

## Rubric Capital Management LP

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New York, NY 10017**

**April 2019**

This “**Brochure**” provides information about the qualifications and business practices of Rubric Capital Management LP. If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer (“**CCO**”), Brian Kleinhaus, by email at [brian@rubriccapital.com](mailto:brian@rubriccapital.com). Information in this Brochure has not been approved or verified by the U.S. Securities and Exchange Commission (“**SEC**”) or by any state securities authority.

Registration as an investment adviser does not imply that Rubric Capital Management LP or any of its principals or employees possesses a particular level of skill or training in the investment advisory business or any other business.

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

**Item 2: Material Changes**

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This Brochure is Rubric Capital Management LP's (hereinafter "**Rubric Capital**", "**we**", "**us**", "**our**", "**Investment Manager**" or the "**Firm**") annual updating amendment for 2018. Clients and prospective clients should carefully review the disclosure contained herein.

Since the last amendment in March 2018, Rubric Capital has made changes to reflect general updates and provide certain clarifications with regards to its advisory business, including without limitation, the addition of certain risk factors.

**Item 3: Table of contents**

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Item 2: Material Changes .....	2
Item 4: Advisory Business.....	4
Item 5: Fees and Compensation.....	4
Item 6: Performance-Based Fees and Side-By-Side Management.....	7
Item 7: Types of Clients .....	7
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss .....	7
Item 9: Disciplinary Information.....	31
Item 10: Other Financial Industry Activities and Affiliations.....	31
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	32
Item 12: Brokerage Practices.....	32
Item 13: Review of Accounts.....	34
Item 14: Client Referrals and Other Compensation .....	34
Item 15: Custody .....	34
Item 16: Investment Discretion.....	35
Item 17: Voting Client Securities .....	35
Item 18: Financial Information .....	35

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**Item 4: Advisory Business**

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Rubric Capital Management LP is a Delaware limited partnership (hereinafter “**Rubric Capital**,” “**we**,” “**us**,” “**our**,” “**Investment Manager**” or the “**Firm**”) and was founded by David Rosen (hereinafter the “**Principal**”), on March 24, 2016. Mr. Rosen serves as the managing member of Rubric Capital Management GP LLC, a Delaware limited liability company, which serves as the general partner of the Firm.

Rubric Capital provides discretionary investment management services to qualified investors through its private funds: Rubric Capital Master Fund LP, a Cayman Islands exempted limited partnership (the “**Master Fund**”); Rubric Capital Partners LP, a Delaware limited partnership (the “**Onshore Fund**”); and Rubric Capital Offshore Fund Ltd., a Cayman Islands exempted company (the “**Offshore Fund**”). Rubric Capital also acts as a sub-adviser to a separate series of equity interests in a private fund managed by a registered investment adviser unaffiliated with Rubric Capital (the “**Separate Series**”). The Onshore and Offshore Funds (each a “**Feeder Fund**” and collectively, the “**Feeder Funds**”) conduct all investing and trading activities through, and invest all of their investable assets in, the Master Fund. The Master Fund, Offshore Fund and Onshore Fund are each referred to as a “**Rubric Fund**,” and collectively with the Separate Series, as the “**Funds**”, and the Master Fund and the Separate Series are collectively referred to below as the “**Accounts**”. Rubric Capital GP LLC, a Delaware limited liability company (the “**General Partner**”), serves as the general partner of the Onshore Fund and the Master Fund. The Offshore Fund’s shareholders, the Onshore Fund’s limited partners, and the Separate Series’ interest holders are hereafter individually or collectively referred to as the “**Investors**” where appropriate. We do not tailor our advisory services to the individual needs of any particular Investor.

We do not currently participate in any Wrap Fee Programs.

As of December 31, 2018, we had regulatory assets under management (RAUM) in the approximate amount of \$1,507,269,534 which we manage on a discretionary basis.

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**Item 5: Fees and Compensation**

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Rubric Capital’s compensation for the investment advisory services it provides to the Rubric Funds and the Separate Series is comprised of an asset-based management fee and an incentive allocation that is based on the performance achieved for the account of each Investor. The fees and expenses applicable to each Rubric Fund are set forth in detail in each of the Feeder Fund’s respective offering memorandum. A brief summary of fees and expenses for the Rubric Funds is provided below. The fees, expenses and incentive allocation with respect to the Separate Series are set forth in the sub-management agreement between the Firm and the manager of the private fund of which the Separate Series is a part.

***Management Fee***

The Feeder Funds have three series of limited partnership interests/shares, series F1 limited partnership interests/shares, Series F2 limited partnership interests/shares, and Series A limited partnership interest/shares. Series F1 limited partnership interest/shares and Series F2 limited partnership interests/shares are currently not available for investment but may be offered at any point in the future in the sole discretion of the Feeder Funds. The Master Fund will pay the Firm on behalf of the Feeder Funds a quarterly management fee for different series or classes of interests/shares in the Feeder Funds that generally range from 1.15% to 1.5% per

annum (collectively, the “**Management Fee**”). The Feeder Funds will pay the Management Fee within 10 days of the first day of each fiscal quarter.

The Management Fee will be prorated and payable as of a “subscription date” for any capital contribution/subscription by an Investor that is effective other than as of the first day of a fiscal quarter. In the event of a withdrawal/redemption by an Investor other than as of the last day of a fiscal quarter, the Firm will return to the Master Fund, and the Master Fund will pay to the applicable Feeder Fund for payment to, or credit to the capital account/shares of, the withdrawing/redeeming Investor, an amount equal to the pro rata portion of the Management Fee based on the actual number of days remaining in such fiscal quarter.

The Management Fee may be waived, reduced or calculated differently with respect to the capital account/shares of any Investor, including, without limitation, any any member, partner, affiliate or employee of the General Partner or the Firm and any family member of such persons. The General Partner’s capital account will not be debited with any Management Fee.

### ***Incentive Allocation***

The General Partner will be entitled to share in the appreciation in value of each Investor’s capital account balance, subject to a loss carryforward procedure. Generally, at the end of each fiscal year, the Master Fund will reallocate from each Investor’s capital account an amount ranging from 16.5% to 20% of the net capital appreciation for the fiscal year allocated to the Investor’s capital account. The net capital appreciation upon which the calculation of the incentive allocation is based will be reduced by the loss carryforward procedure. The incentive allocation may be waived, reduced or calculated differently with respect to certain Investors.

If an Investor withdraws/redeems capital other than as of fiscal year-end, the Master Fund will make an incentive allocation based on year-to-date performance, in proportion to the reduction in the Investor’s relevant account balance caused by the withdrawal/redemption. Those incentive allocations will reduce the withdrawal/redemption proceeds payable to the withdrawing/redeeming Investor. Investors may withdraw/redeem capital after the allowable lock-up period has expired. Withdrawal/redemption proceeds from the portion of a capital account that is still within the lock-up period will be reduced by an amount equal to 4% of the amount requested to be withdrawn/redeemed. Please refer to each Feeder Fund’s offering memorandum for a more detailed description of withdrawal/redemption requirements and limitations.

