

## Diadema Partners LP

2140 Headquarters Plaza  
East Tower, 2<sup>nd</sup> Floor  
Morristown, New Jersey 07960  
<https://diademapartnerslp.com/>  
**October 11, 2024**

This brochure (this “Brochure”) provides information about the qualifications and business practices of Diadema Partners LP. If you have any questions about the contents of this Brochure, please contact Diadema Partners LP by e-mail at [ir@diademapartnerslp.com](mailto:ir@diademapartnerslp.com). The information in this Brochure has not been approved or verified by the United States securities and Exchange Commission (the “SEC”) or by any state securities authority.

Registration as an investment adviser does not imply that Diadema Partners LP or any of its principals or employees possess a particular level of skill or training in the investment advisory business or any other business.

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

**Item 2. Material Changes**

Diadema Partners LP filed its initial Form ADV (including its initial Brochure) on May 15, 2024 as a “newly-formed adviser.” This updated Brochure is filed as part of an overall amendment of Diadema Partners LP’s Form ADV confirming that the firm is eligible for SEC registration because it now qualifies as a “large advisory firm” with more than \$100 million of regulatory assets under management. Therefore, it continues to be eligible to remain registered as an investment adviser with the SEC.

This Brochure has been updated to include additional information about Diadema Partners LP’s advisory business, including with respect to its assets under management, address, certain aspects of its policies and procedures and information about the client accounts that it manages (including with respect to their investment strategies and certain risk factors related thereto).

**Item 3. Table of Contents**

Item 1.	Cover Page.....	1
Item 2.	Material Changes .....	2
Item 3.	Table of Contents .....	3
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 .....	8
Item 8.	Methods of Analysis, Investment Strategies and Risk of Loss .....	8
Item 9.	Disciplinary Information .....	28
Item 10.	Other Financial Industry Activities and Affiliations .....	28
Item 11.	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	28
Item 12.	Brokerage Practices .....	29
Item 13.	Review of Accounts .....	31
Item 14.	Client Referrals and Other Compensation .....	32
Item 15.	Custody.....	32
Item 16.	Investment Discretion .....	32
Item 17.	Voting Client securities.....	33
Item 18.	Financial Information .....	33
Item 19.	Requirements for State-Registered Advisers .....	33

**Item 4. Advisory Business**

Diadema Partners LP (the “Firm”) is a Delaware limited partnership that was formed in March 2024. The Firm is principally owned and controlled by Timothy Beau Bassett, its Chief Investment Officer (the “Principal”).

The Firm provides discretionary investment advice to one or more private funds (collectively, the “Funds”). The Firm also serves as a sub-advisor to private funds and a separately managed account of another investment adviser (collectively the “Separately Managed Accounts”). References throughout this document to “clients” refer to the Funds, the Separately Managed Accounts and any other private funds that the Firm may advise in the future.

Client accounts will be managed in accordance with their own investment and trading objectives, as described in their respective offering documents and governing agreements (collectively, the “Governing Documents”). The Firm does not expect that it will permit investors in the Funds to impose limitations on the investment activities described in the Funds’ Governing Documents. Under certain circumstances, the Firm may contract with a client to adhere to limited risk and/or operating guidelines imposed by that client. The Firm would negotiate such arrangements on a case-by-case basis. (*See Item 16 - Investment Discretion.*)

One of the Firm’s related persons, Diadema Partners Fund GP LLC (the “Diadema GP”) serves as the general partner to certain Funds.

The Firm does not participate in wrap fee programs.

As of August 31, 2024, the Firm managed \$143,698,686 of regulatory assets under management on a discretionary basis. The Firm does not manage any assets on a non-discretionary basis.

**Item 5. Fees and Compensation***Fees*

The Firm’s fees and compensation are described in each client’s Governing Documents. All of the Firm’s clients are expected to be “qualified purchasers” (as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended).

*The Funds*

The Firm is paid management fees from the Funds quarterly in advance. The Firm deducts such management fees from each Fund. The Firm may, in its sole discretion, waive, reduce or calculate differently the management fees with respect to any investor, including investors related to the Firm. The General Partner’s capital account will not be debited with any management fee.

The Firm and/or the Diadema GP may be entitled to receive performance-based allocations from the Funds, as further described in *Item 6 – Performance-Based Fees and Side-By-Side Management*.

The Firm’s compensation schedule with respect to any future client account will be contained in the Governing Documents relating to such account.

