

# Triarii Capital Management LP Part 2A of Form ADV ("The Brochure")

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This brochure provides information about the qualifications and business practices of Triarii Capital Management LP ("Triarii Capital" "we" "us" "Company"). If you have any questions about the contents of this brochure, please contact us at (617) 342-8168 or [inquiries@triariicapital.com](mailto:inquiries@triariicapital.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 us is also available on the SEC's website at <http://www.adviserinfo.sec.gov>. We are a registered investment adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). Our registration with the SEC does not imply any level of skill or training.

## **Item 2: Material Changes**

Since Triarii Capital filed its last annual amendment in March 2018 the Company began providing investment advisory services to separately managed accounts.

We have updated this brochure to include the conflicts of interest related to managing multiple client accounts in the Code of Ethics, Participation or interest in Client Transactions and Personal Trading (Item 11) section and Performance Based Fees and Side-by-Side Management (Item 6) section. Additionally, we updated this brochure to include a general description of our process for aggregating orders for multiple client accounts in the Brokerage Practices (Item 12) section.

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## Item 4: Advisory Business

Triarii Capital was founded in July 2015 and commenced operations as an investment adviser in March 2016. The Company is organized as a Delaware limited partnership with its principal place of business in Boston, MA. Miguel Fidalgo (the “Portfolio Manager”) is the founder and principal owner of Triarii Capital.

Triarii Capital provides discretionary investment advisory services to separately managed accounts (the “Accounts”) and serves as investment manager to private investment vehicles (each a “Fund” or collectively, “Funds” and together with the Accounts, “Clients”) (limited partners in the Funds are referred to as “Investors”). Triarii Capital provides investment advice directly to the Funds and not individually to Investors.

The Funds consist of Triarii Capital Partners LP (the “Onshore Fund”), a Delaware limited partnership; Triarii Capital Offshore Partners Ltd. (the “Offshore Fund”); and Triarii Capital Master Fund LP (the “Master Fund”), each a Cayman Islands exempted company. The Offshore Fund and Onshore Fund will invest all or substantially all of their assets through the Master Fund. Triarii Capital Partners GP LLC (the “General Partner”), which is a related entity of Triarii Capital, serves as the general partner of each Fund.

The Funds are not registered under the Securities Act of 1933, as amended (the “Securities Act”), or the Investment Company Act of 1940, as amended (the “Investment Company Act”), and only interests in the Onshore and Offshore Funds are offered to Investors. Accordingly, interests in the Onshore and Offshore Funds are offered and sold exclusively to investors satisfying the applicable eligibility and suitability requirements either in private transactions within the United States or in offshore transactions.

The investment objective of the Funds is to achieve attractive absolute returns on a long-term, risk-adjusted basis, while emphasizing capital preservation. To achieve the objective, the Funds will employ an opportunistic, deep-value investment strategy combined with an analytically rigorous, fundamental approach to identifying and assessing value. The Funds will invest when risk is attractively priced and will hold cash when opportunities are not compelling on an absolute, risk-adjusted basis. More information about the Funds investment objectives is available in the applicable Fund’s limited partnership agreement or Confidential Offering Memorandum (“COM”) (collectively, a Fund’s “Governing Documents”).

The Accounts are managed pursuant to a customized investment management agreement or similar document (“IMA”). In some cases, the Accounts are managed on a sub-advisory basis (“Sub-Advised Client”). Our Clients are subject to differing structured IMAs and may invest in overlapping or differing positions. The investment objectives and restrictions of Client accounts may vary by target position sizes, portfolio concentration and exposure, estimated holding periods and other factors. As a result, we may be subject to certain conflicts of interests regarding the management of our Clients as described throughout this Brochure.

As of December 31, 2018, Triarii Capital managed \$123,384,287 in assets on a discretionary basis.

## Item 5: Fees and Compensation

As provided under each Fund's Governing Documents, Triarii Capital or its affiliates will receive from the Funds both a quarterly management fee at a fixed rate and an annual performance allocation based on the performance of the Funds, as described further below. Although Triarii Capital has entered into agreements with the Funds providing for the fees or allocations described below, Triarii Capital may negotiate alternative fees or allocations on a client-by-client basis with other funds or separate account clients that it manages in the future. The General Partner also retains the ability to, in its sole discretion, waive, reduce or rebate the Management Fee and/or Performance Allocation with respect to certain Investors of each Fund, including affiliates of the General Partner and/or Triarii Capital; provided, however, that no such waiver, reduction or rebate will adversely impact any other Investor in a Fund or cause them to bear a higher portion of the Management Fee and/or Performance Allocation than they would otherwise bear absent such waiver, reduction or rebate.

Triarii Capital deducts its Management Fee from each Fund generally quarterly in advance. An Investor of a Fund that withdraws all or a portion of its interest in a Fund other than at the end of a quarter shall be reimbursed a pro rata portion of the Management Fee for such quarter. The General Partner receives a Performance Allocation of 20% from the Investors of the Funds on an annual basis in arrears and upon withdrawals by Investors in the Funds, subject to a "highwater mark." While the fees charged to the Funds are not negotiable, investments made in the Onshore or Offshore Fund at launch, will be entitled to a discounted performance-based allocation. Additionally, investments made in the Onshore or Offshore Fund at launch will have an equal amount of capacity rights for the first 18 months, subject to certain restrictions, which will be entitled to a discounted performance-based allocation. For a further discussion of the Performance Allocation and the "highwater mark", please see Item 6.

In addition to the Management Fee and the Performance Allocation, each Fund will bear the costs and expenses related to its investments and its operations, including, without limitation: brokerage and other transaction costs; clearing and settlement charges; trade break fees; consulting expenses; research and due diligence expenses (whether or not the related investment is consummated); expenses incurred in connection with Triarii Capital or any investment team member forming or serving on any creditors' committees; legal fees and other expenses in connection with conducting due diligence and negotiating the terms of certain investments (regardless of whether such investments are consummated); custodial fees; initial and variation margin, interest and commitment fees on debit balances or borrowings; stock borrowing fees; proxy solicitation expenses; legal audit and tax preparation expenses, accounting fees; administrator fees and expenses (including fees and expenses of the Fund's administrator and third party valuation services); directors fees; fees and expenses for risk management services; insurance expenses, including costs of any liability insurance obtained on behalf of the Funds (including, without limitation, directors and officers insurance); indemnification expenses; the management fee; regulatory costs and expenses (including filing and license fees); any issue or transfer taxes chargeable in connection with any securities transactions; any entity level taxes and fees; costs of reporting and providing information to the partners of the Fund; costs of litigation or investigation involving the Fund's activities; any extraordinary expenses; and to the extent applicable, a pro rata share of the fees and expenses of any other investment vehicles in which the Fund invests (including, without limitation, any management fees or performance allocation). For more information regarding Triarii Capital's brokerage practices and brokerage expenses discussed herein, please see Item 12.

Each Fund will also bear its organizational expenses and the costs incurred in connection with the initial issuance of Fund interests, including legal and accounting fees, third party document production and printing costs, federal and state filing fees, and other related expenses. It is

anticipated that organizational expenses will be amortized by each Fund, in the sole discretion of the General Partner, for financial reporting purposes over a period of five (5) years. The General Partner believes that amortizing such expenses is more equitable than expensing the entire amount during the first year of operations, as is required by U.S. generally accepted accounting principles (“GAAP”), and also conforms to industry practice.

The terms of the Funds may be altered for investors to address compliance with any law, regulation or contract applicable to such investor or, to address a tax, ERISA, legal or regulatory issue applicable to such investor or sovereign status of such investor. Neither Triarii Capital nor any of its supervised persons accept any compensation for the sale of securities or other investment products, including interests in the Funds.

Fees, expenses and payment methods for the Accounts are negotiated separately and subject to the terms agreed upon in their respective IMA. Triarii Capital expects that all Clients will be qualified purchasers as defined in Section 2(a)(51)(A) of the Investment Company Act of 1940, as amended. Accordingly, fee schedules and related information are omitted from this Brochure.

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

As discussed in the Fees and Compensation section, the General Partner is entitled to receive a performance allocation from each Fund generally at the end of each calendar year. Generally, at the end of each fiscal year, subject to the recovery of net losses allocated to the loss recovery account (as described below), the General Partner will receive an allocation from the capital account of each Investor in each Fund (after reduction for expenses and fees incurred by such Fund) equal to 20% (or the reduced rate related to investments made in the Onshore or Offshore Fund at launch and the associated capacity rights) of the net increase for such fiscal year. The “net increase” of a capital account shall mean the excess realized and unrealized net profits over realized and unrealized net losses allocated to such capital account for such fiscal year (or other fiscal period, if applicable) prior to giving effect to any Performance Allocation. Appreciation relating to “designated investments” will not be allocated to a capital account of an Investor in a Fund for purposes of determining the Performance Allocation until such “designated investment” is realized or deemed realized; however, unrealized losses attributable to any decrease of the Fund’s carrying value for such “designated investment” (meaning, the lower of (i) the cost of such “designated investment” at acquisition, or (ii) the fair market value of such “designated investment”) will be taken into account for purposes of determining the Performance Allocation. “Designated investments” are investments that the General Partner, in consultation with Triarii Capital, determines are illiquid, restricted, or not susceptible to valuation prior to disposition or maturity, or that the General Partner, in consultation with Triarii Capital, otherwise determines should be held until the occurrence of certain events or for an undefined period.

The Master Fund will maintain a loss recovery account (sometimes referred to as a “high water mark”) that corresponds to the capital account of each Investor to calculate whether the General Partner will be entitled to receive such a Performance Allocation. The General Partner will not be entitled to receive a Performance Allocation with respect to an Investor’s capital account in the event that such loss recovery account has aggregate net losses (that have not been decreased by aggregate net profits) during any period (or portions thereof) concluded on the date such Performance Allocation is determined.

If an investor withdraws capital from a Fund, the amount of such investor’s high water mark, if any, will be reduced in proportion to the amount of capital withdrawn.

The General Partner may waive the Performance Allocation with respect to any investments by certain Investors, including its affiliates and affiliates of Triarii Capital.

Performance-based fee arrangements may create an incentive for Triarii Capital to recommend investments that may be riskier or more speculative than those that we may otherwise recommend under a different fee arrangement. In the allocation of investment opportunities, performance-based fee arrangements may also create an incentive for us to favor Clients with higher performance or incentive fee arrangements over Clients that are charged a lower performance fee or are not charged a performance fee at all. We have adopted an order aggregation and trade allocation policy (the “Aggregation and Allocation Policy”) designed to ensure that all of our Clients are treated fairly and equitably over time and to prevent conflicts from influencing the allocation of investment opportunities among Clients. Please see Item 12 below for a general description of Triarii Capital’s Aggregation and Allocation Policy.

Triarii Capital may also receive a performance allocation from the Accounts, subject to the terms of the respective agreement.

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

Triarii Capital currently provides investment advisory services to private investment vehicles and separately managed accounts. We also serve as sub-advisers to various other investment vehicles.