### ***Other Types of Fees or Expenses***

The Feeder Funds bear their own expenses and their pro rata share of the Master Fund’s expenses and any trading subsidiary’s expenses, including, without limitation, the following: (i) the Management Fee; (ii) expenses related to the research, due diligence and monitoring of actual and prospective investments (whether or not consummated) and the consummation of investments, including, without limitation, the following: third-party investment sourcing fees; fees and expenses related to obtaining research and market data (including, without limitation, any information technology hardware, software or other technology incorporated into the cost of obtaining such research and market data); due diligence expenses including, without limitation, consulting and appraisal fees; research related travel expenses; brokerage, prime brokerage and futures commission merchant fees, commissions and expenses;

expenses relating to short sales; clearing and settlement charges; custodial fees and expenses; bank service fees; interest expenses and fees related to financings or refinancings; fees and expenses of proxy research and voting services; and fees and expenses of third-party professionals, including, without limitation, consultants, investment bankers, attorneys and accountants; (iii) organizational and reorganizational expenses; and (iv) operational expenses, including, without limitation, the following: fees and expenses relating to information technology hardware, software or other technology (including, without limitation, costs of software licensing, implementation, data management and recovery services and custom development) used to research investments, evaluate and manage risk, facilitate valuations, facilitate compliance with the rules of any self-regulatory organization or applicable law (including, without limitation, reporting obligations), facilitate and manage the order execution of securities by the Master Fund or any trading subsidiary or otherwise manage the Feeder Funds, the Master Fund or any trading subsidiary, such as Bloomberg terminals, order management systems; third-party administrative fees and expenses; fees and expenses of third-party professionals, including, without limitation, consultants, valuation service providers, attorneys and accountants; the costs of any litigation or investigation involving activities of the Feeder Funds, the Master Fund or any trading subsidiary; third-party audit and tax preparation expenses; insurance expenses, including, without limitation, premiums for cybersecurity insurance and liability insurance covering the General Partner, the Firm and the members, partners, officers, employees and agents of any of them, and each member of the advisory board to the Master Fund; fees and expenses of the advisory board to the Master Fund; fees and expenses (including, without limitation, director registration fees) of any trading subsidiary's directors; costs of preparing and distributing reports and notices; taxes; expenses incurred in connection with negotiating and complying with provisions of any side letter agreement; fees and expenses related to compliance with the rules of any self-regulatory organization or applicable law in connection with the activities of the Feeder Funds, the Master Fund or any trading subsidiary, including, without limitation, any governmental, regulatory, licensing, filing or registration fees or taxes (including, without limitation, fees and expenses incurred in connection with the preparation and filing of Section 13 filings, Section 16 filings and other similar regulatory filings); expenses incurred in connection with the offering and sale of the Interests and other similar expenses related to the Feeder Funds (excluding fees payable to any placement agent); extraordinary expenses, including, without limitation, the following: indemnification expenses; fees and expenses incurred in connection with any tax audit by any tax authority, including, without limitation, any related administrative and judicial review; and fees and expenses incurred in connection with the reorganization, dissolution, winding-up or termination of the Feeder Funds, the Master Fund or any trading subsidiary.

Generally, all expenses borne by the Feeder Funds, other than the Management Fee and any expenses that the General Partner or the Board of Directors determines, as the case may be, should be allocated to a particular Investor or Investors, will be debited to or charged to all of the capital accounts/shares on a pro rata basis. To the extent that expenses to be borne by the Feeder Funds are paid by the General Partner or the Firm, the Feeder Funds will reimburse such party for such expenses.

The Funds do not have a pre-determined limit on their ordinary or extraordinary operating expenses. The Funds' actual annual operating expenses are disclosed in the Funds' year-end audited financial statements, which are provided to each Investor.

The Funds may amortize organizational and initial offering expenses over 60 months.

Please refer to each Feeder Fund's offering memorandum for a more detailed description of Fund expenses.

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**Item 6: Performance-Based Fees and Side-By-Side Management**

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While we do not presently have any clients that are not subject to performance-based fees or incentives, performance-based allocations arrangements may create an incentive for us to recommend investments which may be riskier or more speculative than those which we would recommend under a different arrangement. Such arrangements also may create an incentive to favor higher paying accounts over other accounts in the allocation of investment opportunities. We have designed and implemented procedures to seek to ensure that the Accounts and Investors are treated fairly and equally, and to seek to prevent this conflict from influencing the allocation of investment opportunities among the Accounts.

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**Item 7: Types of Clients**

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Our clients are the Funds. The minimum initial investment for each Investor of Series A shares/interests is \$1,000,000. An Investor generally may make additional capital contributions/subscriptions to the Feeder Funds in amounts of at least \$100,000. The Board of Directors for the Offshore Fund and General Partner of the Onshore Fund may accept capital contributions/subscriptions of lesser amounts or establish different minimums or reject any capital contribution/subscriptions, in whole or in part, for any reason or no reason. The minimum initial investment for an Investor in the Separate Series is set by the manager of the private fund of which the Separate Series is a part.

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

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***Investment Objective***

The investment objective of the Accounts is to achieve capital appreciation and maximize risk-adjusted absolute returns. The Firm employs a value-oriented long/short strategy comprised of, but not limited to, a book of deep-value long positions and an alpha short book that is core to its strategy. The Firm will generally seek to maintain a low net exposure in pursuing its objective, and thus the Firm believes that the Accounts' performance will likely depend to a greater degree on individual stock selection than it will on movements in broad market averages. The Firm employs a fundamental and multi-year perspective in identifying the Accounts' core investments from a universe generally comprised of equities and debt in all sectors. Furthermore, the Firm implements a disciplined approach to risk management and capital preservation at the position, portfolio and firm levels in seeking to maximize the delivery of alpha from both its long and short investments.

**Methods of Analysis*****Portfolio Construction***

The Firm takes several factors into account when sizing positions in the Accounts' portfolios, including, but not limited to, the potential upside weighed against the risk of any specific investment thesis, its conviction in the probability of this expected outcome, and the trading liquidity of the investment. Because of the inherent risk asymmetry of long and short positions<sup>1</sup> the Accounts typically will hold 40 to 50 long positions and 80 to 100 short positions,

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<sup>1</sup> While a long investment can theoretically return many times its own value and only lose 100% of its value, a short position can theoretically lose many times its value, but can, at most, return 100%.

though these numbers can vary based on market opportunities and individual stock liquidity. Long positions are usually sized at 1% to 8% of the Accounts' net equity, whereas the target weighting for short positions is roughly half of the long side, or 0.5% to 4%, although position size may vary. The Separate Series generally invests on a *pari-passu* basis with the Master Fund.

#### *Gross and Net Exposures (Leverage)*

The Accounts' net exposure on equity, which measures the Accounts' exposure to market fluctuations, varies between 0% and 25% of the Accounts' net asset value under normal market conditions and generally does not exceed 35%. Fluctuations in the Accounts' net exposure will result primarily from changes in individually selected fundamental long and short positions and not from efforts by the Firm to time the market or to make directional market bets. Thus, the Firm believes that the Accounts' performance will likely depend to a greater degree on individual stock selection than it will on movements in broad market averages.

The Accounts have the ability to borrow money and may do so when deemed appropriate by the Firm, including to seek to enhance the Accounts' returns and manage fund liquidity. The Firm expects the leverage of the Accounts, as measured by their respective gross exposures, to vary between 150% and 200% of their net asset values under normal market conditions and generally will not, although they may, exceed 250%. The Firm believes that the increased risk exposure that goes with such leverage is sufficiently mitigated by the disciplined use of short positions, rigorous portfolio construction and risk management.

#### *Risk Management & Liquidity*

The Firm approaches risk management from both a stock specific level and a portfolio level. Each investment is rigorously evaluated from a risk/return perspective and sized appropriately to the Firm's expectation. Additionally, most positions in the portfolio are generally not more than three times the daily average volume traded on its primary exchange. In the case of debt instruments, positions will generally not be more than 5% of the debt outstanding of an issuer. These liquidity guidelines should help the Firm adjust exposures and exit positions, when necessary. At a portfolio level, the Firm considers the investment opportunity set as well as the overall macroeconomic environment when managing the Accounts' gross and net exposures. For example, in periods of extreme market volatility it may be prudent for net and gross exposures to be reduced, whereas in more benign periods it may be expected for net and gross exposures to be at the higher end of the ranges stated earlier.

