/or mathematical models be certified as free from error; Investors should expect that – at any given time – our code will contain errors of design and bugs.

As with any software, upgrades, "bug fixes" and various other improvements may be introduced over time and the risk therefore exists that such changes may detrimentally affect the performance of the Master Fund, rather than improve it. Furthermore, even where the software has been tested, no guarantee can be given that a combination of input conditions experienced when running the system "live" and that was not encountered during development, will not cause the system to fail, perform aberrantly, or take positions that are (under some reasonable criteria) judged to be inappropriate. Also, it is possible that an error will be addressed with a quickly-assembled solution that is itself not thoroughly tested, which could result in other, unintended errors.

These failures may occur in a complex, interdependent environment where different elements of code are all functioning correctly, but their interaction gives rise to unanticipated or unintended errors. Given the fact that we will be utilizing proprietary and third-party code (some of which may be open-source and without any warranties), it is possible or likely that errors will arise from such interactions, and that these errors and any related losses would not constitute reimbursable trade errors under our policies or the investment management agreement between Laurion and the Master Fund.

Risks Inherent in Computer-Driven and Intellectual Property Based Systems. We rely to a material extent on a wide range of intellectual property systems, including computer hardware and software systems and telecommunications systems, in substantially all phases of our operations, including research, valuation, trade

identification and construction, trade execution, clearing, risk management, back office functions and reporting.

As described above, intellectual property systems are subject to a number of inherent and unpredictable risks. For example, there may be material undiscovered errors in software programs; software and/or hardware may malfunction and/or degrade; electronic and telecommunications delivery may fail; security breaches may lead to unauthorized trades or stolen intellectual property; services provided by third-party vendors to support the intellectual property systems may be interrupted; and computer-driven trading errors may occur. Though losses arising from computer-driven and intellectual property-based systems could adversely affect the Master Fund's performance, these losses would likely not constitute reimbursable trade errors under Laurion's policies or the investment management agreement between Laurion and the Master Fund.

Volatility Strategies. As part of its volatility investment strategy, the Master Fund may invest in investment in futures contracts, and exchange-traded notes ("ETNs") that seek to track the return on short-term futures contracts, that measure volatility in the equities markets. Successful use of these instruments by the Master Fund is subject to our ability to correctly predict volatility in the equities markets. These instruments are subject to rapid fluctuations in value. Volatility can be influenced by, among other things, the composition and strategies of marketplace participants, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, as well as national and international political, economic, social and financial events and policies. ETNs are also subject to certain additional risks, including the risk that their prices may not correlate perfectly with changes in the prices of the underlying futures they are designed to track, and the risk of trading in an ETN halting due to market conditions or other reasons, based on the policies of the exchange upon which the ETN trades.

Relative Value Strategies. Relative value investment strategies generally use spread trades consisting of a long exposure in one security offset by a short exposure in another. Such offsetting positions are meant to reduce risk. The portfolio profits if our relative valuation leads to a rise in the value of the long exposure and/or a decline in the value of the short exposure. The success of our relative value trading strategies depends on our ability to identify and exploit perceived inefficiencies in the pricing of securities, financial products, or markets. Identification and exploitation of these discrepancies involve uncertainty. There can be no assurance that we 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 the Master Fund to maintain a position. Even pure arbitrage positions can result in significant losses if we are not able to maintain both sides of the position until expiration/maturity. A reduction in the pricing inefficiency of the markets in which we seek to invest will reduce the scope for the Master Fund's investment strategy. In the event that the perceived mispricings underlying the Master Fund's positions were to fail to converge toward, or were to diverge further from, relationships we expected, the Master Fund may incur losses. Even if the Master Fund's relative value investment strategies are successful, they may result in high portfolio turnover and, consequently, high transaction costs.

Event-Driven and Special Situations Strategies. Event driven investing requires us to make predictions about (i) the likelihood that an event will occur, (ii) what the outcome of an event will be and (iii) the impact the event will have on the value of a company's securities. If the event fails to occur or it does not have the effect foreseen, losses can result. The Master Fund may also invest in companies involved in or undergoing spin-offs, reorganizations or other catalytic changes or similar transactions. In any investment opportunity involving any of these types of events or special situations, there exists the risk that the contemplated transaction either will be unsuccessful, take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the Master Fund of the security or other financial instrument in respect of which a distribution is received. Similarly, if an anticipated transaction does not in fact occur, the Master Fund may be required to sell its investment at a loss.