Interests in the Funds are offered pursuant to applicable exemptions from registration under the Investment Company Act and the Securities Act. Accordingly, investors in the Onshore Fund and the Offshore Fund are required to be “accredited investors” (as defined in Regulation D promulgated under the Securities Act) or otherwise be permitted to invest under applicable securities laws. The minimum initial investment in each Fund is \$1,000,000. These minimum investment amounts are waived by the Funds in certain circumstances.

In addition, the Funds may enter into separate agreements, commonly referred to as “side letters”, with certain investors that amend, modify or supplement the terms of the governing documents of the Partnerships. Under certain circumstances, these agreements could give certain investors additional rights relative to other investors.

Investors in the Funds may include, but are not limited to, endowments, foundations, trusts, estates, charitable organizations, pension plans, high net worth individuals, family offices, fund-of-hedge funds, limited partnerships, limited liability companies and similar entities. Certain Sub-Advised Clients or their underlying owners may also be investors in the Funds.

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

***Investment and Trading Risks*** - An investment in the Fund involves a high degree of risk, including the risk that the entire amount invested may be lost. No guarantee or representation is made that the Fund’s investment program will be successful or that the Fund will achieve its objective. The Portfolio Manager will be investing substantially all of the Fund’s assets in securities, some of which may be particularly sensitive to economic, market, industry and other variable conditions. The

markets in which the Fund expects to invest may experience significant volatility and losses. No assurance can be given as to when or whether adverse events might occur that could cause immediate and significant losses to the Fund.

***Investments in Undervalued Securities*** - The Fund's investment strategy focuses on investing in companies that the Portfolio Manager believes are undervalued. Opportunities in undervalued securities arise from market inefficiencies or due to a lack of wide recognition of the potential impact (positive or negative) that specific events or trends may have on the value of a security. The identification of investment opportunities in undervalued securities is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued securities offer opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses.

***Investments in High Yield and Distressed Securities*** -The Fund may invest in "below investment grade" securities and obligations of domestic and non-U.S. issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence or other problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These securities are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Some of these securities may not be publicly traded, and it therefore may be difficult to obtain information as to the true condition of such issuers or to buy or sell these securities. Additionally, in certain periods, there may be little or no liquidity in markets for these securities. The public market prices of distressed securities may be subject to abrupt and erratic market movements and above-average price volatility, and the spread between the bid and ask prices of such securities may be greater than normally expected. It may take a substantial period of time for the market price of such securities to reflect what the Portfolio Manager believes is their intrinsic value. In addition, the concentration of hedge funds (or similar participants) as owners of distressed companies could cause the value of such securities to be depressed if the hedge funds (or similar participants) are forced to liquidate their positions due to withdrawals, a credit crunch or other events affecting such funds.

Investments in distressed securities may also be affected adversely by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies' securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to the Fund's investment in any instrument, and certain of the Fund's investments may be less than investment grade. Any one or all of the investments the Fund may make may be unsuccessful, a partial or complete loss or not show any return for a considerable period of time. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is high. There can be no assurance that the Portfolio Manager will correctly evaluate the value of the assets collateralizing the obligations owed to the Fund or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which the Fund invests, the Fund may lose its entire investment, may be required to accept cash or securities with a value less than the Fund's original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Fund's investments may not compensate the Limited Partners adequately for the risks assumed.



In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that, among other things, the reorganization 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 Fund of the security in respect to which such distribution was made. The administrative costs of a bankruptcy proceeding are frequently high and are paid out of the debtor's estate before any return to creditors (other than out of assets or proceeds thereof that are subject to valid and enforceable liens and other security interests) and equity holders. In addition, the amount of certain claims that have priority by law over the claims of certain creditors (for example, claims for taxes) may be quite high. U.S. bankruptcy law permits the classification of "substantially similar" claims in a reorganization for the purpose of voting on a plan of reorganization. Because the standard for classification is vague, the Fund's influence with respect to a class of securities may be lost by inflation of the number and the amount of claims in, or other gerrymandering of, the class. In certain transactions, the Fund may not be "hedged" against market fluctuations or, in liquidation situations, may not accurately value the assets of the company being liquidated. This can result in losses, even if the proposed transaction is consummated.

Troubled companies and other asset-based investments also require active monitoring and may, at times, require participation in business strategy or reorganization proceedings by the Portfolio Manager. To the extent that the Portfolio Manager becomes involved in such proceedings, the Fund may have a more active participation in the affairs of the issuer than that assumed generally by an investor. In addition, involvement by the Fund in an issuer's reorganization proceedings could result in the imposition of restrictions limiting the Fund's ability to liquidate its position in the issuer. The Portfolio Manager, on behalf of the Fund, may elect to have representatives serve on creditors' committees or other groups to preserve or enhance the Fund's positions as a creditor. A member of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents. If the Portfolio Manager concludes that its obligations owed to the other parties as a committee or group member conflict with duties owed to the Fund, it may be required to recuse itself or resign from that committee or group, and the Fund may not realize the benefits, if any, of participation on the committee or group. In addition, if the Fund is represented on a committee or group, it may be restricted or prohibited under applicable law from disposing of its investments in the applicable company. Further, the law is uncertain as to duties and restrictions applicable to an "ad hoc" creditors committee on which the Portfolio Manager participates or is deemed to participate.

Investment in the debt of financially distressed companies domiciled outside the U.S. involves additional risks. Bankruptcy law and process may differ substantially from that in the U.S., resulting in greater uncertainty as to creditors' rights, the enforceability of those rights, reorganization timing and the classification, seniority and treatment of claims. In certain countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

***Investments in Bankrupt or Restructured Companies*** - As noted above, the Fund may invest in certain issuers of securities that may be involved in bankruptcy or other reorganization proceedings which involve a substantial degree of risk. Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. Accordingly, a bankruptcy court may approve actions that are contrary to the Fund.

Generally, the duration of a bankruptcy case can only be roughly estimated and, as noted above, the process can involve substantial legal, professional and administrative costs to the company and the Fund; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart and the company may not be able to

invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets. Although the Fund may invest all or a portion of its assets in debt, the debt of companies in financial reorganization will in most cases not pay current interest, may not accrue interest during reorganization and may be adversely affected by an erosion of the issuer's fundamental values. Such investments can result in a total loss of principal.

The Portfolio Manager may cause the Fund to purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser.

***Investments in Restricted Investments*** - The Fund may invest its assets in restricted securities or securities that are subject to certain liquidity restrictions, including, without limitation, lock-up periods. These securities may be subject to legal or contractual restrictions on resale and transfer and, therefore, may be illiquid and subject to wide fluctuations in value. Such securities may be held by the Fund until the occurrence of certain events or for an extended period, as determined by the Portfolio Manager. The resale of restricted and illiquid securities may be difficult to value and oftentimes may have higher brokerage charges.

***Risk Arbitrage Transactions*** - The Fund may engage in certain arbitrage trading including, but not limited to, event-driven arbitrage. The Fund may engage in risk arbitrage transactions where it purchases securities at prices below the anticipated value of the cash, securities or other consideration to be paid or exchanged for such securities in a proposed merger, exchange offer, tender offer or other similar transaction. Such purchase price may be substantially in excess of the market price of the securities prior to the announcement of the merger, exchange offer, tender offer or other similar transaction. If the proposed merger, exchange offer, tender offer or other similar transaction later appears likely not to be consummated or in fact is not consummated or is delayed, the market price of the security purchased by the Fund may decline sharply and result in losses to the Fund if such securities are sold, transferred or exchanged for securities or cash, the value of which is less than the purchase price. Often arbitrage opportunities disappear rapidly once the opportunity becomes well-known and many investors act on it. Arbitrage trading can involve large transaction costs because of the need to simultaneously buy and sell several different securities. There is no assurance that the arbitrage transaction will perform in the manner expected by the Portfolio Manager and the exposure of the Fund to a movement in the market or other factors could be significantly increased. In certain transactions, the Fund may not be hedged against market fluctuations unrelated to the anticipated transaction but which may affect the value of the consideration to be received. This may result in losses, even if the proposed transaction is consummated.

***Investments in Municipal Securities*** - The Fund may invest in municipal securities. Municipal issuers may be adversely affected by rising health care costs, increasing unfunded pension liabilities, and the phasing out of federal programs that provide financial support to municipalities. Unfavorable conditions and developments relating to projects financed with municipal securities can result in lower revenues to issuers thereof. Issuers often depend on revenues from these projects to make principal and interest payments. The value of municipal securities also can be adversely affected by changes in the financial condition of insurers of municipal issuers, regulatory and political developments, tax law changes or other legislative actions, and by uncertainties and public perceptions concerning these and other factors.

***Investments in Corporate Debt and other Fixed Income Securities*** - The Fund may invest in bonds or other fixed income securities, including, without limitation, bonds, notes and debentures issued by corporations, limited Funds and other similar entities. The Fund may also invest in debt

securities issued or guaranteed by the U.S. or foreign government or one of its agencies or instrumentalities, commercial paper, and “higher yielding” (and, therefore, higher risk) debt securities of the former categories. These securities may pay fixed, variable or floating rates of interest, and may include zero coupon obligations. Fixed income securities are subject to the risk of the issuer’s inability to meet principal and interest payments on its obligations (*i.e.*, credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (*i.e.*, market risk). A major economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

***Investments in Sovereign Debt*** - The Fund may invest in sovereign debt instruments. Sovereign debt instruments, which are debt obligations issued or guaranteed by a foreign governmental entity, are subject to the risk that the governmental entity may delay or fail to pay interest or repay principal on debt that it has issued or guaranteed, due to, for example, cash flow problems, insufficient foreign currency reserves, political considerations, relationships with other lenders such as commercial banks, the relative size of the governmental entity’s debt position in relation to the economy or the failure to put in place economic reforms required by the International Monetary Fund or other multilateral agencies. If a governmental entity defaults, it may ask for more time to pay or for further loans, or it may ask for forgiveness of interest or principal on its existing debt. Furthermore, a governmental entity may be unwilling to renegotiate the terms of its sovereign debt. There may be no established legal process for a U.S. bondholder (such as the Fund) to enforce its rights against a governmental entity that does not fulfill its obligations, nor are there bankruptcy proceedings through which all or part of the sovereign debt that a governmental entity has not repaid may be collected.

***Investments in Loans and Loan Participations*** - The Fund may invest in corporate bank debt (“**Bank Loans**”) and participations therein originated by banks and other financial institutions. It is anticipated that such Bank Loans will primarily be term loans, may pay interest at a fixed or floating rate and may be senior or subordinated. Purchasers of Bank Loans are predominantly commercial banks, investment funds and investment banks and there can be no assurance that current levels of supply and demand in Bank Loan trading will provide an adequate degree of liquidity. The Fund may invest in Bank Loans either directly (by way of sale or assignment) or indirectly (by way of participation or other derivative contract). The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution. Participation interests in a portion of a debt obligation typically result in a contractual relationship only with the institution participating out the interest, not with the borrower. In purchasing participations and other derivatives, the Portfolio Manager on behalf of the Fund generally has no right to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, and the Fund may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. As a result, the Fund will assume the credit risk of both the borrower and the institution selling the participation or other derivative contract.