The Firm actively uses real-time exposure systems, risk factor analytics and various other portfolio reporting tools to make its assessments.

#### *Trading Subsidiaries*

The Accounts may effect one or more of the foregoing strategies either directly by purchasing securities or indirectly, for tax, regulatory or other reasons, by investing through one or more trading subsidiaries organized by the Firm.

#### *Changes in the Investment Program*

Subject to applicable law and any express restrictions set forth, as applicable, in the limited partnership agreement or offering memorandum of the Onshore Fund, the limited partnership agreement of the Master Fund, the offering memorandum or articles of association of the Offshore Fund, or the sub-management agreement between the Firm and the manager of the private fund of which the Separate Series is a part, as each may be



amended from time to time, the Firm may change the Master Fund's and the Separate Series' investment strategy or policy at any time.

***Risk of Loss Factors***

Investing in securities involves risk of loss that Investors should be prepared to bear. The following summary of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in the Funds. Prospective investors are urged to consult their professional advisers and are directed to the legal documents for each Fund, including the "Certain Risk Factors" section in such Fund's offering memorandum, before deciding to make an investment in a Fund.

***Risks Relating to the Operations and Investment Activities of the Funds***

The Funds depend on the Investment Manager to develop and implement appropriate systems for the Funds' activities. The Funds rely heavily and on a daily basis on financial, accounting and other data processing systems to execute, clear and settle transactions across numerous and diverse markets and to evaluate certain securities, to monitor their portfolios and capital, and to generate risk management and other reports that are critical to oversight of the Funds' activities. In addition, the Funds relies on information systems to store sensitive information about the Funds, the Investment Manager, their affiliates and the Investors. Certain of the Funds' and the Investment Manager's activities will be dependent upon systems operated by third parties, including prime brokers, fund administrators, market counterparties and other service providers, and the Investment Manager may not be in a position to verify the risks or reliability of such third-party systems. Failures in the systems employed by the Investment Manager, prime brokers, fund administrators, counterparties, exchanges and similar clearance and settlement facilities and other parties could result in mistakes made in the confirmation or settlement of transactions, or in transactions not being properly booked, evaluated or accounted for. Disruptions in the Funds' operations may cause the Funds to suffer, among other things, financial loss, the disruption of their business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing failures or disruptions could have a material adverse effect on the Funds and the Investors' investments therein.

***Cybersecurity Risk***

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

information systems may cause information relating to the transactions of the Funds and personally identifiable information of Investors to be lost or improperly accessed, used or disclosed.

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

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

#### *Investment and Trading Risks*

The Funds may be deemed a highly speculative investment and are not intended as a complete investment program. Our investment opportunities are designed only for sophisticated persons who are able to bear the economic risk of the loss of their entire investment and who have a limited need for liquidity. The following is a summary of certain risks that should be carefully evaluated before making an investment in the Funds.

#### *Limited Liquidity*

An investment in a Fund has limited liquidity because Investors will generally have only limited rights to withdraw/redeem capital from the Feeder Funds or transfer their interests/shares, and the Feeder Funds have the right to suspend withdrawals/redemption, as described in their respective offering memorandums. Investors must be prepared to bear the financial risks of an investment in the Feeder Funds for an indefinite period of time. The withdrawal/redemption rights of an Investor in the Separate Series are set by the manager of the private fund of which the Separate Series is a part.

#### *Long/Short*

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

#### *Short Selling*

The success of the Firm's short selling investment strategy depends upon the Investment Manager's ability to identify and sell short securities it believes that are overvalued. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Accounts of buying

those securities to cover the short position. There can be no assurance that the Accounts will be able to maintain the ability to borrow securities sold short. In such cases, the Accounts can be “bought in” (i.e., forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Short strategies can also be implemented synthetically through various instruments and be used with respect to indices or in the over-the-counter market and with respect to futures and other instruments. In some cases of synthetic short sales, there is no floating supply of an underlying instrument with which to cover or close out a short position, and the Accounts may be entirely dependent on the willingness of over-the-counter market makers to quote prices at which the synthetic short position may be unwound. There can be no assurance that such market makers will be willing to make such quotes. Short strategies can also be implemented on a leveraged basis (see “Leverage and Borrowing” below). Lastly, even though the Accounts secure a “good borrow” of the security sold short at the time of execution, the lending institution may recall the lent security at any time, thereby forcing the Accounts to purchase the security at the then-prevailing market price, which may be higher than the price at which such security was originally sold short by the Accounts.

#### *Long-Term*

The success of the Firm’s long-term investment strategy depends upon the Investment Manager’s ability to identify and purchase securities that it believes are undervalued and hold such investments so as to maximize value on a long-term basis. In pursuing any long-term strategy, the Firm may forego value in the short-term or temporary investments in order to be able to avail the Accounts of additional and/or longer-term opportunities in the future. Consequently, the Firm may not capture maximum available value in the short-term, which may be disadvantageous, for example, for Investors who withdraw/redeem all or a portion of their capital accounts/shares before such long-term value may be realized by the Accounts.

#### *Short-Term Market Considerations*

The Investment Manager’s trading decisions may be made on the basis of short-term market considerations, and the portfolio turnover rate could result in significant trading related expenses.

#### *Structured Product Arbitrage*

The success of the Firm’s structured product arbitrage strategy depends upon the Investment Manager’s ability to identify and exploit the inefficient pricing of portfolio risk and the implicit correlations of time to default with respect to various categories of structured products and derivatives. In the event that the perceived mispricings underlying the Accounts’ positions were incorrect, the Accounts could incur losses. In addition, the lack of an established, liquid secondary market for some structured products (including CDOs) may make it difficult to realize the perceived value of such securities.

#### *Leverage and Borrowing*

##### *Leverage for Investment Purposes*

The use of leverage will allow the Accounts to make additional investments, thereby increasing their exposure to assets, such that their total assets may be greater than their capital. However, leverage will also magnify the volatility of changes in the value of the Accounts’ portfolio. The effect of the use of leverage by the Accounts in a

market that moves adversely to their investments could result in substantial losses to the Accounts, which would be greater than if the Accounts were not leveraged.

*Borrowing for Cash Management Purposes*

Each Account has the authority to borrow for cash management purposes, such as to satisfy withdrawal/redemption requests. The rates at and terms on which the Accounts can borrow will affect their operating results.

*Collateral*

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

*Costs*

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

*Lending of Portfolio Securities*

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

*Diversification and Concentration*

The Firm may select investments that are concentrated in a limited number or types of securities. In addition, the Accounts' portfolios may become significantly concentrated in securities related to a single or a limited number of issuers, industries, sectors, strategies, countries or geographic regions. This limited diversification may result in the concentration of risk, which, in turn, could expose the Accounts to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in such securities.

*Lack of Control*

Each of the Accounts may invest in debt instruments and equity securities of companies that it does not control, which the Accounts may acquire through market transactions or through purchases of securities directly from the issuer or other shareholders. Such securities will be

subject to the risk that the issuer may make business, financial or management decisions with which the Accounts do not agree or that the majority stakeholders or the management of the issuer may take risks or otherwise act in a manner that does not serve the Accounts' interests. In addition, the Accounts may share control over certain investments with co-investors, which may make it more difficult for the Firm to implement its investment approach or exit the investment when it otherwise would. The occurrence of any of the foregoing could have a material adverse effect on the Accounts and the Investors' investments therein.