Global Macro Strategies. The success of the Master Fund's global macro investment strategy depends upon our 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 these imbalances involves significant uncertainties. There can be no assurance that we will be able to locate investment opportunities or to exploit these imbalances. In the event that the theses underlying the Master Fund's positions fail to be borne out in developments expected by us, the Master Fund may incur losses, which could be substantial.

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

General Risk of Emerging Markets. Investment in emerging market securities involves a greater degree of risk than an investment in securities of issuers based in developed countries. Among other things, emerging market securities investments may carry the risks of less publicly available information, more volatile markets, less strict securities market regulation, less favorable tax provisions, and a greater likelihood of severe inflation, unstable currency, war and expropriation of personal property than investments in securities of issuers based in developed countries. In addition, our investment opportunities in certain emerging markets may be restricted by legal limits on foreign investment in local securities.

Emerging markets generally are not as efficient as those in developed countries. In some cases, a market for the security may not exist locally, and transactions will need to be made on a neighboring exchange. Volume and liquidity levels in emerging markets are lower than in developed countries. Little or no market may exist for emerging market securities when the Master Fund seeks to sell such securities. In addition, issuers based in emerging markets are not generally subject to uniform accounting and financial reporting standards, practices and requirements comparable

to those applicable to issuers based in developed countries, thereby potentially increasing the risk of fraud or other deceptive practices. Furthermore, the quality and reliability of official data published by the government or securities exchanges in emerging markets may not accurately reflect the actual circumstances being reported.

The issuers of some non-U.S. securities, such as banks and other financial institutions, may be subject to less stringent regulations than would be the case for issuers in developed countries and therefore potentially carry greater risk. Custodial expenses for a portfolio of emerging markets securities generally are higher than for a portfolio of securities of issuers based in developed countries.

Commodity Interests are Volatile. Commodity interest contracts are highly volatile and are subject to occasional rapid and substantial fluctuations. The profitability of the Master Fund may depend on our ability to predict these fluctuations accurately. Price movements for commodity interests are influenced by, among other things: (i) changes in interest rates; (ii) governmental, agricultural, trade, fiscal, monetary and exchange control programs and policies; (iii) weather and climate conditions; (iv) changing supply and demand relationships; (v) changes in balances of payments and trade; (vi) rates of inflation; (vii) currency devaluations and revaluations; (viii) political and economic events; and (ix) changes in philosophies and emotions of market participants. 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.

Legal Risk. Many of the laws that govern private and foreign investment, securities transactions, creditors' rights and other contractual relationships in non-U.S. countries, particularly in developing countries, are new and largely untested. As a result, the Master Fund may be subject to a number of unusual risks, including inadequate investor protection, contradictory legislation, incomplete, unclear and changing laws, ignorance or breaches of regulations on the part of other market participants, lack of established or effective avenues for legal redress, lack of standard practices and confidentiality customs characteristic of developed markets, and lack of enforcement of existing regulations.

Short Term Market Considerations. Many of our trading decisions may be made on the basis of short term market considerations. Therefore, the portfolio turnover rate could result in significant trading related expenses.

Long-Term Investment Strategies. The success of the Master Fund's long-term investment strategies depend upon our ability to identify and purchase securities that are undervalued and hold these investments so as to maximize value on a long-term basis. In pursuing any long-term strategy, the Master Fund may forego value in the short-term or temporary investments in order to be able to avail the Master Fund of additional and/or longer-term opportunities in the future. Consequently, the Master Fund may not capture maximum available value in the short-term, which may be disadvantageous, for example, for Investors who withdraw all or a portion of their investment before the long-term value may be realized by the Master Fund.

Diversification Risk. The Master Fund does not have any formal guidelines for diversification. The Master Fund, as a result, may concentrate investments in particular industries or companies. The investment risk of a portfolio that is

concentrated in particular industries or companies is greater than if the portfolio is invested in a more diversified manner among various industries or companies. A consequence of the limited number of investments is that the aggregate returns realized by the Master Fund may be substantially adversely affected by the unfavorable performance of a small number of investments.

Leverage; Interest Rates; Margin. We generally utilize substantial leverage in our investment programs, thereby maximizing investment positions by borrowing funds to the fullest possible extent permitted by applicable regulations. As a result, the possibilities of profit and loss will be increased. Borrowing money to take positions will provide the Master Fund with the advantage of leverage, but will expose it to greater market risks and higher current expenses. Any gain in the value of positions taken with borrowed money or income earned from these positions that exceeds interest paid on the amount borrowed will cause the Master Fund's net asset value to increase faster than would otherwise be the case. Conversely, any decline in the value of the positions taken will cause the Master Fund's net asset value to decrease faster than would otherwise be the case.