***Investments in Debt Portfolios*** - The Fund may invest in debt portfolios. Debt portfolios are subject to credit risk and interest rate risk. “Credit risk” refers to the likelihood that an issuer will default on the payment of principal and/or interest on an instrument. Financial strength and solvency of an issuer are the primary factors influencing credit risk. In addition, inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of an instrument, and debt obligations which are rated by rating agencies are often reviewed and may be subject to downgrade. “Interest rate risk” refers to the risks associated with market changes in interest rates. Interest rate changes may affect the value of a debt instrument indirectly (especially

in the case of fixed rate securities) and directly (especially in the case of instruments whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules.

***Investments in Equity Securities Generally*** - The Fund may invest in equity and equity-related securities in the U.S. and other countries. The value of these financial instruments generally will vary with the performance of the issuer and movements in the equity markets. As a result, the Fund may suffer losses if it invests in equity instruments of issuers whose performance diverges from the Portfolio Manager's expectations or if equity markets generally move in a single direction and the Fund has not hedged against such a general move. The 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 or otherwise qualifying restricted securities for public resale.

***Short Sales*** - The Portfolio Manager may engage in short sales as part of hedging transactions or when it believes securities are overvalued. Short sales are sales of securities the Fund borrows but does not actually own, usually made with the anticipation that the prices of the securities will decrease and the Fund will be able to make a profit by purchasing the securities at a later date at the lower prices. The Fund will incur a potentially unlimited loss on a short sale if the price of the security increases prior to the time it purchases the security to replace the borrowed security. A short sale presents greater risk than purchasing a security outright since there is no ceiling on the possible cost of replacing the borrowed security, whereas the risk of loss on a "long" position is limited to the purchase price of the security. Closing out a short position may cause the security to rise further in value creating a greater loss.

Short sale transactions have been subject to increased regulatory scrutiny in response to market events in recent years, including the imposition of restrictions on short selling certain securities and reporting requirements. The Fund's ability to execute a short selling strategy may be materially adversely impacted by temporary and/or new permanent rules, interpretations, prohibitions, and restrictions adopted in response to these adverse market events. Temporary restrictions and/or prohibitions on short selling activity may be imposed by regulatory authorities with little or no advance notice and may impact prior trading activities of the Fund. Additionally, the SEC, its foreign counterparts, other governmental authorities and/or self-regulatory organizations may at any time promulgate permanent rules or interpretations consistent with such temporary restrictions or that impose additional or different permanent or temporary limitations or prohibitions. The SEC might impose different limitations and/or prohibitions on short selling from those imposed by various non-U.S. regulatory authorities. These different regulations, rules or interpretations might have different effective periods.

Regulatory authorities may impose restrictions that adversely affect the Fund's ability to borrow certain securities in connection with short sale transactions. In addition, traditional lenders of securities might be less likely to lend securities under certain market conditions. As a result, the Fund may not be able to effectively pursue a short selling strategy due to a limited supply of securities available for borrowing. The Fund may also incur additional costs in connection with short sale transactions, including in the event that it is required to enter into a borrowing arrangement in advance of any short sales. Moreover, the ability to continue to borrow a security is not guaranteed and the Fund is subject to strict delivery requirements. The inability of the Fund to deliver securities within the required time frame may subject the Fund to mandatory close out by the executing broker-dealer. A mandatory close out may subject the Fund to unintended costs and losses. Certain action

or inaction by third-parties, such as executing broker-dealers or clearing broker-dealers, may materially impact the Fund's ability to effect short sale transactions. Such action or inaction may include a failure to deliver securities in a timely manner in connection with a short sale effected by a third-party unrelated to the Fund.

***Investments in Options*** - The Fund may invest in options. In addition, the Fund may write and sell covered call and put option contracts. The Fund does not anticipate writing or selling uncovered call or put option contracts, but may do so from time to time. A call option gives the purchaser of the option the right to buy, and obligates the writer to sell, the underlying investments at a stated exercise price at any time prior to the expiration of the option. Similarly, a put option gives the purchaser of the option the right to sell, and obligates the writer to buy, the underlying investments at a stated exercise price at any time prior to the expiration of the option. Options written by the Fund may be wholly or partially covered (meaning that the Fund holds an offsetting position) or uncovered. Options on specific investments may be used by the Fund to seek enhanced profits with respect to a particular investment. Alternatively, they may be used for various defensive or hedging purposes. For example, they may be used to protect against a future adverse change in the market price of particular portfolio investments held by the Fund without requiring a sale of the investments.

Investing in options can provide greater potential for profit or loss than an equivalent investment in the underlying asset. The value of an option may decline because of a change in the value of the underlying asset relative to the strike price, the passage of time, changes in the market's perception as to the future price behavior of the underlying asset, or any combination thereof. In the case of the purchase of an option, the risk of loss of an investor's entire investment (*i.e.*, the premium paid plus transaction charges) reflects the nature of an option as a wasting asset that may become worthless when the option expires. Where an option is written or granted (*i.e.*, sold) uncovered, the seller may be liable to pay substantial additional margin, and the risk of loss is unlimited, as the seller will be obligated to deliver, or take delivery of, an asset at a predetermined price which may, upon exercise of the option, be significantly different from the market value. Over-the-counter ("**OTC**") options that the Fund may use in its investment strategies generally are not assignable except by agreement between the parties concerned, and no party or purchaser has any obligation to permit such assignments. The OTC market for options is relatively illiquid, particularly for relatively small transactions.

Use of put and call options may result in losses to the Fund, force the sale or purchase of portfolio investments at inopportune times or for prices higher than (in the case of put options) or lower than (in the case of call options) current market values, limit the amount of appreciation the Fund can realize on their investments or cause the Fund to hold an investment it might otherwise sell. For example, a decline in the market price of a particular investment could result in a complete loss of the amount expended by the Fund to purchase a call option (equal to the premium paid for the option and any associated transaction charges). An adverse price movement may result in unanticipated losses with respect to covered options sold by the Fund. The use of uncovered option writing techniques may entail greater risks of potential loss to the Fund than other forms of options transactions. For example, a rise in the market price of the underlying investment will result in the Fund realizing a loss on the calls written, which would not be offset by the increase in the value of the underlying investments to the extent the call option position was uncovered.

***Investments in Single Stock Futures*** - The Fund may invest in single stock futures. A single stock futures contract is an agreement to buy or sell shares of a specific stock at a specified price on a designated date in the future. Investments in single stock futures involve a substantial degree of risk. The market for single stock futures is relatively new to the United States. Therefore, the size of the market for single stock futures is yet unknown. There is no assurance that a liquid secondary market will exist for single stock futures contracts purchased or sold, and the Fund may be required to maintain a position until exercise or expiration, which could result in losses. Furthermore, margin for single stock futures contracts is typically low relative to the value of the futures contracts purchased

or sold. Low margin requirements mean that a relatively small price movement in a single stock futures contract may result in immediate and substantial losses to the investor.

***Investments in Asset-Backed Securities (“ABS”)*** - The Fund may invest in ABS. ABS represent interests in pools of assets (including consumer loans) and most often are structured as pass-through securities (i.e., shares or certificates of interest in a pool of debt obligations that have been repackaged by an intermediary, such as a bank or broker-dealer). Interest and principal payments ultimately depend on payment of the underlying loans by individuals, although the securities may be supported by letters of credit or other credit enhancements. The underlying assets (e.g., loans) are subject to prepayments that shorten the securities’ weighted average life and may lower their returns. If the credit support or enhancement is exhausted, losses or delays in payment may result if the required payments of principal and interest are not made. The value of these securities also may change because of changes in the market’s perception of the creditworthiness of the servicing agent for the pool, the originator of the pool, or the financial institution providing the credit support or enhancement. ABS have many of the same characteristics and risks as the mortgage-related securities described below, except that ABS may be backed by non-real-estate loans, leases or receivables such as auto, credit card or home equity loans. Some asset-backed securities, may have structures that make their reaction to interest rates and other factors difficult to predict, making their prices very volatile and they are subject to liquidity risk.

Non-mortgage ABS are not issued or guaranteed by the U.S. Government or its agencies or government-sponsored entities; however, the payment of principal and interest on such obligations may be guaranteed up to certain amounts and for a certain time period by a letter of credit issued by a financial institution (such as a bank or insurance company) unaffiliated with the issuers of such securities. In addition, such securities generally will have remaining estimated lives at the time of purchase of five (5) years or less.

The purchase of non-mortgage ABS also raises considerations peculiar to the financing of the instruments underlying such securities. For example, most organizations that issue ABS relating to motor vehicle installment purchase obligations perfect their interests in their respective obligations only by filing a financing statement and by having the servicer of the obligations, which is usually the originator, take custody of the obligation. In such circumstances, if the servicer were to sell the same obligations to another party, in violation of its duty not to do so, there is a risk that such party could acquire an interest in the obligations superior to that of holders of the ABS. Also, although most such obligations are secured by a security interest in the motor vehicle being financed in most states the security interest in a motor vehicle must be noted on the certificate of title to perfect such security interest against competing claims of other parties. Due to the large number of vehicles involved, however, the certificate of title to each vehicle financed, pursuant to the obligations underlying the ABS usually is not amended to reflect the assignment of the seller’s security interest for the benefit of the holders of the ABS. Therefore, there is the possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on those securities. In addition, various state and federal laws give the motor vehicle owner the right to assert against the holder of the owner’s obligation certain defenses such owner would have against the seller of the motor vehicle. The assertion of such defenses could reduce payments on the related ABS. Insofar as credit card receivables are concerned, credit card holders are entitled to the protection of a number of state and federal consumer credit laws, many of which give such holders the right to set off certain amounts against balances owed on the credit card, thereby reducing the amounts paid on such receivables. In addition, unlike most other ABS, credit card receivables are unsecured obligations of the cardholder.

***Investments in Commercial Mortgage-Backed Securities (“CMBS”)*** - The Fund may invest in CMBS issued or guaranteed by the U.S. Government, its agencies or instrumentalities, or private issuers such as banks, insurance companies, and savings and loans. Some of these securities, such as Government National Mortgage Association (“**GNMA**”) certificates, are backed by the full faith and credit of the U.S. Treasury while others, such as Federal Home Loan Mortgage Corporation (“**Freddie Mac**”) certificates, are not.

CMBS represent interests in a pool of mortgages. Principal and interest payments made on the mortgages in the underlying mortgage pool are passed through to the holder of the security. These securities are often subject to more rapid repayment than their stated maturity dates would indicate as a result of principal prepayments on the underlying loans. This can result in significantly greater price and yield volatility than with traditional fixed-income securities. During periods of declining interest rates, prepayments can be expected to accelerate which will shorten these securities’ weighted average life and may lower their return. Conversely, in a rising interest rate environment, a declining prepayment rate will extend the weighted average life of these securities which generally would cause their values to fluctuate more widely in response to changes in interest rates.