#### *Discretion of the Firm; New Strategies and Techniques*

While the Firm will generally seek to employ the representative investment strategies and techniques discussed herein, the Firm (subject to the policies and control of the General Partner, in its capacity as general partner of the Master Fund, and the investment management agreement with the manager of the private fund of which the Separate Series is a part, as applicable) has considerable discretion in the types of securities the Accounts may trade and generally has the right to modify the investment strategies and techniques of the Accounts without the consent of the Investors. New investment strategies and techniques may not be thoroughly tested in the market before being employed and may have operational or theoretical shortcomings which could result in unsuccessful trades and, ultimately, losses to the Accounts. In addition, any new investment strategy or technique developed by the Firm may be more speculative than earlier investment strategies and techniques and may involve material and as-yet-unanticipated risks that could increase the risk of an investment in the Accounts.

#### *Short Sales*

Short sales can, in certain circumstances, substantially increase the impact of adverse price movements on the Accounts' portfolios. A short sale involves the risk of a theoretically unlimited increase in the market price of the particular investment sold short, which could result in an inability to cover the short position and a theoretically unlimited loss. There can be no assurance that securities necessary to cover a short position will be available for purchase.

#### *Hedging Transactions*

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

**Risks Relating to Market Conditions Generally***General Economic and Market Conditions*

The success of the Accounts' 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 Accounts' investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of the prices and the liquidity of the Accounts' investments. Volatility or illiquidity could impair the Accounts' profitability or result in losses. The Accounts may maintain substantial trading positions that can be adversely affected by the level of volatility in the financial markets.

*Governmental Interventions*

Extreme volatility and illiquidity in markets has in the past led to, and may in the future lead to, extensive governmental interventions in equity, credit and currency markets. Generally, such interventions are intended to reduce volatility and precipitous drops in value. In certain cases, governments have intervened 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, these interventions have typically been unclear in scope and application, resulting in uncertainty. It is impossible to predict when these restrictions will be imposed, what the interim or permanent restrictions will be and/or the effect of such restrictions on the Accounts' strategies.

*Potential Interest Rate Increases*

The United States continues to experience historically low interest rate levels. However, the continued recovery of the U.S. economy and recent and potential future changes in U.S. government policy, including the tapering or cessation of the U.S. Federal Reserve Board's quantitative easing program, increase the risk that interest rates may rise in the near future. Any future interest rate increases may result in periods of volatility and cause the value of the fixed income securities held by the Accounts to decrease, which may result in substantial withdrawals/redemptions from the Feeder Funds and the Separate Series that, in turn, force the Accounts to liquidate such securities at disadvantageous prices negatively impacting the performance of the Accounts.

*Rise of High Frequency Trading*

In recent years, high frequency trading has increased, which has raised questions about the impact high frequency trading has on financial markets generally. Though the increase in high frequency trading has been correlated with increased market liquidity, this purported liquidity may be illusory and high frequency trading may be the cause of reductions in true liquidity and certain instances of extreme volatility. Opponents of high frequency trading argue that it exploits the work of active traders, has reduced the number of active traders and has resulted in increased execution costs. The effects of high frequency trading on specific trades or markets generally may adversely affect the Accounts' ability to effect their trading strategy.

**Risks Relating to Specific Sectors and Types of Companies***Equity Securities Generally*

The value of equity securities of public and private, listed and unlisted companies and equity derivatives generally varies with the performance of the issuer and movements in the equity markets. As a result, the Accounts may suffer losses if they invest in equity instruments of issuers whose performance diverges from the Investment Manager's expectations or if equity markets generally move in a single direction and the Accounts have not hedged against such



a general move. The Accounts also may be exposed to risks that issuers will not fulfill contractual obligations such as, in the case of convertible securities or private placements, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale.

#### *Debt Securities*

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

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

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

#### *ABS and MBS Generally*

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

#### *ABS and MBS Subordinated Securities*

Investments in subordinated MBS and ABS 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 MBS and ABS secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying loans. Certain subordinated securities absorb all losses from default before any other class of securities is at risk, particularly if such securities have been issued with little or no credit enhancement or equity. Such securities, therefore, possess some of the attributes typically associated with equity investments.

#### *Commercial MBS*

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 MBS 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 MBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of MBS 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 MBS. Revenues from the assets underlying such MBS 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.

#### *ABS*

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

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

#### *RMBS*

Holders of residential mortgage-backed securities ("**RMBS**") bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by one to four family residential mortgage loans. Such loans may be prepaid at any time. Residential mortgage loans are obligations of the



borrowers thereunder only and are not typically insured or guaranteed by any other person or entity, although such loans may be securitized by government agencies and the securities issued are guaranteed. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the geographic area where the mortgaged property is located, the terms of the mortgage loan, the borrower's "equity" in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

Investments in RMBS may experience losses or reduced yield if, for example, (i) the borrower of an underlying residential mortgage loan defaults or is unable to make payments, (ii) the underlying residential mortgage loans are prepaid, (iii) there is a general decline in the housing market, or (iv) violations of particular provisions of certain U.S. federal laws by an issuer of RMBS limit the ability of the issuer to collect all or part of the principal of or interest on the related underlying loans.

#### *American Depositary Receipts and Global Depositary Receipts*

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

#### *Bankruptcy Claims*

The Accounts' investments may include debt and equity of financially distressed companies. In the event that the issuer files for bankruptcy protection, the Accounts' will likely be unable to sell their claims without realizing a significant loss and may be unable to recover current interest on such claims during the course of the bankruptcy case. The markets in U.S. bankruptcy claims are generally not regulated by U.S. federal securities laws or the SEC. To the extent debt investment is unsecured (i.e., has no collateral securing repayment), such claims may have a lower priority than secured claims (which have first recourse to the collateral securing such claim). In addition, the debt of an issuer in bankruptcy may be

adversely affected by an erosion of the issuer's business and overall value. Accordingly, there can be no guarantee that a debtor will be able to satisfy all of its liabilities or that the Accounts will be able to recover the entire amount of their bankruptcy claim.

Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to appear and be heard, there can be no assurance that a bankruptcy court would not approve actions that may be contrary to the interests of the Accounts (in their role as creditors). Furthermore, there are instances where creditors lose their priority under Title 11 of the United States Code (the "Bankruptcy Code") (i.e., are equitably subordinated) if, for example, they have engaged in misconduct that harms other creditors. In those cases where the Accounts are found to have engaged in such misconduct, the Accounts may lose their priority.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, the approval of the plan by creditors and confirmation of the plan by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and the Accounts; 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 issuer may not be able to reorganize and may be required to sell its assets either as a going concern or as part of a liquidation. As a result, even in those circumstances where the Accounts may recover the entire amount of their bankruptcy claim, the Accounts may be adversely impacted by any costs incurred by the Accounts in representing their interests in a debtor's bankruptcy case.

U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for the purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that the Accounts' influence with respect to a class of securities can be lost by virtue of the size of its claim relative to the claims of the entire class. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors (for example, claims for certain taxes) may impair the recovery of an investment in a bankruptcy claim.

The Accounts intends to invest some of their assets in securities of issuers domiciled, or assets located, globally. Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

The Investment Manager, on behalf of the Accounts, may elect to serve on creditors' committees, equityholders' committees or other groups to ensure preservation or enhancement of the Accounts' positions as a creditor or equityholder. A member of any such committee or group may owe a fiduciary duty and be subject to certain obligations to all members the committee represents and/or to other similarly situated parties. The Investment Manager may resign from that committee or group for any reason, including, for example, if the Investment Manager concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to the Accounts. In such case, the Accounts may not realize the benefits, if any, of participation on the committee or group. In addition, if the Accounts are represented on a committee or group, they may be restricted or prohibited under applicable law from disposing of or increasing their investments in such company while they continue to be represented on such committee or group.