Leverage may take the form of trading on margin, investing in derivative instruments that are inherently leveraged, and entering into other forms of direct or indirect borrowings. In general, the use of short-term margin borrowings may result in certain additional risks. For example, should the securities pledged to brokers to secure the Master Fund's margin accounts decline in value, the Master Fund could be subject to a "margin call," pursuant to which the Master Fund must either deposit additional funds with the broker, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden precipitous drop in the value of the Master Fund's assets, the Master Fund might not be able to liquidate assets quickly enough to pay off its margin debt.

Short Selling. Short selling involves selling securities that may or may not be owned by the seller and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in the value of securities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost of buying those securities to cover the short position. There can be no assurance that the security necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Securities may be sold short by the Master Fund in a long/short strategy to hedge a long position, or to enable the Master Fund to express a view as to the relative value between the long and short positions. There is no assurance that the objectives of these strategies will be achieved, or specifically that the long position will not decrease in value and the short position will not increase in value, causing the Master Fund losses on both components of the transaction.

Hedging Transactions. The Master Fund may utilize financial instruments for risk management purposes in order to: (i) protect against possible changes in the market value of the Master Fund's investment portfolio resulting from fluctuations in the markets and changes in interest rates; (ii) protect the Master 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 Master Fund's portfolio; (v) hedge against a directional trade; (vi) hedge the interest rate, credit or currency exchange rate on any of the Master Fund's

financial instruments; (vii) protect against any increase in the price of any financial instruments the Master Fund anticipates purchasing at a later date; or (viii) act for any other reason that we deem appropriate. The Master Fund will not be required to hedge any particular risk in connection with a particular transaction or its portfolio generally. We may be unable to anticipate the occurrence of a particular risk and, therefore, may be unable to attempt to hedge against it. While the Master Fund may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Master 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.

Security, Information and Cybersecurity Risks. As part of our business, we process, store and transmit large amounts of electronic information, including information relating to the transactions of the Master Fund and Investors' personally identifiable information. Similarly, the Funds' service providers, especially the fund administrator, may process, store and transmit such information. We have procedures and systems in place that we believe are reasonably designed to protect such information and prevent data loss and security breaches. However, those 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 to us by third parties may be susceptible to compromise, leading to a breach of our network. Our systems or facilities may be susceptible to employee error or malfeasance, government surveillance, or other security threats. Breach of our information systems may cause information relating to the transactions of the Master Fund and Investors' personally identifiable information to be lost or improperly accessed, used or disclosed.

The Funds service providers, including administrators, brokers and custodians, are subject to the same electronic information security threats as we are. If a service provider fails to adopt or adhere to adequate data security policies, or in the event of a breach of its networks or another failure in its operational safeguards, information relating to the transactions of the Master Fund and Investors' personally identifiable information may be lost or improperly accessed, used or disclosed.

The loss or improper access, use or disclosure of our or the Funds' proprietary information may cause us or the Funds to suffer, among other things, financial loss, business disruption, liability to third parties, regulatory intervention or reputational damage.

Reliance on Technical Trading Systems. We allocate the Master Fund's assets to investment strategies that are based on technical trading systems. Although we retain all discretion with respect to the manner in which a trading system's output is interpreted and applied, there can be no assurance that our trading systems and our interpretation and application of the trading systems' output will take into account all relevant factors. Technical trading systems can also be ineffective when fundamental factors drive financial instruments' prices.

Testing of New Strategies. To the extent we use a new strategy, method, or signal for the Master Fund, we cannot necessarily predict how the new strategy, method or

investment signal will perform, and, as a result, the Master Fund may suffer losses, which could be significant, by pursuing it.

Use of Systems. We rely extensively on the use of computer systems, hardware, software, and telecommunications equipment. We make use of our own equipment as well as equipment, systems and services (including so-called "cloud" based storage and other services) provided by third parties. Accordingly, the Master Fund is exposed to the risk that computer hardware, software, electronic equipment and other services we use may cease to be available, for example, due to the insolvency of the provider, the discontinuation of services or software updates, or the interruption of communication access. In those circumstances, we would seek to obtain equivalent hardware, software and services from an alternative supplier, which could take time to accomplish and which could be costly.