The value of these securities also may change because of changes in the market’s perception of the creditworthiness of the federal agency or private institution that issued them. In addition, the mortgage securities market in general may be adversely affected by changes in governmental regulation or tax policies.

The repayment of certain mortgage-related securities depends primarily on the cash collections received from the issuer’s underlying asset portfolio and, in certain cases, the issuer’s ability to issue replacement securities (such as asset-backed commercial paper). As a result, there could be losses in the event of credit or market value deterioration in the issuer’s underlying portfolio, mismatches in the timing of the cash flows of the underlying asset interests and the repayment obligations of maturing securities, or the issuer’s inability to issue new or replacement securities. Upon the occurrence of certain triggering events or defaults, the investors in a security held by the Fund may become the holders of underlying assets at a time when those assets may be difficult to sell or may be sold only at a loss. In addition, mortgage loans on commercial properties often are structured so that a substantial portion of the loan principal is not amortized over the loan term but is payable at maturity and repayment of the loan principal thus often depends upon the future availability of real estate financing from the existing or an alternative lender and/or upon the current value and salability of the real estate. Therefore, the unavailability of real estate financing may lead to default.

Most commercial mortgage loans underlying CMBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower’s assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related CMBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of CMBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed in lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property’s location, the legal status of title to the property, its physical condition and financial performance, environmental risks, and governmental disclosure requirements with respect to the condition of the property may make a third party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related CMBS. Revenues from the assets underlying such CMBS may be retained by the borrower and the return on investment may be used to make payments to others,

maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court-appointed receiver to control collateral cash flow.

CMBS that are issued by private issuers are not subject to the underwriting requirements for the underlying mortgages that are applicable to those CMBS that have a government or government-sponsored entity guarantee. As a result, the mortgage loans underlying private CMBS may, and frequently do, have less favorable collateral, credit risk or other underwriting characteristics than government or government-sponsored CMBS and have wider variances in a number of terms including interest rate, term, size, purpose and borrower characteristics. Privately issued pools more frequently include second mortgages and high loan-to-value mortgages. The coupon rates and maturities of the underlying mortgage loans in a private-label CMBS pool may vary to a greater extent than those included in a government guaranteed pool, and the pool may include subprime mortgage loans. Subprime loans refer to loans made to borrowers with weakened credit histories or with a lower capacity to make timely payments on their loans. For these reasons, the loans underlying these securities have had in many cases higher default rates than those loans that meet government underwriting requirements.

***Investments in Residential Mortgage-Backed Securities (“RMBS”)*** - The Fund may invest in RMBS issued or guaranteed by the U.S. Government, its agencies or instrumentalities, or private issuers such as banks, insurance companies, and savings and loans. Due to economic conditions such as high unemployment, market volatility, and lower home prices combined with the effects of ballooning interest rates on variable rate mortgages and previous aggressive lending practices followed by much more stringent lending practices, mortgage loans have in recent years experienced increased rates of delinquency, foreclosure, bankruptcy and loss, and are likely to continue to experience rates that are higher, and that may be substantially higher, than those seen in the past. Thus, because of the higher delinquency rates and losses associated with mortgage loans, the performance of the Fund’s RMBS could be correspondingly adversely affected.

RMBS evidence interests in, or are secured by, pools of residential mortgage loans. Non-performing loans may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate, capitalization of interest payments and a substantial write-down of the principal of the loan. However, even if a restructuring were successfully accomplished, a risk exists that upon maturity of such mortgage loan, “replacement” or “take-out” financing will not be available.

It is likely that the servicers of RMBS transactions in which the Fund invest may find it necessary or desirable to foreclose on some, if not many, of the underlying loans. The foreclosure process is often lengthy and expensive. Borrowers may resist mortgage foreclosure actions by asserting numerous claims, counterclaims and defenses, including, without limitation, numerous lender liability claims and defenses, even when such assertions may have no basis in fact, in an effort to prolong foreclosure actions and force lenders into a modification of the loans or a favorable buy-out of the borrowers’ positions. In some States, foreclosure actions can sometimes take several years or more to litigate. At any time prior to or during the foreclosure proceedings, the borrower may file for bankruptcy, which would have the effect of staying the foreclosure actions and further delaying any realization value on the loan. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law. All of the foregoing can create greater expenses for securitization trusts, delay or lower payments to the trusts, and ultimately reduce the value of the RMBS in which the Fund intends to invest.



The frequency at which prepayments, for example due to liquidations as a result of defaults and foreclosures, occur on mortgage loans underlying RMBS will be affected by a variety of factors, including the prevailing level of interest rates, as well as economic, demographic, tax, social, legal, and other factors. The adverse effects of prepayments may impact the Fund in two ways. First, particular investments may experience outright losses, as in the case of interest-only securities in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that may have been constructed for these investments, resulting in a loss to the Fund.

Of paramount concern in investing in RMBS is the possibility of material misrepresentation or omission on the part of the underlying borrowers. Such inaccuracies or incompleteness may adversely affect the valuation of the collateral securing the underlying loans or may adversely affect the ability to perfect or effectuate a lien on the collateral securing such loans. The Fund's investments in RMBS are therefore subject to the accuracy of representations made by the underlying borrowers and to the risk that the systems used by the originators of RMBS to control for such accuracy are defective.

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

***Investments in Credit Default Swaps and Swap Transactions*** - The Fund may enter into swap agreements with respect to securities, indexes of securities and other assets or other measures of risk or return. Swap agreements are typically two-party contracts entered into primarily by institutional investors for periods ranging from a few weeks to many years. In a standard "swap" transaction, two parties agree to exchange the returns (or the differential in rates of return) earned or realized on particular predetermined investments, instruments or indices. The gross returns to be exchanged or "swapped" between the parties are generally calculated with respect to a "notional amount". Whether the Fund's use of swap agreements will be successful will depend on the Portfolio Manager's ability to select appropriate transactions for the Fund. Swap transactions may be highly illiquid. Moreover, the Fund bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty. Many swap markets are relatively new and still developing. It is possible that developments in the swap markets, including potential government regulation, could adversely affect the Fund's ability to terminate existing swap transactions or to realize amounts to be received under such transactions. Swaps and certain other custom instruments are subject to the risk of non-performance by the swap counterparty, including risks relating to the creditworthiness of the swap counterparty.

Total return swaps are another form of swap transaction that the Fund may utilize in its investment program. A total return swap allows the total return receiver to receive the change in market value of an asset (whether a security, interest rate, form of debt, currency or other asset) from the total return payer in return for paying a floating or fixed interest-rate on a predetermined amount. The total return payer is synthetically short and the total return receiver is synthetically long. Thus, total return swap agreements may effectively add leverage to the Fund's portfolio because, in addition, to its total net assets, the Fund would be subject to investment exposure on the notional amount of the swap agreement.

Credit default swaps are another type of swap that the Fund may utilize. A credit default swap is a type of credit derivative which allows one party (the “protection buyer”) to transfer credit risk of a reference entity (the “reference entity”) to one or more other parties (the “protection seller”). The protection buyer pays a periodic fee to the protection seller in return for protection against the occurrence of a number of events (each a “credit event”) which may be experienced by the reference entity. Credit default swaps carry specific risks including, but not limited to, high levels of leverage, the possibility that premiums are paid for credit default swaps which expire worthless, wide bid/offer spreads and documentation risks. In addition, there can be no assurance that the counterparty to a credit default swap will be able to fulfill its obligations to the Fund if a credit event occurs in respect of the reference entity. Further, the counterparty to a credit default swap may seek to avoid payment following an alleged credit event by claiming that there is a lack of clarity in, or an alternative meaning of, language used in the contract, most notably the language specifying what would amount to a credit event.

**Forward Trading** - The Fund may engage in forward trading. Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and “cash” trading is substantially unregulated; there is no limitation on daily price movements, and speculative position limits are not applicable. For example, there are no requirements with respect to record keeping, financial responsibility or segregation of customer funds or positions. In contrast to exchange-traded futures contracts, interbank traded instruments rely on the dealer or contracting counterparty to fulfill its contract. As a result, trading in interbank foreign exchange contracts may be subject to more risks than futures or options trading on regulated exchanges, including, but not limited to, the risk of default due to the failure of a counterparty with which the Fund has forward contracts. Although the Portfolio Manager seeks to trade with responsible counterparties, failure by a counterparty to fulfill its contractual obligation could expose the Fund to unanticipated losses. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any currency market traded by the Fund due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward trading to less than that which the Portfolio Manager would otherwise recommend, to the possible detriment of the Fund. Market illiquidity or disruption could result in significant losses to the Fund.

**Investments in Other Derivative Investments** - The Fund may invest in derivative instruments. Derivative instruments or “derivatives” include futures, options, structured securities and other instruments and contracts that are derived from, or the value of which is related to, one or more underlying securities, financial benchmarks, currencies or indices. Derivatives allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark currency or index at a fraction of the cost of investing in the underlying asset. The value of a derivative depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives of such asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives are leveraged, and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement may expose the Fund to the possibility of a loss exceeding the original amount invested. Derivatives may also expose investors to liquidity risk, as there may not be a liquid market within which to close or dispose of outstanding derivatives contracts. Swaps and certain options and other custom

instruments are subject to the risk of non-performance by the swap counterparty, including risks relating to the creditworthiness of the swap counterparty.

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 contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Portfolio Manager from promptly liquidating unfavorable positions and subject the Fund to substantial losses.

The General Partner has claimed an exemption from registration with the CFTC as a commodity pool operator pursuant to Rule 4.13(a)(3) under the CEA. Unlike a registered commodity pool operator, the General Partner is not required to deliver a disclosure document and a certified report to participants in the Fund. The Portfolio Manager has claimed an exemption from registration with the CFTC as a commodity trading advisor pursuant to Rule 4.14(a)(8) under the CEA.

***Investments in Convertible Securities and Equity-Related Convertible Securities*** - The Fund may invest in convertible securities and equity-related convertible securities. Convertible securities are equities, bonds, debentures, preferred stocks or other securities that may be converted into or exchanged for a specified fixed or variable amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. A convertible security entitles the holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics in that they generally (i) have higher yields than common stocks, but lower yields than comparable non-convertible securities, (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases. The value of a convertible security is a function of its “investment value” (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its “conversion value” (the security’s worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security’s investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is influenced principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases as the convertible security approaches maturity. 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 Fund is called for redemption, the Fund will be required, depending on the terms of the security, 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 Fund’s ability to meet its investment objective.