The Accounts may 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. Additionally, the claim may be disallowed or subordinated if the bankruptcy court determines that the seller engaged in inequitable conduct that harmed other creditors.

Reorganizations can be contentious and adversarial, and it is by no means unusual for participants to use the threat of litigation and to engage in litigation as a negotiating technique. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by the Accounts.

#### *Business Development Companies*

Investments in closed-end funds that elect to be treated as business development companies ("BDCs") may be subject to a high degree of risk. BDCs typically invest in small and medium-sized private and certain public companies that may not have access to public equity markets for capital raising. As a result, a BDC's portfolio typically will include a substantial amount of securities purchased in private placements, and its portfolio may carry risks similar to those of a private equity or venture capital fund. Securities that are not publicly registered may be difficult to value and may be difficult to sell at a price representative of their intrinsic value. Small and medium-sized companies also may have fewer lines of business so that changes in any one line of business may have a greater impact on the value of their stock than is the case of a larger company. Some BDCs invest substantially, or even exclusively, in one sector or industry group and therefore carry risk of that particular sector or industry group. To the extent a BDC focuses its investments in a specific sector, the BDC will be susceptible to adverse conditions and economic or regulatory occurrences affecting the specific sector or industry group, which tends to increase volatility and result in higher risk. Investments in BDCs are subject to various risks, including management's ability to meet the BDC's investment objective, and to manage the BDC's portfolio when the underlying securities are redeemed or sold, during periods of market turmoil and as investors' perceptions regarding a BDC or its underlying investments change. BDC shares are not redeemable at the option of the BDC shareholder and, as with shares of other closed-end funds, they may trade in the secondary market at a discount to their net asset value. BDCs generally qualify as "regulated investment companies" under the U.S. federal tax laws and, provided they distribute all of their income in the time and manner as required by the tax law and satisfy certain diversification and source of income requirements, generally will not pay U.S. federal income taxes.

Certain BDCs in which the Accounts may invest may employ the use of leverage in their portfolios through borrowings or the issuance of preferred stock. While leverage often serves to increase the yield of a BDC, this leverage also subjects the BDC to increased risks, including the likelihood of increased volatility and the possibility that the BDC's common share income will fall if the dividend rate on any preferred shares or the interest rate on any borrowings rises.

The Accounts may be limited by provisions of the Investment Company Act of 1940, as amended, that generally limit the amount the Accounts can invest in any one BDC to 3% of the BDC's total outstanding stock. As a result, the Accounts may be required to hold a smaller position in a BDC than it would absent this restriction. Each Account will indirectly bear its proportionate share of any management and other operating expenses, and of any performance based or incentive fees, charged by the BDCs in which it invests, in addition to the expenses paid by such Account.

*Closed-End Funds*

Investments in closed-end funds are non-redeemable and are subject to the same risks as other publicly traded equity securities. There may be no public market for units of closed-end funds, which often trade at a discount to their net asset values.

*Collateralized Debt Obligations*

There are a variety of different types of collateralized debt obligations ("CDOs"), including CDOs collateralized by trust preferred securities and asset-backed securities and CDOs collateralized by corporate loans and debt securities called collateralized loan obligations ("CLOs"). CDOs may issue several types of securities, including, without limitation, CDO and CLO equity, multi-sector CDO equity, trust preferred CDO equity and CLO debt. CDOs are subject to credit, liquidity and interest rate risks, which are each discussed in greater detail above. The CDO equity may be unrated or non-investment grade. As a holder of CDO equity, the Accounts will have limited remedies available upon the default of the CDO. The Accounts may be unable to find a sufficient number of attractive opportunities to meet their investment objective or fully invest their committed capital. For example, from time to time, the market for CDO transactions has been adversely affected by a decrease in the availability of senior and subordinated financing for transactions, in part in response to regulatory pressures on providers of financing to reduce or eliminate their exposure to such transactions. CDOs often invest in concentrated portfolios of assets. The concentration of an underlying portfolio in any one obligor would subject the related CDOs to a greater degree of risk with respect to defaults by such obligor and the concentration of a portfolio in any one industry would subject the related CDOs to a greater degree of risk with respect to economic downturns relating to such industry.

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

*Subordination of CDO Debt and CDO Equity*

Subordinate CDO debt generally is fully subordinated to the related CDO senior tranches. CDO equity generally is fully subordinated to any related CDO debt and is not secured by any collateral. Distributions to holders of CDO equity will generally be made solely from distributions on the assets of the CDO issuer after all other payments have been made pursuant to the priority of payments of such CDO. To the extent that any losses are incurred by a CDO in respect of its related CDO Collateral, such losses will be borne first by the holders of the related CDO equity, next by the holders of any related subordinated

CDO debt and finally by the holders of the related CDO senior tranches. In addition, if an event of default occurs under the governing instrument or underlying investment, as long as any CDO senior tranches are outstanding, the holders thereof generally will be entitled to determine the remedies to be exercised under the instrument governing the CDO. Remedies pursued by such holders could be adverse to the interests of the holders of any related subordinated CDO debt and/or the holders of the related CDO equity, as applicable. Subordinate CDO debt and CDO equity represent leveraged investments in the assets of the CDO. Therefore, the leveraged nature of such securities may magnify the adverse impact on the market value of such securities caused by changes affecting the assets underlying such securities, including, without limitation, changes in the market value of such assets, changes in distributions on such assets, defaults and recoveries, capital gains and losses on such assets, prepayments and the availability, prices and interest rates of such assets. Accordingly, subordinate CDO debt and CDO equity may not be paid in full and may be subject to up to 100% loss.

*Control by Senior CDO Debt*

In a typical CDO, the most senior CDO debt (the “Controlling Class”) will control many rights under the CDO indenture and therefore, holders of subordinate CDO debt and CDO equity will have limited rights in connection with an event of default or distributions thereunder. Remedies pursued by the holders of the Controlling Class upon an event of default could be adverse to the interests of the holders of subordinate CDO debt and CDO equity. If an event of default has occurred and is continuing, the holders of CDO equity will not have any creditors’ rights against the CDO issuer and will not have the right to determine the remedies to be exercised under the CDO indenture. There is no guarantee that any funds will remain to make distributions to the holders of subordinate CDO debt and CDO equity following any liquidation of the CDO assets and the application of the proceeds from the CDO assets to pay senior classes of CDO debt and the fees, expenses, and other liabilities payable by the CDO issuer. The Controlling Class may also have consent rights in respect of amendments and CDO manager removal rights in connection with certain events.

*Mandatory Redemption of CDO Senior Tranches and CDO Debt*

Under certain circumstances, cash flows from CDO Collateral that otherwise would have been paid to the holders of any related CDO debt and the related CDO equity will be used to redeem the related CDO senior tranches. This could result in an elimination, deferral or reduction in the interest payments, principal repayments or other payments made to the holders of such CDO debt or such CDO equity, which could adversely impact the returns to the holders of such CDO debt or such CDO equity.

*Optional Redemption of CDO Senior Tranches and CDO Debt*

An optional redemption of a CDO could require the collateral or portfolio manager of the related CDO to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the realized value of the items of CDO Collateral sold (and which in turn could adversely impact the holders of any related CDO debt, and/or the holders of the related CDO equity).