System Failure. As we make extensive use of computer hardware, systems and software, the Master Fund is exposed to risks caused by failures of IT infrastructure and data. In addition, outright failure or a partial impairment (whether due to external situations or internal file corruption) of the underlying hardware, operating system, software or network may leave the Master Fund unable to trade either generally or in certain of its strategies, and this may expose it to risk in the ordinary course, and additional risk should the outage coincide with turbulent market conditions. It is possible that a systems failure could impede our ability to carry out the portion of the Master Fund's investment program that is dependent on systems, and could prevent us from acting to prevent losses in a crisis; in the worst case, we may have to liquidate the entire portion of the Master Fund's portfolio that is dependent on systems as the only safe way to proceed should a crippling system outage occur.

Data Feed Failure. Our models utilize data feeds from a number of sources. If these data feeds were to be corrupted, compromised, or discontinued in any manner, or not delivered or accessible in a timely manner, the models may not operate properly. This failure to receive the data feeds or receive the data feeds in a timely manner may leave the Master Fund unable to trade or may result in trades that are not aligned with an algorithm's goal, and this may expose the Master Fund to risk of loss or loss of opportunities, in particular if the loss of the data feed coincides with turbulent market conditions. If the data feeds are corrupted or compromised in any material manner or if the data feeds are not delivered or accessible in a timely manner, it may result in a loss to the Master Fund, which could be material.

Trade Errors. The Master Fund will be responsible for any losses resulting from trading errors and similar human errors, absent our willful misconduct, bad faith or gross negligence. Trading errors might include, for example, keystroke errors that occur when entering trades into an electronic trading system or typographical or drafting errors related to derivatives contracts or similar agreements. Given the volume of transactions the Master Fund executes, Investors should assume that trading errors (and similar errors) will occur and that the Master Fund will be responsible for any resulting losses, even if such losses result from our negligence (but not gross negligence).

Investment Instrument Risks

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 Master Fund may suffer losses if it invests in equity instruments of issuers whose performance diverges from our expectations or if equity markets generally move in a single direction and the Master Fund has not hedged against this general move. The Master 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.

Stock Index Options. The Master Fund may purchase and sell call and put options on stock indices listed on securities exchanges or traded in the over-the-counter market for the purpose of realizing its investment objectives or for the purpose of hedging its portfolio. A stock index fluctuates with changes in the market values of the stocks included in the index. The effectiveness of purchasing or writing stock index options for hedging purposes will depend upon the extent to which price movements in the Master Fund's portfolio correlate with price movements of the stock indices selected. Because the value of an index option depends upon movements in the level of the index rather than the price of a particular stock, whether the Master Fund will realize gains or losses from the purchase or writing of options on indices depends upon movements in the level of stock prices in the stock market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular stocks. Accordingly, successful use by the Master Fund of options on stock indices will be subject to our ability to correctly predict movements in the direction of the stock market generally or of particular industries or market segments. This requires different skills and techniques than predicting changes in the price of individual stocks.

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

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

as the occurrence or non-occurrence of certain events, such as knock-in, knock-out or other barrier events) and timing requirements, including the "style" of the option.

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

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 Master 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 Master Fund from promptly liquidating unfavorable positions and subject the Master 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 security or contract can produce a disproportionately larger profit or loss. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

Non-U.S. Futures Transactions. Foreign futures transactions involve executing and clearing trades on a foreign exchange. This is the case even if the foreign exchange is formally "linked" to a domestic exchange, whereby a trade executed on one exchange liquidates or establishes a position on the other exchange. No domestic organization regulates the activities of a foreign exchange, including the execution, delivery, and clearing of transactions on such an exchange, and no domestic regulator has the power to compel enforcement of the rules of the foreign exchange or the laws of the foreign country. Moreover, such laws or regulations will vary depending on the foreign country in which the transaction occurs. For these reasons, the Master 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 from customers to margin foreign futures transactions may not be provided the same protections as funds received to margin futures transactions on domestic exchanges. In addition, the price of any foreign futures or option contract and, therefore, the potential profit and loss resulting therefrom, may be

affected by any fluctuation in the foreign exchange rate between the time the order is placed and the time the foreign futures contract is liquidated or the time the foreign option contract is liquidated or exercised.