***Investments in Structured Products*** - The Fund may invest in entities organized and operated solely for the purpose of restructuring the investment characteristics of other debt securities, including debt securities issued by foreign governments. These investments will typically consist of equity or subordinated debt securities issued by a private investment fund that invests, on a

leveraged basis, in other debt securities or bank loans directly or through total rate of return swaps or other credit derivatives. The cash flow on the underlying instruments may be apportioned among the newly issued securities to create securities with different investment characteristics such as varying maturities, payment priorities and interest rate provisions, and the extent of the payments made with respect to such securities is dependent on the extent of the cash flow on the underlying instruments. Certain classes of such securities may be subordinated to the right of payment of another class, and therefore, such structured investments typically have higher yields and present greater risks than unsubordinated structured investments.

The Fund's investments in structured products will be subject to a number of risks, including risks related to the fact that the structured products will be leveraged. Utilization of leverage is a speculative investment technique and will generally magnify the opportunities for gain and risk of loss borne by an investor in the equity or subordinated debt securities issued by a structured product. Many structured products contain covenants designed to protect the providers of debt financing to such structured products. A failure to satisfy those covenants could result in the untimely liquidation of the structured product and a complete loss of the Fund's investment therein. In addition, if the particular structured product is invested in a security in which the Fund is also invested, this would tend to increase the Fund's overall exposure to the credit of the issuer of such securities, at least on an absolute, if not on a relative, basis.

The value of an investment in a structured product will depend primarily on the investment performance of the assets in which the structured product invests and will therefore be subject to all of the risks associated with an investment in those assets. These risks include the possibility of a default by, or bankruptcy of, the issuers of such assets or a claim that the pledging of collateral to secure any such asset constituted a fraudulent conveyance or preferential transfer that can be subordinated to the rights of other credits of the issuer of such asset or nullified under applicable law. The Fund will not own such assets directly and will therefore not benefit from general rights applicable to the holders of assets, such as the right to indemnity and the rights of setoff, or have voting rights with respect to such assets, and in such cases, all decisions related to such assets, including whether to exercise certain remedies, will be controlled by the structured product. Furthermore, there are certain tax and market uncertainties that present risks relating to investing in structured products.

***Investments in Preferred Shares*** - The Fund may invest in the preferred shares of certain companies. Preferred shares may pay dividends at a specific rate and generally have preference over common stock in the payment of dividends in a liquidation of assets but rank after debt securities. Unlike interest payments on debt securities, dividends on preferred shares are generally payable at the discretion of the board of directors of the issuer. The market prices of preferred shares are subject to changes in interest rates and are more sensitive to changes in the issuer's creditworthiness than are the prices of debt securities

***Investments in Real Estate*** - The Fund may invest in real estate. Real estate investments generally will be subject to the risks incident to the ownership and operation of real estate and/or risks incident to the making of nonrecourse mortgage loans secured by real estate, including (i) risks associated with both the domestic and international general economic climate; (ii) local real estate conditions; (iii) risks due to dependence on cash flow; (iv) risks and operating problems arising out of the absence of certain construction materials; (v) changes in supply of, or demand for, competing properties in an area (as a result, for instance, of over-building); (vi) the financial condition of tenants, buyers and sellers of properties; (vii) changes in availability of debt financing; (viii) energy and supply shortages; (ix) changes in the tax, real estate, environmental and zoning laws and regulations; (x) various uninsured or uninsurable risks; (xi) natural disasters; and (xii) the ability of the Fund or third-party borrowers to manage the real properties. With respect to investments in the form of real

property owned by the Fund, the Fund will incur the burdens of ownership of real property, which include the paying of expenses and taxes, maintaining such property and any improvements thereon, and ultimately disposing of such property. With respect to investments in equity or debt securities, the Fund will in large part be dependent on the ability of third parties to successfully operate the underlying real estate assets. There is no assurance that there will be a ready market for resale of investments because investments in real estate generally are not liquid.

***Investments in REITs and Other Real Estate Securities*** - The Fund may invest in securities issued by entities which qualify as “real estate investment trusts” (“**REITs**”) under the Code, and in securities of development and management companies. As a result, some of the Fund’s investments are subject to the risks incident to investments in REITs and companies engaged in real estate activities, generally, including: (i) potential environmental liabilities, the risk of uninsured losses, the perceptions of prospective tenants of the safety, convenience and attractiveness of the properties, the ability of the owner to provide adequate management, maintenance and insurance, the expenses of periodically renovating, repairing and re-letting spaces, and increasing operating costs (including mortgage payments, real estate taxes, insurance, maintenance costs and utilities) which may not be passed through to tenants; (ii) risks of owning properties through joint ventures or Funds which may render a REIT or a company engaged in real estate activities unable to exercise sole decision-making authority and subject the REIT or other company to the risk that a joint venturer or partner will act in a manner contrary to its best interests; (iii) general real estate investment considerations, such as the effect of local economic and other conditions on property cash flows and values, the need to re-let space upon the expiration of current leases, dependence on major tenants and the possibility of tenant defaults, the ability of a property to generate revenue sufficient to meet debt service payments and other operating expenses, periodic excessive real estate development, and the illiquidity of real estate investments, all of which may affect the REIT’s or other company’s ability to make expected distributions to its stockholders; (iv) possible increases in interest rates, which may lead prospective purchasers of real estate equity securities, as well as other classes of equities, to demand higher annual yields, and which would adversely affect the market price of such securities; (v) borrowing risks; (vi) relative illiquidity of real estate investments which will tend to limit the ability of a REIT or non-REIT issuer to vary its holdings promptly in response to changes in local economic or other conditions; and (vii) risks associated with the management by REITs of properties owned by third parties, including the risk that management contracts (which are typically cancelable without notice) will be terminated by the entity controlling the property or in connection with the sale of such property, that contracts may not be renewed upon expiration or may not be renewed on terms consistent with current terms, and that the rental revenues upon which management fees are based will decline as a result of general real estate market conditions or specific market factors. Investments in REITs are also subject to special risks, including, without limitation: (i) restrictions on ownership (which may prohibit ownership of more than 9.9% of a REIT’s shares by one investor), which are designed to ensure that the REIT does not violate certain share accumulation restrictions imposed by federal tax laws on REITs and which may also deter possible acquisitions of, or changes in control of, a REIT; (ii) many REITs have small-to-medium sized market capitalizations which may be more volatile than prices of large-capitalization securities and an investment in such securities may be less liquid; and (iii) tax risks, including risk of changes in the tax laws that may cause a REIT to fail to qualify as a REIT or cause REITs, generally, to be subject to corporate taxation.

***Investments in Private Equity*** - The Fund does not anticipate investing a significant portion of its assets in private equity investments but may, from time to time, seek to opportunistically invest in private equity investments. Private equity investments in which the Fund may invest involve a high degree of business and financial risk and can result in substantial or complete losses. Many portfolio companies may be operating at a loss or with substantial variations in operating results from period to period. These companies may need substantial additional capital to support expansion or to achieve or maintain competitive positions. These companies may face intense competition, including competition from companies with much greater financial resources, much more extensive

development, production, marketing and service capabilities, and a much larger number of qualified managerial and technical personnel. Any such company may fail.

***Investments in Exchange Traded Funds*** - The Fund may invest in and sell short shares of exchange traded funds (“ETFs”) and other similar instruments. These transactions may be used to adjust the Fund’s exposure to the general market or industry sectors and to manage the Fund’s risk exposure. ETFs and other similar instruments involve risks generally associated with investments in a broadly based portfolio of common stocks, including the risk that the general level of stock prices, or that the prices of stocks within a particular sector, may increase or decrease, thereby affecting the value of the shares of the ETF or other instruments.

***Investments in Closed End Funds*** - The Fund may invest in closed end investment funds whose shares may trade at a premium or discount to their net asset value. Closed end funds differ from open end investment funds in that holders of interests in a closed end fund do not have the right to redeem their interests on a daily basis at a price based on net asset value. The Fund will generally not have any control over the investments made by closed end funds and will generally only have limited access to information about the closed end funds and their investments. The closed end funds often trade independently of each other and, at times, may hold economically offsetting positions. At times closed end funds may make in kind distributions which could result in the Fund owning securities that were in the closed end fund’s portfolio. These securities may be illiquid and may take considerable time to sell. If a fund is converted to open end status, there may be fees for withdrawal. These fees often decline over time; consequently the Fund may hold shares in an open end fund. Publicly traded investment funds frequently have anti-takeover provisions that make it difficult to convert them to open end funds, which would allow the fund’s shareholders to realize the full value of that fund’s assets.

***Investments in Third Party Investments Vehicles*** - The Fund may invest in pooled investment vehicles (both publicly traded and privately held) managed by investment advisers that may or may not be affiliated with the Portfolio Manager (each, an “Other Fund”). Such Other Funds may invest in a wide variety of securities and assets. No assurance can be given that the investment strategies used by such Other Funds will be successful under all or any market conditions. The Fund’s investment in Other Funds may be subject to withdrawal limitations that could prevent the Fund from terminating investments in Other Funds that are poorly performing or have otherwise had adverse changes. Investments in Other Funds also may result in the payment by the Fund directly or indirectly of management fees and carried interest or promote to third parties. Investments in Other Funds may result in the General Partner not having full control over the assets of the Fund, which lack of control represents a significant risk.

***Investments in Money Market Instruments*** - The Fund may invest in high quality fixed-income securities, money-market instruments, and foreign money-market mutual funds, or hold cash or cash equivalents in such amounts as the Portfolio Manager deems appropriate under the circumstances. Money market instruments are high quality, short-term fixed-income obligations, which generally have remaining maturities of one year or less, and may include U.S. government securities, commercial paper, certificates of deposit and bankers’ acceptances issued by domestic branches of United States banks that are members of the Federal Deposit Insurance Corporation, and repurchase agreements. However, there can be no assurances that such investments will not be subject to significant risks.

***Investments in Index-Linked Securities*** - The Fund may invest in index-linked securities whose prices are indexed to the prices of securities indices, currencies, or other financial statistics. Indexed securities typically are debt securities or deposits whose value at maturity and/or coupon rate is determined by reference to a specific instrument or statistic. The performance of indexed securities fluctuates (either directly or inversely, depending upon the instrument) with the performance of the

index, security or currency. At the same time, indexed securities are subject to the credit risks associated with the issuer of the security, and their value may substantially decline if the issuer's creditworthiness deteriorates. Recent issuers of indexed securities have included banks, corporations and certain US government agencies.

***Investments in American Depository Securities & Receipts*** - In certain instances, rather than directly holding securities of non-U.S. companies, the Fund may hold these securities through an American Depository Receipt (an "ADR"). An ADR is issued by a U.S. bank or trust company to evidence its ownership of securities of a non-U.S. company. The currency of an ADR may be U.S. dollars rather than the currency of the non-U.S. company to which it relates. The value of an ADR will not be equal to the value of the underlying non-U.S. securities to which the ADR relates as a result of a number of factors. These factors include the fees and expenses associated with holding an ADR, the currency exchange relating to the conversion of foreign dividends and other foreign cash distributions into U.S. dollars, and tax considerations such as withholding tax and different tax rates between the jurisdictions. In addition, the rights of the Fund, as a holder of an ADR, may be different than the rights of holders of the underlying securities to which the ADR relates, and the market for an ADR may be less liquid than that of the underlying securities. The foreign exchange risk will also affect the value of the ADR and, as a consequence, the performance of the investor holding the ADR.