*Rating Agencies*

Future actions of any rating agency can adversely affect the market value or liquidity of CDOs. Rating agencies rating a CDO may change their published ratings criteria or methodologies for CDOs at any time in the future. Further, such rating agencies may retroactively apply any such new standards to the ratings of the CDO securities purchased by the Accounts. Any such action could result in a substantial lowering (or even withdrawal) of any rating assigned to any such CDO security, despite the fact that such CDO security might still be performing fully to the specifications set forth for such CDO security in the related transaction documents. The rating assigned to any CDO may also be lowered following the occurrence of an event or circumstance despite the fact that the related rating agency previously provided confirmation that such occurrence would not result in the rating of such CDO being lowered. Additionally, any rating agency may, at any time and without any change in its published ratings criteria or methodology, lower or withdraw any rating assigned by it to any class of CDO security. If any rating initially assigned to any CDO security is subsequently lowered or withdrawn for any reason, holders of such security may not be able to resell their security without a substantial discount. Any reduction or withdrawal to the ratings on any class of CDO security may significantly reduce the liquidity thereof and may adversely affect the CDO issuer's ability to make certain changes to the composition of the CDO assets since the CDO's indenture may contain restrictions on portfolio modifications that are tied to the ratings on the CDO's securities.

A rating agency may also revise or withdraw its ratings of a CDO security as a result of a failure by the issuer or the manager of such CDO to provide it with information requested by such rating agency or comply with any of its obligations contained in the engagement letter with such rating agency, including the posting of information provided to the rating agency on a website that is accessible by rating agencies that were not hired in connection with the issuance of the CDO securities as required by law. In addition, a CDO security may receive an unsolicited rating, which may have an adverse effect on the liquidity or the market price of such CDO security. Any such revision or withdrawal of a rating as a result of such a failure might adversely affect the liquidity and value of the CDO security.

*Effects of Regulation on CDO Market*

Legislative or regulatory action taken by the U.S. federal government or any U.S. regulatory body (or other authority or regulatory body) in response to economic conditions or otherwise may negatively impact the liquidity and value of CDOs. For example, the "Volcker Rule" contained in the Dodd-Frank Act, which imposes limitations on the ability of banking entities and their affiliates to invest in private investment funds such as CDO issuers, may have a substantial negative impact on the liquidity and value of CDOs. No prediction can be made as to how any modifications made to the Volcker Rule will affect the liquidity and value of CDOs purchased by the Accounts.

*Distressed Credit*

The Firm endeavors to achieve equity-like returns on each of its investments. While it is expected that a significant percentage of the Accounts' positions will consist of common stock and equity-linked securities in evaluating a particular company, the Firm may determine that the optimal way to achieve the Accounts' objectives is by investing in such company's debt



(including investment grade, cross-over, high yield and distressed bonds, bank debt, private debt, junior debt, trade claims, sovereign debt, quasi-sovereign debt and municipal debt, indices, and asset-backed and structured credit securities).

#### *Convertible Securities*

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

#### *Currencies*

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

#### *Call and Put Options*

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

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

Uncovered option writing (i.e., selling an option when the seller does not own a like quantity of an offsetting position in the underlier) exposes the seller to potentially significant loss. The potential loss of uncovered call writing is unlimited. The seller of an uncovered call may incur large losses if the reference price or value of the underlier increases above the exercise price by

more than the amount of any premiums earned. As with writing uncovered calls, the risk of writing uncovered put options is substantial. The seller of an uncovered put option bears a risk of loss if the reference price or value of the underlier declines below the exercise price by more than the amount of any premiums earned. Such loss could be substantial if there is a significant decline in the value of the underlier.

#### *Index or Index Options*

The value of an index or index option fluctuates with changes in the market values of the assets included in the index. Because the value of an index or index option depends upon movements in the level of the index rather than the price of a particular asset, whether the Accounts will realize appreciation or depreciation from the purchase or writing of options on indices depends upon movements in the level of instrument prices in the assets generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular assets.

#### *Index Futures*

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

#### *Credit Default Swaps*

Credit default swaps can be used to implement the Firm's view that a particular credit, or group of credits, will experience credit improvement or deterioration. In the case of expected credit improvement, the Accounts may sell credit default protection in which they receive a premium to take on the risk. In such an instance, the obligation of the Accounts to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. The Accounts may also buy credit default protection with respect to a referenced entity if, in the Firm's judgment, there is a high likelihood of credit deterioration. In such instance, the Accounts will pay a premium regardless of whether there is a credit event.

#### *Futures Contracts*

The value of futures contracts depends upon the price of the securities, such as commodities, underlying them. The prices of futures contracts are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, as well as national and international political and economic events and policies. In addition, investments in futures contracts are also subject to the risk of the failure of any of the exchanges on which the Accounts' positions trade or of their clearing houses or counterparties. Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as



“daily price fluctuation limits” or “daily limits”. Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Accounts from promptly liquidating unfavorable positions and subject the Accounts to substantial losses or prevent them from entering into desired trades. Also, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

#### *Non-U.S. Futures Transactions*

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

#### *Forward Contracts*

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

*Contracts for Differences*

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

*Failure to Enter into Offsetting Trade*

To the extent the Accounts invest in a futures contract or long option, unless an offsetting trade is made, the Accounts would be required to take physical delivery of the commodity underlying the future or option. To the extent the Firm fails to enter into such offsetting trade prior to the expiration of the contract, the Accounts may suffer a loss since neither the Accounts nor the Firm has the operational capacity to accept physical delivery of commodities.

*Exotic Options*

Exotic options are typically, but not always, traded over-the-counter (“**OTC**”). OTC contracts may not trade in a liquid market and pricing may be opaque. The illiquidity of these markets can be exacerbated in times of market stress. The Accounts may incur substantial costs entering into and exiting positions that could have a material impact on performance. Exotic options may be subject to a higher degree of pricing risk as demonstrated by instances in which different counterparties in the market employ different valuation and pricing methodologies to the same exotic option. Because exotic options can often be highly customised, there is lower visibility with respect to the pricing and valuation of these instruments. Exotic options may be subject to high levels of price volatility. For example, in the case of barrier options, as the price of the asset underlying the option trades closer to a barrier level, the delta of the option (i.e., the ratio of the change in the price of the underlying asset to the corresponding change in the price of the option) and the gamma of the option (i.e., the rate of change of the delta with respect to the underlying asset’s price) may become very high. Exotic options may be subject to higher levels of model risk than commonly traded options because standard models are not able to adequately capture or predict the risks associated with the exotic options. Exotic options may be “path dependent”. This means that their terminal value (at exercise or expiration) depends upon the value of the underlying asset,

not only at the time of exercise or expiration, but also at prior points in time. In this sense, the option's terminal value depends upon the "path" taken by the underlying asset over the life of the option. For example, a barrier option's value at expiration depends upon both the value of the underlying asset at expiration and whether the past value of the underlying asset ever satisfied a barrier condition. In contrast, a "vanilla" option (e.g., a call option) is not path dependent. Its value at exercise or expiration depends on the value of the underlying asset only at that point in time. The additional features incorporated by exotic options require additional judgments regarding the likelihood of certain conditions being satisfied, any one of which can result in loss if made incorrectly. An OTC option may be closed out only with the counterparty, although either party may engage in an offsetting transaction that puts that party in the same economic position as if it had closed out the option with the counterparty; however, the exposure to counterparty risk may differ. OTC options generally involve greater credit and counterparty risk than exchange-traded options.

#### *Loan Investments*

The Accounts success in the area of loan investing will depend, in part, on its ability to obtain loans on advantageous terms. In purchasing loans, the Accounts will compete with a broad spectrum of investors and institutions. Increased competition for, or a diminution in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to investors.