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

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

Contracts for Differences. Contracts for differences ("CFDs") are privately negotiated contracts between two parties, buyer and seller, stipulating that the seller will pay to or receive from the buyer the difference between the nominal value of the underlying instrument at the opening of the contract and that instrument's value at the end of the contract. The underlying instrument may be a single security, stock basket or index. A CFD can be set up to take either a short or long position on the underlying instrument. The buyer and seller are both required to post margin, which is adjusted daily. The buyer will also pay to the seller a financing rate on the notional amount of the capital employed by the seller less the margin deposit. As is the case with trading any financial instrument, there is the risk of loss associated with trading a CFD. There may be liquidity risk if the underlying instrument is illiquid because the liquidity of a CFD is based on the liquidity of the underlying instrument. A further risk is that adverse movements in the underlying security will require the posting of additional margin. CFDs also carry counterparty risk, i.e., the risk that the counterparty to the CFD transaction may be unable or unwilling to make payments or to otherwise honor its financial obligations under the terms of the contract. If the counterparty were to do so, the value of the contract may be reduced. Entry into a CFD transaction may, in certain circumstances, require the payment of an initial margin and adverse market movements against the underlying stock may require additional margin payments. CFDs may be considered illiquid. To the extent that there is an imperfect correlation between the return on the Master Fund's obligation to its counterparty under the CFDs and the return on related assets in its portfolio, the CFD transaction may increase the Master Fund's financial risk.

Failure to Enter into Offsetting Trade. To the extent the Master Fund invests in a futures contract or long option, unless an offsetting trade is made, the Master Fund would be required to take physical delivery of the commodity underlying the future or option. To the extent we fail to enter into such offsetting trade prior to the expiration of the contract, the Master Fund may suffer a loss since neither the Master Fund nor Laurion has the operational capacity to accept physical delivery of commodities.

Exotic Options. Exotic options are typically, but not always, traded over-the-counter ("OTC"). OTC contracts may not trade in a liquid market and pricing may be opaque. The illiquidity of these markets can be exacerbated in times of market stress. The Master Fund may incur substantial costs entering into and exiting positions that could have a material impact on performance. Exotic options may be subject to a higher degree of pricing risk as demonstrated by instances in which different counterparties in the market employ different valuation and pricing methodologies to the same exotic option. Because exotic options can often be highly customized, there is lower visibility with respect to the pricing and valuation of these instruments. Exotic options may be subject to high levels of price volatility. For example, in the case of barrier options, as the price of the asset underlying the option trades closer to a barrier level, the delta of the option (i.e., the ratio of the change in the price of the underlying asset to the corresponding change in the price of the option) and the gamma of the option (i.e., the rate of change of the delta with respect to the underlying asset's price) may become very high. Exotic options may be subject to higher levels of model risk than commonly traded options because standard models are not able to adequately capture or predict the risks associated with the exotic options. Exotic options may be "path dependent". This means that their terminal value (at exercise or expiration) depends upon the value of the underlying asset, not only at the time of exercise or expiration, but also at prior points in time. In this sense, the option's terminal value depends upon the "path" taken by the underlying asset over the life of the option. For example, a barrier option's value at expiration depends upon both the value of the underlying asset at expiration and whether the past value of the underlying asset ever satisfied a barrier condition. In contrast, a vanilla option (e.g., a call option) is not path dependent. Its value at exercise or expiration depends on the value of the underlying asset only at that point in time. The additional features incorporated by exotic options require additional judgments regarding the likelihood of certain conditions being satisfied, any one of which can result in loss if made incorrectly. An OTC option may be closed out only with the counterparty, although either party may engage in an offsetting transaction that puts that party in the same economic position as if it had closed out the option with the counterparty; however, the exposure to counterparty risk may differ. OTC options generally involve greater credit and counterparty risk than exchange-traded options.

Total Return Swap Agreements. We may enter into total return swap agreements on behalf of the Master Fund ("TRSs" or "TRS agreements"). TRS agreements are individually negotiated and can be structured to include exposure to a variety of different types of investments or market factors. TRS agreements may shift investment exposure from one type of investment to another. For example, if the Master Fund agrees to exchange payments in dollars for payments in non-U.S. currency, the TRS agreement would tend to decrease the Master Fund's exposure to U.S. interest rates and increase its exposure to non-U.S. currency and interest rates. Depending on how they are used, TRS agreements may increase or decrease the overall volatility of the Master Fund's portfolio. The most significant factor in the performance of TRS agreements is the change in the specific reference asset or financing or currency rate. If a swap agreement calls for payments by the Master Fund, the Master Fund must be prepared to make such payments when due.

Other Derivative Instruments. The Master Fund may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment

objective of the Master Fund and legally permissible. Special risks may apply to instruments that are invested in by the Master Fund in the future that cannot be determined at this time or until such instruments are developed or invested in by the Master Fund.