***Cash Holdings*** - The Fund may hold substantial cash balances which will vary depending on the Portfolio Manager's view of available investment opportunities. During times in which substantial capital is held in cash or cash equivalents, such capital may not be subject to the same returns as the rest of the Fund's portfolio.

***Hedging*** - The Fund may utilize certain financial instruments and investment techniques for risk management or hedging purposes. There is no assurance that such risk management and hedging strategies will be successful, as such success will depend on, among other factors, the Portfolio Manager's ability to predict the future correlation, if any, between the performance of the instruments utilized for hedging purposes and the performance of the investments being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the Fund's hedging strategies may also be subject to the Portfolio Manager's ability to correctly readjust and execute hedges in an efficient and timely manner. There is also a risk that such correlation will change over time rendering the hedge ineffective. It may be more difficult to hedge a position in a smaller cap issuer than a larger-cap issuer. The Fund's portfolio is not expected to be completely hedged at all times and at various times the Portfolio Manager may elect to be more fully hedged and at other times hedged only to a limited extent, if at all. Accordingly, the Fund's assets may not be adequately protected from market volatility and other conditions.

***Concentration of Investments*** - The Fund anticipates that its portfolio may, from time to time, be concentrated in a particular type of security, industry, geographic location or market capitalization. This may be the result of the Fund's opportunistic investing, external market forces or the lack of liquidity in one security as compared to other securities the Fund holds. Losses incurred in a position making up a significant percentage of the Fund's capital could have a material adverse effect on the Fund's overall financial condition. This limited diversity could expose the Fund to significantly greater volatility than in a more diversified portfolio.

***Service on Creditors' Committees and Boards of Directors*** - Individual representatives of the General Partner, the Portfolio Manager, and their affiliates may serve as a member of a creditors' committee or the board of directors of a company that is the issuer of securities owned by the Fund. In their capacity as committee or board members, such individuals may become subject to fiduciary, reporting or other duties which may adversely affect the Fund. For example, the Fund may be unable to sell or buy securities or enter into transactions that may benefit the Fund if a representative of the

General Partner and/or the Portfolio Manager is in possession of inside information relating to such portfolio investment.

**Control Positions** - The Fund does not anticipate pursuing control positions. However, from time to time, it may purchase (possibly with other accounts managed by the General Partner, the Portfolio Manager or their respective affiliates) a large enough position in an issuer to participate in its management and control. This may subject the Fund to certain risks. For example, the Fund may be subject to claims by other investors in the issuer, who may, among other things, object to the manner in which the Fund exercises its rights to participate in the management of the issuer. Creditors of the issuer might seek to hold the Fund responsible for obligations of the issuer. A controlling group of shareholders might be subject to claims against an issuer that arise in other areas, including, but not limited to, tort, securities and environmental law. Defending any such claims may be very costly and time-consuming and any liability in connection therewith could be substantial and may be borne by the Fund.

**Inside Information** - From time to time, the General Partner, the Portfolio Manager or their affiliates may be in possession of material, non-public information concerning the issuer of securities or other instruments in which the Fund has invested, or as to which it is evaluating an investment. The possession of such information may limit the ability of the Portfolio Manager to cause the Fund to buy or sell such securities or other instruments. Accordingly, the Fund may be required to refrain from buying or selling such securities or other instruments at times when the Portfolio Manager might otherwise wish to cause the Fund to buy or sell such securities or other instruments. The Portfolio Manager has policies and procedures in place that seek to ensure that its investment practices do not violate federal and state securities law prohibitions on trading on inside information.

**Time Required for Maturity of Investments** - Private businesses can take several years or longer from the date of initial investment to reach a state of maturity when selling outstanding securities can be considered. It is unlikely that distributions of profits, if any, generated from the operations of these non-public companies or disposition or liquidation of the Fund's investments in them will be made until well after the investments are made, if at all.

**Additional Capital Needs** - After the Fund makes an initial investment in a company, that company may require additional funding, or the Fund may have the opportunity to increase its investment in a successful company (if any are successful). For example, portfolio companies are subject to the risk that a proposed service or product cannot be developed successfully with the resources available to the enterprise. The development efforts of any company may fail, or may not be completed within the budget or time originally estimated. Additional funds may be necessary to complete such development, and such funds may not be available. The Fund may not make Follow-Up Investments. Any decision by the Fund not to make Follow-Up Investments, or the Fund's inability to make them, may have substantial adverse effects on portfolio companies in need of such investment, may result in missed opportunities for the Fund to increase its participation in successful ventures, or may cause a decrease in the value of the Fund's portfolio.

**Use of Leverage** - The Portfolio Manager does not expect to borrow to seek to enhance the Fund's returns. However, the Fund may engage in trading on margin by borrowing funds and pledging securities as collateral, thereby utilizing leverage. Although leverage increases returns if the Fund earns a greater return on the incremental investments purchased with borrowed funds than it pays for such funds, the use of leverage decreases returns if the Fund fails to earn as much on such incremental investments as it pays for such funds. The effect of leverage in a declining market would also result in a greater decrease in the net asset value of the Fund than if the Fund were not so leveraged. If the assets, if any, used to secure the borrowing decrease in value, the Fund may be required to pledge additional collateral to the lender in the form of cash or securities to avoid



liquidation of those assets. The Fund does not currently intend to use leverage other than non-recourse borrowings associated with specific transactions, although it reserves the right to do so in the General Partner's sole discretion.

***Reliance on Corporate Management and Financial Reporting*** - The Portfolio Manager may select investments for the Fund in part on the basis of information and data filed by issuers of securities with various government regulators or made directly available to the Portfolio Manager by the issuers of securities or through sources other than the issuers such as collateral pool servicers. Although the Portfolio Manager will evaluate all such information and data and seek independent corroboration when it considers it appropriate and reasonably available, the Portfolio Manager will not be in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information will not be readily available. The Portfolio Manager is dependent upon the integrity of the management of these issuers and of such servicers and the financial and collateral performance reporting processes in general. Recent events have demonstrated the material losses which investors, such as the Fund, can incur as a result of corporate mismanagement, fraud and accounting irregularities.

***Credit Analysis and Credit Risk*** - The strategies utilized by the Portfolio Manager require accurate and detailed credit analysis of issuers and there can be no assurance that its analysis will be accurate or complete. The Fund may be subject to substantial losses in the event of credit deterioration or bankruptcy of one or more issuers in its portfolio.

***Dark Pools and Other Private Trading Venues*** - The Portfolio Manager, on behalf of the Fund, may utilize so-called "dark pools" and other private trading venues to execute trades of securities. In a dark pool, buyers and sellers do not reveal their identities and often reveal very little, if anything, about their order sizes, as opposed to a traditional exchange, like the NYSE Euronext, where orders are transparent. There are a number of different types of non-displayed liquidity providers, including electronic communications networks ("**ECNs**"), broker-sponsored dark pools, crossing networks and broker-led consortium dark pools. Dark pools and other anonymous venues may provide price improvement and the ability to protect trade orders from others in the market that would take advantage of information revealed during a trade. Dark pools and other private trading venues generally look to traditional exchanges to get their pricing information. However, if more and more trades are conducted through dark pools and other private trading venues, the prices used in dark pool trades might not be as reliable and up-to-date as they should be. Moreover, the use of dark pools means that firms cannot take advantage of changes in prices because the market cannot react immediately to transactions occurring in dark pools. Furthermore, different entities in a dark pool cannot see each other and therefore do not have a sense of what each other's strategies and motives are. In addition, the prices charged by dark pools and crossing networks can be complex and may be higher than those charged by traditional exchanges. The prices charged by dark pools and independently operated crossing networks also may cover execution only and not investment research and other services and may also be used to fund contributions to commission-sharing arrangements.

***Position Limits*** - "Position limits" imposed by various regulators may limit the Fund's ability to effect desired trades. Position limits are the maximum amounts of gross, net long or net short positions that any one person or entity may own or control in a particular financial instrument. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. Thus, even if the Fund does not intend to exceed applicable position limits, it is possible that different accounts managed by the Portfolio Manager may be aggregated. If at any time positions managed by the Portfolio Manager were to exceed applicable position limits, the Portfolio Manager would be required to liquidate positions, which might include positions of the Fund, to the extent necessary to come

within those limits. Further, to avoid exceeding the position limits, the Fund might have to forego or modify certain of its contemplated trades.

**Execution of Orders** - The Fund's trading strategy may depend on its ability to establish and maintain an overall market position in a combination of financial instruments selected by the Portfolio Manager. The Fund's trading orders may not be executed in a timely and efficient manner due to various circumstances, including, without limitation, systems failures or human error attributable to the Fund, its brokers, agents or other service providers. In such event, the Fund might only be able to acquire some, but not all, of the components of such position, or if the overall position were to need adjustment, the Fund might not be able to make such adjustment. As a result, the Fund would not be able to achieve the market position selected by the Portfolio Manager, and might incur a loss in liquidating its position. In addition, the Fund relies on electronic execution systems, and such systems may be subject to failure, causing the interruption of trading orders made by the Fund.

**Purchasing Securities of Initial Public Offering** - From time to time the Fund may purchase securities that are part of initial public offerings. The prices of these securities may be very volatile. The issuers of these securities may be undercapitalized, have a limited operating history, and lack revenues or operating income without any prospects of achieving them in the near future. Some of these issuers may only make available a limited number of shares for trading and therefore it may be difficult for the Fund to trade these securities without unfavorably impacting their prices. In addition, investors may lack extensive knowledge of the issuers of these securities. The Fund may invest in securities that are "new issues", as defined in Rule 5130. Rule 5130 and Rule 5131 restricts certain persons from participating in "new issues". The Fund Agreement will provide a mechanism for the purchase of new issues that excludes participation in such investment by any Partner that is deemed restricted. See "*Summary of the Limited Fund Agreement - Purchases of New Issues*".

**Portfolio Liquidity and Transfer Restrictions (PIPEs and Similar Investments)** - The Fund may invest its assets in so-called "PIPE" transactions, in which a private purchase of common stock or a security convertible into common stock is anticipated to be followed shortly by a registered public offering of such common stock, or of common stock of the same class. As securities sold in a PIPE transaction will generally be restricted only for the period from the private sale until the issuer's registration statement with the SEC covering resale of such securities becomes effective, the Fund may pay more for such securities than for other private placement securities. If the issuer is unable to obtain an effective resale registration statement for a PIPE, the PIPE will remain restricted under U.S. securities laws (subject to the availability of some other exemption) and the Fund may be unable to recover from the issuer an amount sufficient to compensate the Fund for the loss of liquidity of such security.