##### *Leveraged Loans*

"Leveraged loans" are loans made to companies with a below investment-grade rating from any nationally recognized rating agency. Such loans may be performing poorly when the Accounts acquire them. There is no assurance that the Investment Manager will correctly evaluate the value of the assets collateralizing such loans or the prospects for distribution on or repayment of such loans. The Accounts may lose their entire investment or may be required to accept cash, property or securities with a value less than the Accounts' original investment and/or may be required to accept payment over an extended period of time.

##### *Hung Loans*

The term "hung loan" commonly refers to a loan that has been made (or has been committed to be made), and the lender is not able to syndicate the loan on the originally anticipated terms. Hung loans are illiquid and lack readily ascertainable market values; there is no assurance that the price to be paid for hung loans by the Accounts will reflect a discounted price that should allow the Accounts to achieve a positive return on such loans or avoid losses. Since the price of the loans to be purchased is expected to continue to be significantly impacted by, in addition to the specific circumstances relating to each loan (e.g., in the case of a loan relating to a leveraged buyout ("LBO"), the financial condition of the target), global and macro-economic conditions (e.g., monetary policy, changes to currency exchange rates, governmental intervention or changes to existing laws, international geo-political events, etc.) as well as other systemic factors, it is possible that loans purchased by the Accounts will suffer significant impairments in value as a result of events not predicted by the Accounts. The Accounts may also face difficulties in disposing of or leveraging

such loans, or in doing so without incurring losses. The markets in which hung loans are purchased and sold have been volatile and are likely to continue to be volatile in the future.

#### *Bank Loans*

Bank loans are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of the Accounts to directly enforce their rights with respect to participations. Successful claims by third parties arising from these and other risks will be borne by the Accounts.

As secondary market trading volumes increase, new loans are frequently adopting standardized documentation to facilitate loan trading, which may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue. Because of the provision to holders of such loans of confidential information relating to the borrower, the unique and customized nature of the loan agreement, and the private syndication of the loan, loans are not as easily purchased or sold as a publicly traded security, and historically the trading volume in the loan market has been small relative to the high-yield debt market.

#### *Second Lien Loans*

The Accounts may invest in loans that are secured by a second lien on assets. Second lien loans have been a developed market for a relatively short period of time, and there is limited historical data on the performance of second lien loans in adverse economic circumstances. In addition, second lien loan products are subject to intercreditor arrangements with the holders of first lien indebtedness, pursuant to which the second lien holders have waived many of the rights of a secured creditor, and some rights of unsecured creditors, including rights in bankruptcy that can materially affect recoveries. While there is broad market acceptance of some second lien intercreditor terms, no clear market standard has developed for certain other material intercreditor terms for second lien loan products. This variation in key intercreditor terms may result in dissimilar recoveries across otherwise similarly situated second lien loans in insolvency or distressed situations. While uncertainty of recovery in an insolvency or distressed situation is inherent in all debt instruments, second lien loan products carry more risks than certain other debt products. Beginning in August 2007, the market for many loan products, including second lien loans, contracted significantly which made virtually all leveraged loan products, particularly second lien loan products, less liquid or illiquid. Many participants ceased underwriting and purchasing certain second lien loan products. There can be no assurance that the market for second lien loans will not contract further.

*Bridge Loans*

It is a common practice for financial institutions to commit to providing bridge loans to facilitate acquisitions, including LBOs, where they serve as advisers to the purchaser. Bridge loans are frequently made because, for timing or market reasons, longer-term financing is not available at the time the funds are needed, which is often at the time of the closing of an acquisition. In the past, these commitments were not frequently drawn upon due to the availability of other sources of financing; however, due to market conditions affecting the availability of these other sources of financing (principally high-yield bond transactions), bridge loan commitments have been and may be drawn upon more regularly. Since these commitments were not regularly drawn upon in the past, there is little history for investors to rely upon in evaluating investments in bridge loans. Bridge loans often have shorter maturities. Borrower and lenders typically agree to shorter maturities based on the anticipation that the bridge loans will be replaced with other forms of financing within such shorter time period. However, the source and timing of such replacement financing may be uncertain and can be affected by, among other things, market conditions and the financial condition of the borrower at the maturity date of the bridge. If the borrower is unable to obtain replacement financing and repay the bridge loan at maturity, the terms of the bridge loan may provide for the bridge loan to be converted to a longer term loan. If bridge loans are not repaid (or cannot be disposed of on favorable terms) on the dates projected by the Investment Manager, there may be an adverse effect upon the ability of the Investment Manager to manage the assets of the Accounts in accordance with its models and projections or an adverse effect upon the Accounts' performance and ability to make distributions.

*Debtor-in-Possession ("DIP") Loans*

Loans to companies that have filed for protection under Chapter 11 of the Bankruptcy Code, as amended, are most often asset-based, revolving working-capital facilities put into place at the outset of a Chapter 11 case to provide the debtor with both immediate cash and the ongoing working capital that will be required during the reorganization process. While such loans are generally less risky than many other types of loans as a result of their seniority in the debtor's capital structure and because their terms have been approved by a U.S. federal bankruptcy court order, it is possible that the debtor's reorganization efforts may fail and the proceeds of the ensuing liquidation of the DIP lender's collateral might be insufficient to repay in full the DIP loan.

*Fraud Associated with Loans*

Of paramount concern in loan investments is the possibility of material misrepresentation or omission on the part of the borrower or loan seller. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of the Accounts to perfect or effectuate a lien on the collateral securing the loan. The Accounts will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or

completeness. Under certain circumstances, payments to the Accounts may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

### *Municipal Securities*

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

### *Mutual Fund Investments*

Investments in open-end as well as closed-end mutual funds generally involve the payment of duplicative fees through the indirect payment of a portion of the expenses, including advisory fees, of such mutual funds. Investments in mutual funds will be valued at the net asset values provided by those funds (which may in certain circumstances be unaudited valuations). Such investments may cause the expense of investing in the Fund to be greater than an investment in other investment vehicles.

### *Preferred Stock*

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

### *Repurchase and Reverse Repurchase Agreements*

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

*Restricted Securities*

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

*Structured Notes*

Structured notes, variable rate mortgage-backed and asset-backed securities each have rates of interest that vary based on a designated floating rate formula or index. The value of these investments is closely tied to the absolute levels of such rates or indices, or the market's perception of anticipated changes in those rates or indices. The movements in specific indices or interest rates may be difficult or impossible to hedge.

*Undervalued Securities*

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

*Unlisted Securities*

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

*When-Issued and Forward Commitment Securities*

The purchase of securities on a "when-issued" basis involves a commitment by the Accounts to purchase or sell securities at a future date (typically one or two months later). No income accrues on securities that have been purchased on a when-issued basis prior to delivery to the Accounts. When-issued securities may be sold prior to the settlement date. If the Accounts dispose of the right to acquire a when-issued security prior to its acquisition, they may incur a gain or loss. In addition, there is a risk that securities purchased on a when-issued basis may not be delivered to the Accounts. In such cases, the Accounts may incur a loss.

**Item 9: Disciplinary Information**

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We have no disciplinary disclosures to make that are required in the Brochure.

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

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The General Partner, with respect to the Onshore Fund and the Master Fund, and the Firm, with respect to the Offshore Fund, have each claimed an exemption from registration with the CFTC as a CPO pursuant to CFTC Rule 4.13(a)(3). The Firm, with respect to the Separate Series, has claimed an exemption as a CTA pursuant to CFTC Rule 4.14(a)(10).



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

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***Code of Ethics***

Rubric Capital has adopted a “**Code of Ethics**” that establishes the high standard of conduct that we expect of our employees and procedures regarding our employees’ personal trading of securities. Our employees are required to certify their adherence to the terms set forth in the Code of Ethics upon commencement of employment and annually thereafter. Employees also are required to provide quarterly certifications of compliance with certain Code of Ethics provisions.