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

Currencies. The Master Fund may invest a portion of its assets in non-U.S. currencies, or in instruments denominated in non-U.S. currencies, the prices of which are determined with reference to currencies other than the U.S. dollar. The Master Fund, however, values its securities and other assets in U.S. dollars. The Master Fund may or may not seek to hedge all or any portion of its foreign currency exposure. To the extent the Master Fund's investments are not hedged, the value of the Master Fund's assets will fluctuate with U.S. dollar exchange rates as well as the price changes of the Master Fund's investments in the various local markets and currencies. Thus, an increase in the value of the U.S. dollar compared to the other currencies in which the Master Fund makes its investments will reduce the effect of increases and magnify the effect of decreases in the value of the Master Fund's positions in its local markets. Conversely, a decrease in the value of the U.S. dollar will have the opposite effect on the Master Fund's non-U.S. dollar securities. The Master Fund also may utilize options, and forward and futures contracts to hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be effective, and such techniques entail additional risks.

Forward Contracts. The Master 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 we would otherwise recommend, to the possible detriment of the Master Fund. In its forward trading, the Master 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 Master Fund trades. Master 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. We may order trades for the Master Fund in such markets through agents. Accordingly, the insolvency or bankruptcy of such parties could also subject the Fund and the Master Fund to the risk of loss.

Illiquid Securities. Certain securities may be illiquid because, for example, they are subject to legal or other restrictions on transfer or there is no liquid market for the securities. Valuation of those securities may be difficult or uncertain because there may be limited information available about the issuers. The market prices, if any, for illiquid securities tend to be volatile and may not be readily ascertainable, and the Master 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 securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. The Master Fund may not be able to readily dispose of 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 Master Fund may be required to hold illiquid securities despite adverse price movements. Even those markets which the Investment Manager 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.

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, including investments in private companies, 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 Master Fund. Restricted securities

may involve a high degree of business and financial risk which may result in substantial losses.

Commodities.

Energy. Markets for energy-related commodities, including, among others, 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.

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 Master 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.

Debt Securities Generally. The Master Fund may invest a portion of its capital in bonds or other fixed-income securities, including, among others: bonds; convertible bonds; notes and debentures issued by corporations; debt securities issued or guaranteed by the U.S. Government or non-U.S. sovereign governments or one of its agencies or instrumentalities; commercial paper; and "higher yielding" (and, therefore, higher risk) debt securities of the former categories. Debt securities of all types of issuers may have speculative characteristics, regardless of whether they are rated. The issuers of these instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal in accordance with the terms of the obligations.

Market Making by Dealers. The value of the Master 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 Master Fund's profitability or result in losses.

Interest Rate Risk. Changes in interest rates can affect the value of the Master Fund's investments in fixed-income instruments. Increases in interest rates may cause the value of the Master Fund's debt investments to decline. The Master 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 debt instruments will be affected by a variety of factors including the prevailing level of interest rates and spreads as well as economic, demographic, tax, social, legal and other factors. Generally, obligors tend to prepay their fixed rate obligations when prevailing interest rates fall below the coupon rates on their obligations. Similarly, floating rate issuers and borrowers tend to prepay their obligations when spreads narrow.

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

The adverse effects of prepayments may impact the Master 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 we may have constructed for these investments, resulting in a loss to the Master 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. Bonds, notes and debentures issued by corporations may pay fixed, variable or floating rates of interest, and may include zero-coupon obligations. Corporate debt instruments may be subject to credit ratings downgrades. Other instruments may have the lowest quality ratings or may be unrated. In addition, the Master 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 Master 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 Master Fund may experience substantial losses.

Zero-Coupon and Deferred Interest Bonds. Zero-coupon bonds and deferred interest bonds are debt obligations issued at a significant discount from face value. The original discount approximates the total amount of interest the bonds will accrue and compound over the period until maturity or the first interest accrual date at a rate of interest reflecting the market rate of the security at the time of issuance. While zero-coupon

bonds do not require the periodic payment of interest, deferred interest bonds generally provide for a period of delay before the regular payment of interest begins. Such investments experience greater volatility in market value due to changes in interest rates than debt obligations that provide for regular payments of interest.

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

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

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

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 Master Fund is called for redemption, the Master 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 Master Fund's ability to achieve its investment objective.