**Investment in Public and Private Small Companies** - There is no limitation on the size or operating experience of the companies in which the Fund may invest. Some small companies, whether publicly traded or privately owned, in which the Fund may invest may lack management depth or the ability to generate internally, or obtain externally, the funds necessary for growth. Companies with new products or services could sustain significant losses if projected markets do not materialize. Such companies may be small factors in their industries and may face intense competition from larger companies and entail a greater risk than investment in larger companies.

**Investments in Foreign Securities** - The Fund may invest in securities of non-U.S. issuers. The Fund's investments in securities and instruments in foreign markets involve substantial risks not typically associated with investments in U.S. securities. Foreign securities investments may be affected by changes in currency rates or exchange control regulations, changes in governmental administration or economic or monetary policy (in the United States and abroad) or changed circumstances in dealings between nations. Changes in foreign currency exchange rates relative to the U.S. dollar will affect the U.S. dollar value of the Fund's assets denominated in that currency and

thereby impact the Fund's total return on such assets. The Fund may utilize options and forward contracts to hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be effective.

Investments in foreign securities will also occasion risks relating to political and economic developments abroad, including the possibility of expropriations or confiscatory taxation, limitations on the use or transfer of Fund assets and any effects of foreign social, economic or political instability. Foreign companies are not subject to the regulatory requirements of U.S. companies and, as such, there may be less publicly available information about such companies. Moreover, foreign companies are not subject to uniform accounting, auditing and financial reporting standards and requirements comparable to those applicable to U.S. companies. Finally, in the event of a default of any foreign debt obligations, it may be more difficult for the Fund to obtain or enforce a judgment against the issuers of such securities.

Securities of foreign issuers may be less liquid than comparable securities of U.S. issuers and, as such, their price changes may be more volatile. Furthermore, foreign exchanges and broker-dealers are generally subject to less government and exchange scrutiny and regulation than their American counterparts. Brokerage commissions, dealer concessions and other transaction costs may be higher in foreign markets than in the U.S. Differences in clearance and settlement procedures in foreign markets may occasion delays in settlements of the Fund's trades affected in such markets.

In addition, changes or modifications in existing judicial decisions or in the current positions of the IRS, either taken administratively or as contained in published revenue rulings and revenue procedures (which changes or modifications may apply with retroactive effect), and the passage of new legislation, could lead to unfavorable treatment of certain non-U.S. investments which could adversely impact the Fund's portfolio.

***Investments in Emerging Market Securities*** - The Fund may invest in securities of issuers located in underdeveloped or developing countries, which are sometimes referred to as "emerging markets". There are substantial risks involved in investing in companies in emerging markets. These risks are in addition to the usual risks inherent in foreign investments described above. Because of greater risks of adverse political developments, the lack of effective legal structures and difficulties effecting securities transfers and settlements, the Fund risks the loss of its entire investment when investing in companies located in certain emerging markets. Generally, emerging market debt securities are not required to meet any rating standards and may not be rated for creditworthiness by any internationally recognized credit rating organization. Emerging market debt securities rated in the lower and lowest rating categories of internationally recognized credit rating organizations and unrated securities of comparable quality are predominantly speculative with respect to the capacity to pay interest and repay principal in accordance with their terms and generally involve a greater risk of default and volatility in price than securities in higher rating categories.

***Repurchase and Reverse Repurchase Agreements*** - The Fund may enter into repurchase and reverse repurchase agreements. When the Fund enters into a repurchase agreement, the Fund "sells" securities issued by the U.S. or a non-U.S. government, or agencies thereof, to a broker-dealer or financial institution, and agree to repurchase such securities for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. In a reverse repurchase transaction, the Fund "buys" securities issued by the U.S. or a non-U.S. government, or agencies thereof, 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 Fund, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by the Fund involves certain risks including that the seller under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities. Disposing of the security in such cases may involve costs to the Fund.

**Exchange Rate Fluctuations - Currency Considerations** - The Fund may invest in securities denominated in currencies other than the U.S. dollar or hold active currency positions that are denominated in currencies other than the U.S. dollar and as a result, may be exposed to currency exchange risk. Changes in exchange rates between currencies or the conversion from one currency to another may cause the value of a Fund's investments to diminish or increase. Currency exchange rates may fluctuate over short periods of time and are generally determined by supply and demand in the currency exchange markets and the relative merits of investments in different countries, actual or perceived changes in interest rates and other complex factors. Currency exchange rates can be affected unpredictably by intervention (or the failure to intervene) by governments or central banks, or by currency controls or political developments.

Furthermore, the Fund may incur costs in connection with conversions between various currencies. Currency exchange dealers realize a profit based on the difference between the prices at which they are buying and selling various currencies. Thus, a dealer normally will offer to sell currency to the Fund at one rate, while offering a lesser rate of exchange should the Fund desire immediately to resell that currency to the dealer. The Fund will conduct currency exchange transactions either on a spot (*i.e.*, cash) basis at the spot rate prevailing in the currency exchange market, or through entering into forward or options contracts to purchase or sell non-US currencies. It is anticipated that most of the Fund's currency exchange transactions will occur at the time securities are purchased and will be executed through the local broker or custodian acting for the Fund.

**Counterparty Risk** - Some of the markets in which the Fund may effect transactions are OTC or "interdealer" markets. The participants in such markets are typically not subject to the credit evaluation and regulatory oversight to which members of "exchange-based" markets are subject. This exposes the Fund to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not *bona fide*) or because of a credit or liquidity problem, thus causing the Fund to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Fund has concentrated its transactions with a single or small group of counterparties. Counterparties in foreign markets face increased risks, including the risk of being taken over by the government or becoming bankrupt in countries with limited if any rights for creditors. The Fund is not restricted from concentrating any or all of its transactions with one counterparty. The ability of the Fund to transact business with any one or number of counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Fund. Counterparty risks also include the failure of executing brokers to honor, execute or settle trades.

Pursuant to the Dodd-Frank Act (as defined below), some derivatives transactions will be subject to mandatory clearing and will also be subject to the margin requirements set forth by the clearinghouse. The additional margin, capital and collateral obligations may increase the cost of derivatives transactions and thereby potentially decrease the profitability of certain positions.

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

The Fund may incur major losses in the event of disrupted markets and other extraordinary events in which historical pricing relationships become materially distorted. The risk of loss from pricing distortions is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. The financing available to the Fund from its banks, dealers and other counterparties will typically be reduced in disrupted markets. Such a reduction may result in substantial losses to the Fund. Market disruptions may from time to time cause dramatic losses for the Fund, and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk.

**Market Disruptions; Governmental Intervention; Dodd-Frank Wall Street Reform and Consumer Protection Act** - The global financial markets have in recent years gone through pervasive and fundamental disruptions that have led to extensive governmental intervention. Such intervention was in certain cases implemented on an “emergency” basis, suddenly and substantially eliminating market participants’ ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition, certain of these interventions have been unclear in scope and application, resulting in confusion and uncertainty which in itself has been materially detrimental to the efficient functioning of the markets as well as previously successful investment strategies.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “**Dodd-Frank Act**”), which aims to reform various aspects of the U.S. financial markets, covers a broad range of market participants including investment advisers (registered and unregistered) such as the Portfolio Manager. The Dodd-Frank Act may directly affect the Portfolio Manager by mandating additional new reporting requirements, including, but not limited to, position information, use of leverage and counterparty and credit risk exposure. Until the SEC implements all of the new reporting requirements, the full burden of such reporting obligations will not be known.

The Dodd-Frank Act may also affect the Fund in a number of other ways. Pursuant to the Dodd-Frank Act, banks and other financial firms (like the Fund and the Portfolio Manager) may be designated as “Systemically Important Financial Institutions” or SIFIs. Any bank or financial firm so designated will be subject to regulation by the Federal Reserve Board. In the area of derivatives, the Dodd-Frank Act provides for the registration and comprehensive regulation of “major swap participants”. Although the General Partner and the Portfolio Manager believe they are unlikely to be classified as SIFIs and are not subject to the requirements for “major swap participants”, the consequences of being so classified could be substantial and adverse. In addition, the cost of derivative transactions may substantially increase as result of the Dodd-Frank Act as additional margin, capital and collateral obligations are implemented.

**Transaction Execution and Costs** - As the Portfolio Manager expects to actively manage the Fund’s portfolio, purchases and sales of investments may result in higher transaction costs to the Fund. The successful application of the Fund’s investment strategy will depend, in part, upon the quality of execution of transactions, such as the ability of broker-dealers to execute orders on a timely and efficient basis. Although the Fund will seek to utilize brokerage firms that will afford superior execution capability to the Fund, there is no assurance that all of the Fund’s transactions will be executed with optimal quality. Furthermore, due to the degree of trading, total commission charges and other transaction costs may be expected to be high. The level of commission charges, as an expense of the Fund, may therefore be expected to be a factor in determining future profitability of the Fund.

**Broker/Custodian Risk** - The Fund’s assets may be held in one or more accounts maintained for the Fund by its custodian bank, prime brokers or at other brokers or banks, which may be located in various jurisdictions, including emerging market jurisdictions. The custodian bank, prime brokers, other brokers (including those acting as sub-custodians) and banks are subject to various laws and

regulations in the relevant jurisdictions that are designed to protect their customers in the event of their insolvency. Accordingly, the practical effect of the laws protecting customers in the event of insolvency and their application to the Fund's assets may be subject to substantial variations, limitations and uncertainties. For instance, in certain jurisdictions brokers could have title to the Fund's assets or not segregate customer assets. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a custodian bank, prime broker, other broker or bank, or a clearing corporation, it is impossible further to generalize about the effect of the insolvency of any of them on the Fund and its assets. Investors should assume that the insolvency of any of the custodian bank, prime brokers, other brokers or banks or clearing corporations may result in the loss of all or a substantial portion of the Fund's assets or in a significant delay in the Fund having access to those assets.

**Cybersecurity Risks** – Triarii Capital, the Funds, the General Partner, and/or one or more of their respective service providers may be prone to operational, information security and related risks resulting from failures of or breaches in cybersecurity.

A failure of or breach in cybersecurity ("cyber incidents") refers to both intentional and unintentional events that may cause the relevant party to lose proprietary information, suffer data corruption, or lose operational capacity. In general, cyber incidents can result from deliberate attacks ("cyber-attacks") or unintentional events. Cyber-attacks include, but are not limited to, gaining unauthorized access to digital systems (e.g., through "hacking" or malicious software coding) for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Cyber-attacks may also be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites (i.e., efforts to make network services unavailable to intended users). The issuers of securities and/or counterparties to other financial instruments in which the Funds may invest may also be prone to cyber incidents.

Cyber incidents may cause disruption and impact business operations, potentially resulting in financial losses, such as interference with the ability to calculate the Fund's net asset value, impediments to trading, the inability of investors to make a capital contribution for or withdraw from the Funds, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs.