The foundation of our Code of Ethics is based upon the following underlying fiduciary principles:

- Employees must at all times place the interests of the Funds first;
- Employees must ensure that all personal securities transactions are conducted consistent with the Code of Ethics; and
- Employees should not take inappropriate advantage of their position at the Firm.

We will provide a copy of our Code of Ethics to our Investors, or any prospective investor or client, upon request.

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

Many of our employees have personal securities accounts. This may present a conflict where an employee is in a position to trade (in the employee's personal securities account) in a manner that could adversely affect the Funds (for example, by placing his or her own trades before or after Fund trades are executed in order to benefit from any price movements due to the Funds’ trades). As indicated above, we have adopted a pre-clearance policy in an effort to minimize and/or eliminate such conflicts.

***Personal Trading / Gift Giving / Outside Business Activities / Political Contributions***

All of our employees are required to direct their brokers to send duplicate copies of personal discretionary brokerage account statements to the CCO. These records are used to monitor compliance with Rubric’s employee personal trading policies. Employees must also obtain pre-approval from the CCO before: (i) purchasing or selling securities (with limited exceptions such as transactions in government securities, high quality short term debt instruments, money market funds, and shares of open-end mutual funds); (ii) engaging in any outside business activities; (iii) making any private investments, or (iv) receiving an allocation of an initial public offering.

In addition, the Code of Ethics contains restrictions on the giving and receiving of gifts and entertainment, prohibitions on serving on the boards of outside companies without prior approval, and policies and procedures concerning political contributions in connection with Rule 206(4)-5 of the Advisers Act.

**Item 12: Brokerage Practices**

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Rubric Capital is authorized to determine the broker-dealer to be used for executing securities transaction for the Funds. In selecting broker-dealers to execute transactions, we do not need



to solicit competitive bids and do not have an obligation to seek the lowest available commission cost. It is not our practice to negotiate “execution only” commission rates; therefore, the Funds may be deemed to be paying for research, brokerage or other services provided by the broker which are included in the commission rate.

We also have the authority to select and appoint custodians of the assets of the Rubric Funds. The Firm’s authority is limited by its own internal policies and procedures and each Fund’s investment guidelines.

### ***Best Execution***

Portfolio transactions for the Master Fund and the Separate Series will be allocated to brokers and dealers on the basis of numerous factors and not necessarily lowest pricing. Brokers and dealers may provide other services that are beneficial to the Firm and/or certain clients, but not beneficial to all clients. Subject to best execution, in selecting brokers and dealers (including prime brokers) to execute transactions, provide financing and securities on loan, hold cash and short balances and provide other services, the Firm may consider, among other factors that are deemed appropriate to consider under the circumstances, the following: the ability of the brokers and dealers to effect the transaction; the brokers’ or dealers’ facilities, reliability and financial responsibility; and the provision by the brokers of capital introduction, talent introduction, marketing assistance, consulting with respect to technology, operations and equipment, commitment of capital, access to company management and access to deal flow.

### ***Soft Dollars***

The Firm may use “**Soft Dollars**” generated by the Funds’ trading activities to purchase research services or products that would otherwise have been the Firm’s expense. The Firm intends to keep any such arrangements within the parameters of the safe harbor of Section 28(e) of the Securities Exchange Act of 1934.

### ***Capital Introduction***

From time to time, brokers (including the prime brokers) may assist the Rubric Funds in raising additional funds from investors. Additionally, brokers may provide capital introduction and marketing assistance services, and representatives of the Firm may speak at conferences and programs sponsored by the brokers, for investors interested in investing in private investment funds. Through such events, prospective investors in a Rubric Fund may encounter representatives of the Firm. Brokers may also provide other services, including, without limitation, consulting services relating to technology and office space. Although neither the Firm nor any Fund compensates brokers for such assistance, events or services, or for any investments ultimately made by prospective investors attending such events, such activities may influence the Firm in deciding whether to use such broker in connection with brokerage, financing and other activities of the Master Fund. Subject to its obligation to seek best execution, the Firm may consider referrals of investors to the Rubric Funds in determining its selection of brokers. However, the Firm will not commit to an investor or a broker to allocate a particular amount of brokerage in any such situation.

***Order Aggregation and Average Pricing***

If the Firm determines that the purchase or sale of a security is appropriate with regard to one or more clients (including the Master Fund), the Investment Manager may, but is not obligated to, purchase or sell such a security on behalf of such clients with an aggregated order, for the purpose of reducing transaction costs, to the extent permitted by applicable law. When an aggregated order is filled through multiple trades at different prices on the same day, each participating client will receive the average price, with transaction costs generally allocated pro rata based on the size of each client's participation in the order (or allocation in the event of a partial fill) as determined by the Firm. In the event of a partial fill, allocations may be modified on a basis that the Firm deems to be appropriate, including, for example, in order to avoid odd lots or de minimis allocations. When orders are not aggregated, trades generally will be processed in the order that they are placed with the broker or counterparty selected by the Firm. As a result, certain trades in the same security for one client (including a client in which the Firm and its personnel may have a direct or indirect interest) may receive more or less favorable prices or terms than another client, and orders placed later may not be filled entirely or at all, based upon the prevailing market prices at the time of the order or trade. In addition, some opportunities for reduced transaction costs and economies of scale may not be achieved.

**Item 13: Review of Accounts**

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Our Principal and investment professionals continuously monitor and analyze the transactions, positions, and investment levels of the Funds to ensure that they conform with the investment objectives and guidelines that are stated in the Funds' offering documents. In these reviews, the Firm pays particular attention to any changes in the investment's fundamentals, overall risk management and changes in the markets that may affect price levels. Rubric engages in active management for the Funds and the Firm reviews transactions, positions and cash balances on a daily basis.

***Account Reporting***

We will provide each Investor in a Rubric Fund with the following reports: (i) audited annual financial reports with respect to the previous fiscal year within 120 days of fiscal year end, (ii) unaudited monthly account statements and performance reports; (iii) annual tax information to complete any applicable tax returns.

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

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This Item is inapplicable.

**Item 15: Custody**

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Rubric Capital may be deemed to have custody of client funds and securities because it has the authority to obtain client funds or securities, for example, by deducting advisory fees from a client's account or otherwise withdrawing funds from a client's account. Account statements related to the clients are sent by qualified custodians to the Firm.

Rubric Capital is subject to Rule 206(4)-2 under the Advisers Act (the "Custody Rule"). However, it is not required to comply (or is deemed to have complied) with certain requirements of the Custody Rule with respect to each Fund because it complies with the

provisions of the so-called “Pooled Vehicle Annual Audit Exception”, which, among other things, requires that each Fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that each Fund distribute its audited financial statements to all investors within 120 days of the end of its fiscal year.

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**Item 16: Investment Discretion**

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We have full discretionary authority over the Funds including authority to make decisions with respect to which securities to be bought and sold, as well as the amount and price of those securities. Additionally, the Firm has full discretion over the broker-dealers to be used for transactions and the commissions to be paid to those broker-dealers. These terms are established in the offering documents of each Fund.

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**Item 17: Voting Client Securities**

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To the extent that we are delegated proxy voting authority on behalf of the Funds, we will comply with our proxy voting policies and procedures that are designed to ensure that such proxies are voted in the best interest of the Funds. Generally, the Investors may not direct voting of proxies.

Upon request, we will provide Investors with a copy of our proxy voting policies and procedures and/or a record of all proxy votes cast by the Funds.

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**Item 18: Financial Information**

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This Item is inapplicable.