Credit Default Swaps. Credit default swaps can be used to implement Laurion's view that a particular credit, or group of credits, will experience credit improvement or deterioration. In the case of expected credit improvement, the Master 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 Master Fund to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. The Master Fund may also buy credit default protection with respect to a referenced entity if, in our judgment, there is a high likelihood of credit deterioration. In that instance, the Master Fund will pay a premium regardless of whether there is a credit event.

Repurchase and Reverse Repurchase Agreements. In a reverse repurchase transaction, the Master Fund "buys" securities issued from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid by the Master Fund, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by the Master Fund involves certain risks. For example, if the seller of securities to the Master Fund under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, the Master Fund will seek to dispose of such securities, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, the Master Fund's ability to dispose of the underlying securities may be restricted. It is possible, in a bankruptcy or liquidation scenario, that the Master Fund may not be able to substantiate its interest in the underlying securities. Finally, if a seller defaults on its obligation to repurchase securities under a reverse repurchase agreement, the Master Fund may suffer a loss to the extent that it is forced to liquidate its position in the market, and proceeds from the sale of the underlying securities are less than the repurchase price agreed to by the defaulting seller. Similar elements of risk arise in the event of the bankruptcy or insolvency of the buyer.

Item 9 - Disciplinary Information

In January 2014, the Master Fund unintentionally violated a position limit applicable to natural gas futures traded on the New York Mercantile Exchange ("NYMEX"). We submitted to NYMEX a settlement offer in which we agreed to pay a fine of \$25,000. NYMEX entered an order effective on June 16, 2014 accepting the settlement offer. Laurion paid in full the \$25,000 fine for this position limit violation.

Item 10 - Other Financial Industry Activities and Affiliations

Laurion serves as the investment manager to the Funds. We have business relationships with the following affiliated entities:

- *Laurion Capital GP, LLC* is our general partner.
- *Laurion Capital Partners LLC* is the general partner of the Onshore Fund.

Laurion is registered with the Commodity Futures Trading Commission as a commodity pool operator.

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

We have adopted a Code of Ethics which recognizes our fiduciary duty to act in the best interests of the Funds. We adopted the Code of Ethics to, among other things: (1) prevent any improper personal trading; (2) identify any conflicts of interest; and (3) provide a means to address any actual or potential conflicts of interest.

Our Code of Ethics requires our employees to pre-clear certain transactions in their personal accounts with our Chief Compliance Officer or his designee, subject to certain exceptions for securities such as, among others, money market funds, open-end mutual funds and exchange traded funds. Generally we will not approve a trade if we determine that the transaction is likely to have an adverse economic impact on any of the Funds. For certain transactions, employees are subject to a 30 day holding period.

We have adopted procedures, in accordance with internal and SEC requirements, to monitor adherence to our personal trading policy. These procedures include:

- distributing our Code of Ethics to all employees upon hire;
- providing training to all employees upon hire and periodically thereafter;
- requiring all new employees to submit an initial holdings report, and to provide annual updates thereafter;
- requiring all employees to submit quarterly transaction reports and periodically provide duplicate copies of their brokerage statements; and
- requiring initial and annual certifications from all employees regarding compliance with the Code of Ethics.

We may purchase or sell for the accounts of the Master Fund securities in which we, our employees or affiliates have a position. As we describe above and further in our Code of Ethics, certain trades need to be pre-cleared with our Chief Compliance Officer (or his designee) who will only grant permission for the trade after determining that the transaction is not likely to have an adverse economic impact on any of the Funds. In addition, our employees may invest in the Funds.

All clients and prospective clients may obtain a copy of our Code of Ethics by writing to our Chief Compliance Officer at Laurion Capital Management LP, 360 Madison Avenue, Suite 2000, New York, NY 10017.

Item 12 - Brokerage Practices

Subject to each Fund's established guidelines, limitations or restrictions (if any), we have the authority to determine for each Client:

- Which securities are to be bought or sold;
- The total amount of securities to be bought or sold;
- Through which broker(s) or dealer(s) those securities are to be bought or sold; and
- The commission rates or spreads to be paid for each transaction.

Portfolio transactions for the Master Fund are allocated to brokers and dealers based on a number of factors, including price, the ability of the broker or dealer to effect the transactions, the brokers' and dealers' facilities, reliability and financial responsibility and in

consideration of such brokers' and dealers' provision or payment of the costs of brokerage and research services that are of benefit to the Master Fund. We are not required to solicit competitive bids and do not have an obligation to seek the lowest available commission or price. Therefore, if we determine in good faith that the commissions or other compensation charged by a broker or dealer are reasonable in relation to the value of the brokerage, research and related products and services provided by such broker or dealer, the Master Fund may compensate such broker in an amount greater than the amount another broker or dealer might charge.