While Triarii Capital, the General Partner and their respective affiliates have established business continuity plans in the event of, and risk management strategies, systems, policies and procedures to seek to prevent, cyber incidents, there are inherent limitations in such plans, strategies, systems, policies and procedures including the possibility that certain risks have not been identified. Furthermore, Triarii Capital, the Funds, the General Partner and their respective affiliates cannot control the cybersecurity plans, strategies, systems, policies and procedures put in place by other service providers to the Funds and/or the issuers in which the Funds invests.

## **Item 9: Disciplinary Information**

Triarii Capital and its employees is not aware of any legal or disciplinary events that are material to a client's or prospective client's evaluation of Triarii Capital's advisory business or the integrity of Triarii Capital's management.

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

The General Partner, an affiliate of Triarii Capital, serves as the general partner of the Funds. While the General Partner is not separately registered as an investment adviser with the SEC, all of its investment advisory activities are subject to the Advisers Act, and the rules thereunder. In addition, employees and persons acting on behalf of the General Partner, if any, are subject to the supervision and control of Triarii Capital.

Other than the arrangements described above, neither Triarii Capital, its employees nor the General Partner has any other business activities with other financial services companies that pose material conflicts of interest.

### **Conflicts Relating to Multiple Clients.**

Triarii Capital provides investment advisory services to multiple Clients. As a result, we may have conflicts of interest in (i) allocating the time and resources of our employees between and among our Clients, (ii) allocating investment opportunities between and among our Clients, and (iii) effecting transactions between Clients, including Clients in which we or our employees may have different financial interests.

To address actual and potential conflicts of interest and to fulfill our fiduciary duties to each of our Clients, we have adopted the Code of Ethics (Item 11 below), as well as our Aggregation and Allocation Policy, which provides for the allocation of investment opportunities in a manner that is fair and equitable over time so that no Client is disadvantaged in relation to any other Client. In certain cases, an investment opportunity that is suitable for multiple Clients may not be capable of being shared among some or all of such Clients due to the limited availability of the opportunity or other factors. In situations where co-investment among multiple Clients is not feasible or permissible under applicable law, or not appropriate, we will need to decide which Client(s) will proceed with the investment. We will make these determinations based on our Aggregation and Allocation Policy, which will generally require that such opportunities be offered to eligible Clients on a basis that will be fair and equitable over time. For a description of our Aggregation and Allocation Policy, please see Item 6, “Performance-Based Fees and Side-by-Side Management.”

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

### **Code of Ethics**

Triarii Capital has adopted a written Code of Ethics (the “Code”) that is applicable to all employees. Among other things, the Code requires Triarii Capital and its employees to act in its clients’ best interests, abide by all applicable regulations, avoid even the appearance of insider trading, and pre-clear and report on many types of personal securities transactions. Triarii Capital’s restrictions on personal securities trading apply to employees, as well as employees’ family members living in the same household. A copy of Triarii Capital’s Code is available upon request.

### **Participation or Interest in Client Transactions**

Triarii Capital, its employees or a related entity (collectively “Related Persons”), will generally have an investment in the Funds managed by Triarii Capital.

### **Personal Trading**

Employees must obtain written pre-clearance for certain personal securities transactions, including IPOs and private placements, before completing the transactions. Triarii Capital may deny any proposed transaction, particularly if the transaction poses a conflict of interest or if Triarii Capital is planning on transacting the same security at or about the same time in a Client account. Employees are also required to provide quarterly reports regarding transactions and holdings in “Reportable Securities” as defined in the Advisers Act. Employees must disclose all personal trading accounts initially upon commencement of employment and annually thereafter.

As discussed in Item 12 below, if more than one Client purchases or sells the same security, such orders will generally be aggregated in a single transaction, unless Triarii Capital determines that aggregation is not the best interests of the relevant Client or Clients.

## **Item 12: Brokerage Practices**

### **Investment Discretion**

Triarii Capital generally has 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.

### **Best Execution**

In placing orders for the purchase and sale of securities and selecting broker-dealers to effect these transactions, Triarii Capital's primary objective is to obtain prompt execution of orders at the most favorable prices reasonably obtainable. When selecting broker-dealers, Triarii Capital considers a number of factors, including, among others, the overall direct net economic result to the client (including commissions, which may not be the lowest available but which ordinarily will not be higher than the generally prevailing competitive range), the financial strength, reputation and stability of the broker, the efficiency with which the transaction is effected, the ability to effect the transaction at all, the availability of the broker to stand ready to execute possibly difficult transactions in the future, error resolution, and other matters involved in the receipt of brokerage and research services, including access to research and qualified personnel. Triarii Capital has no obligation to deal with any particular broker-dealer in the execution of transactions in portfolio securities.

### **Soft Dollars**

Triarii Capital executes Client transactions and generates “Soft Dollar Credits” through soft dollar brokers (“Soft Dollar Brokers”) to pay for both research and mixed use products/services. Soft dollar arrangements represent potential conflicts of interest since clients’ commissions are used to obtain products/services that Triarii Capital would otherwise have to obtain with its own funds.

The research products/services received by Triarii Capital from the Soft Dollar Brokers, either directly or through third-party arrangements between the Soft Dollar Brokers and the third-party service provider include, among others, information services on the economy, industries, groups of securities and individual companies, databases, quotation systems, performance measurement reports, bond/stock pricing information, periodicals and exchange fees paid for live market data.



Triarii Capital receives some services that may be used for both research and other, non-research purposes (i.e. “mixed-use products/services”). Triarii Capital assumes that the non-research portion of the mixed-use products/services are for its own benefit rather than the benefit of Clients and therefore makes a good faith effort to determine the relative proportion of such mixed-use products/services related to both research and non-research purposes. The portion of the mixed-use products/services that are deemed to be non-research will be paid directly by Triarii Capital, while the remaining research portion shall be paid for using soft dollars.

The Soft Dollar Brokers will not charge Triarii Capital a separate fee for research and other services, and the continued provisions of such services in some cases is conditioned upon Triarii Capital executing a particular level of transactions through the Soft Dollar Brokers. Certain research products and services obtained by Triarii Capital via Soft Dollars may not be utilized to solely service the Client that primarily generated the Soft Dollar Credits used to obtain the research product or service. However, Triarii Capital generally utilizes all of the products or services obtained via Soft Dollars to service all of its Clients, regardless of the Client commissions that were utilized to generate the Soft Dollar Credits.

### **Trade Errors**

Triarii Capital has established trade processes and procedures designed to reduce the likelihood of trade errors and, in its sole discretion, will determine what constitutes a trade error. Triarii Capital’s general policy is to seek to identify and correct any trade errors promptly and in a way that mitigates any losses. Trade errors in a Client’s account will be borne by the Client unless an error is the result of fraud, willful misconduct or gross negligence by Triarii Capital.

Triarii Capital will use reasonable methods to calculate the reimbursement due to the Client, if any. Triarii Capital’s process to correct trade errors may involve procedures required by applicable law, which may be complex and require coordination with multiple parties, and therefore Triarii Capital’s ability to correct trade errors promptly will be based on the specific circumstances of the error.

### **Allocation of New Issues**

Triarii Capital allocates new issues or the profit and loss from new issues only to those Investors in the Funds who may, pursuant to Financial Industry Regulatory Authority Rules 5130 and 5131, participate in such allocations.

### **Aggregating Orders for various Client Accounts**

To the extent Triarii Capital seeks to invest simultaneously on behalf of multiple Clients we have adopted an Aggregation and Allocation Policy to ensure Clients are afforded fair and equitable treatment when aggregating and allocating Client trade orders. Generally, we will only aggregate transactions when we believe that such an aggregation is lawful and consistent with our duty to seek best execution for Clients and is consistent with the Clients’ Governing Documents or IMA. Triarii Capital may take into consideration a number of factors, including, without limitation:

- contractual and/or legal duties owed to Clients;
- the relative actual or potential exposure of any particular Client to the type of investment opportunity in terms of its existing investment portfolio;
- cash availability of the Client;
- suitability, instructions from such Clients;
- the size, liquidity and duration of the investment opportunity;
- tax related reasons; and

- such other criteria as are reasonably related.

A Client that retains the discretionary or approval authority over investments will have the ability to approve or decline an investment opportunity presented to them. Clients should understand that delays in approving such an investment opportunity may result in all or part of the allocation recommended to the Client not being available.

To the extent that certain investment opportunities are permissible and appropriate for two or more Clients but are limited in size such that allocation to all eligible Clients would result in de minimis allocations, Triarii Capital will allocate such investment opportunities on a basis that seeks to ensure that all Clients, over time, have fair and equitable access to investment opportunities (e.g., rotating).

Triarii Capital will not receive any additional compensation or remuneration of any kind as a result of the aggregation of orders.

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

Client portfolios are reviewed on a continuous basis. Triarii Capital's investment personnel, including investment analysts and the Portfolio Manager, hold investment meetings to discuss investment ideas, investment strategies, economic developments, current events, and other issues related to current portfolio holdings and potential investment opportunities.

Triarii Capital will provide each investor with the following reports in accordance with the terms of the applicable Fund's Governing Documents: (i) unaudited performance information and account statements on a monthly basis; (ii) annual audited financial reports; and (iii) annual tax information necessary to complete any applicable tax returns.

As applicable, each Account receives periodic reports pursuant to the negotiated terms of the applicable IMA.

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

Triarii Capital does not receive any economic benefits from non-clients in connection with the provision of investment advice to clients, nor does Triarii Capital compensate any person for making client referrals.

### **Item 15: Custody**

All Client 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, Triarii Capital is deemed to have custody of Fund assets because it or one of its affiliates either (1) acts as general partner of a Fund

with the authority to dispose of funds and securities in the Fund's accounts or (2) is deemed to have custody because of its ability to withdraw its fees directly from the Funds.

Accordingly, Triarii Capital has 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.

For the Accounts, the respective Client will direct the custody relationship.

## **Item 16: Investment Discretion**

Triarii Capital buys and sells securities and other instruments for Clients on a discretionary basis in a manner consistent with the Client's investment objectives and restrictions, as set forth in a Client's Governing Documents or IMA. Fund Investors cannot unilaterally impose any additional investment objectives, rules, restrictions or limitations beyond those contained in each Fund's Governing Documents.

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

As applicable, Triarii Capital is granted authority to vote client securities in relevant Governing Documents or IMA. In accordance with Rule 206(4)-6 of the Advisers Act, Triarii Capital has adopted a written policy which governs its voting of client securities. This policy applies to all proxies that Triarii Capital receives on behalf of its clients, and reflects Triarii Capital's intent and obligation to vote all proxies in a manner which it reasonably believes is in the best interests of its clients (i.e., that it reasonably believes will maximize the value of the client's investment).

Upon receiving notification of a potential conflict of interest with respect to voting client securities, Triarii Capital will evaluate the conflict and determine an appropriate course of action in a manner consistent with Triarii Capital's obligation to its clients.

Clients may obtain a copy of Triarii Capital's Proxy Voting policy and procedures, as well as specific information about how it has voted proxies in the past, upon request.

## **Item 18: Financial Information**

This Item does not apply to Triarii Capital.