Research products or services provided to us may include research reports on particular industries and companies, economic surveys and analyses, recommendations as to specific securities and other products and services providing lawful and appropriate assistance to us in the performance of our investment decision-making responsibilities.

We do not have any formal arrangements in place to use client commission dollars, known as "soft dollars", to pay for any products or services. However, we do receive research from brokers and dealers with whom we trade, and such research may be deemed soft dollar research. To the extent we are deemed to use soft dollars to pay for research products or services, such use will fall within the safe harbor created by Section 28(e) of the Securities Exchange Act of 1934, as amended.

When we use brokerage commissions (or markups or markdowns) generated by a client to obtain research or other products or services, we receive a benefit because we do not have to produce or pay for these products or services. While we are obligated to seek best execution for each client, the fact that we can obtain or receive these products or services may create an incentive for us to select or recommend a particular broker-dealer based on our interests, to the exclusion of another broker-dealer that offers business terms that are also favorable to one or more clients.

From time to time, brokers may assist the Funds in raising additional funds from investors. In addition, Laurion representatives may speak at conferences and programs sponsored by prime brokers for investors interested in investing in hedge funds. Through such "capital introduction" events, prospective investors of the Funds have the opportunity to meet with us. Neither Laurion nor the Funds directly compensate the prime brokers for organizing these events or for any investments ultimately made by prospective investors attending such events. However, such events and other services (including capital introduction services) provided by a prime broker may influence us in deciding whether to use such prime brokers in connection with brokerage, financing and other activities of the Master Fund.

Item 13 - Review of Accounts

The Master Fund's portfolio is monitored on a regular basis by Benjamin A. Smith and Janaka Sheehan Maduraperuma to determine, among other things, risk and positioning. Investors receive account statements directly from an independent fund administrator on a monthly basis that contain unaudited performance data and an update of their accounts. We may supplement these statements with weekly and monthly performance estimates, reports provided during investor meetings or as requested by Investors. Investors will also receive annual audited financial statements prepared in accordance with generally accepted accounting principles and annual tax information.

Item 14 - Client Referrals and Other Compensation

Laurion does not compensate any third parties for client or investor referrals. We do not receive any other economic benefits from non-clients in connection with the provision of investment advice to clients.

Item 15 - Custody

All Master Fund assets are held by unaffiliated broker/dealers or banks, all of whom are qualified custodians, as that term is defined under the custody rule under the Investment Advisers Act. An investment adviser is deemed to have custody if it acts in any capacity that gives the adviser legal ownership of, or access to, client funds or securities. Therefore, Laurion is deemed to have custody of Master Fund assets because we or one of our affiliates either (1) acts as general partner of a Fund with the authority to dispose of funds and securities in the Funds' accounts or (2) is deemed to have custody because of its ability to withdraw its fees directly from the Funds.

Accordingly, we have developed procedures that ensure the safeguarding and protection of the Funds' assets. Such procedures include, among other things, the separation of functions and dual signatory approvals for the distribution of Fund capital. In addition, the Funds are subject to an annual audit by an independent public accountant and the audited financial statements are distributed to each Investor. The audited financial statements are prepared in accordance with generally accepted accounting principles, issued with an unqualified opinion, and distributed within 120 days of the Funds' fiscal year ends.

Item 16 - Investment Discretion

Laurion has discretionary authority to determine, without obtaining specific consent from the Funds or their limited partners/shareholders, the securities and the amounts to be bought or sold on behalf of the Master Fund. Any limitations on authority are included in each Fund's Offering Documents.

Item 17 - Voting Client Securities

Since many of the Master Fund's positions are held for brief periods of time and a number of positions are the result of model-based trading strategies implemented predominately by computer driven programs, Laurion's general practice is to not vote proxies on behalf of the Master Fund. However, under extraordinary situations, we may vote proxies if we believe the matter subject to vote may be material to a Client's account. Accordingly, we have adopted a Proxy Voting Policy, pursuant to Rule 206(4)-6 of the Advisers Act, designed to ensure that if and when we do vote proxies, we will vote prudently and solely in the economic interests of, and for the exclusive purpose of providing economic benefits to, Clients. Social, political, or other objectives unrelated to the value of the Client's investments will not be considered.

Investors may obtain a copy of our Proxy Voting Policy or a record of our proxy votes free of charge by emailing or writing to Laurion at the addresses listed above.

Item 18 - Financial Information

Laurion has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.