### *The Separately Managed Accounts*

The Separately Managed Accounts pay the Firm management fees monthly in arrears. The Separately Managed Accounts' management fees are invoiced to, and paid by, the Separately Managed Accounts. The Firm or its related persons are also entitled to receive performance-based fees from the Separately Managed Accounts, as further described in *Item 6 – Performance-Based Fees and Side-By-Side*

### *Expenses*

The expenses borne by the Funds are set forth in detail in their Governing Documents. Such expenses differ among the Funds. Thus, although the following is a summary of expenses the Funds will generally bear, it is not an exhaustive or complete list with respect to each Fund and not all Funds will bear every expense on this list. Investors and prospective investors in a Fund should therefore review the relevant Fund's Governing Documents carefully because such documents describe more precisely the expenses such Fund will bear.

In general, the Funds will bear all of their operating expenses and their *pro rata* share of the operating expenses of all trading vehicles, including subsidiaries, intermediate funds and/or special purpose vehicles through which the Funds invest or intends to invest, including such costs incurred at or prior to the formation of the Funds and prior to the closing of the Funds, which expenses will include, without limitation: (i) organizational and offering expenses; (ii) expenses associated with all investments and transactions considered, evaluated and/or consummated by the Funds, or any such trading vehicles, including subsidiaries, intermediate funds and/or special purpose vehicles., as well as overall consideration and evaluation of such entities' portfolio, including, without limitation, those expenses incurred before the initial closing of the Funds, including, without limitation, expenses associated with sourcing, negotiating, investigating, researching, financing and structuring of investments and potential investments, whether or not consummated, including, without limitation, data and research on-boarding, ingestion, aggregation and analysis, third-party research, data, analytics, modeling, risk, structuring, pricing, execution and other third-party information, technology, hardware, software or other technology systems, including, without limitation, installation and maintenance, software and service fees (including, without limitation, the expenses with respect to data, data feeds, subscriptions, expert networks, political intelligence providers and reports); (iii) the costs of research-related computer hardware and software expenses, including, without limitation, Bloomberg terminals and subscriptions and other market information systems, as well as the costs of research management systems and corporate access tracking systems; (iv) the costs of the Firm's portfolio management system and any other software used for accounting and/or monitoring of the portfolio, including, without limitation, subscriptions relating to, among other things, trading and order management systems and services; (v) expenses associated with holding, financing, monitoring, hedging, maintaining and disposing of all investments and all transaction and other costs associated therewith, including, without limitation, expenses associated with proxy research and voting services; (vi) travel and related expenses associated with investments and potential investments; (vii) professional fees associated with investments and potential investments, including, without limitation, consulting, due diligence, accounting, valuation, financial, legal and other advisory fees and expenses; (viii) transaction fees, brokerage commissions, custodial fees, clearing and settlement charges and similar fees and expenses associated with the acquisition, disposition and settling of investments and potential investments, including, without limitation, fees, expenses and commissions paid in connection with outsourced trading; (ix) expenses associated with legal and regulatory filings of the Funds, or such trading vehicles, including subsidiaries, intermediate funds and/or special purpose vehicles, in the United States, the Cayman Islands, or in any other jurisdiction, including, without limitation, pursuant to Sections 13 and 16 of the U.S. securities Exchange Act of 1934, as amended (the

“Exchange Act”), as well as the expenses associated with preparation and filing of the Firm’s Form 13F, Form 13H and Form PF, if applicable, and any other similar filing in any other U.S. or non-U.S. jurisdiction; (x) administrative, custodial, appraisal, valuation, legal, regulatory, compliance, consulting, advisory and similar fees, and expenses associated with the Funds’ or such trading vehicles’, including subsidiaries’, intermediate funds’ and/or special purpose vehicles’, operations, investments and transactions, including, without limitation, fees and expenses of the Funds’ administrator; (xi) expenses incurred in connection with responding to requests or inquiries from any U.S. federal, state, local or non-U.S. governmental entity or authority, regulatory body or self-regulatory organization with respect to the Funds, or such trading vehicles, including subsidiaries, intermediate funds and/or special purpose vehicles; (xii) broken-deal, failed transaction, break-up and similar fees, costs and expenses (if any); (xiii) costs and expenses of leverage or any other borrowings of the Funds, or such trading vehicles, including subsidiaries, intermediate funds and/or special purpose vehicles, including, without limitation, interest charges and fees; (xiv) expenses incurred in the collection of monies owed to the Funds or such trading vehicles, including subsidiaries, intermediate funds and/or special purpose vehicles, as applicable; (xv) auditing and accounting expenses, including, without limitation, expenses associated with the preparation of financial statements, tax returns and Schedules K-1, and the fees and expenses of the auditor; (xvi) any taxes, fees or other governmental charges, including, without limitation, any withholding taxes; (xvii) costs and expenses associated with investor communications and reports and the delivery thereof to investors; (xviii) the costs of service providers or software to measure or monitor risk metrics, to aggregate positions and/or to provide reporting with respect to risk metrics and/or positions; (xix) costs and expenses associated with meetings of the investors, including, without limitation, the reasonable costs of the Firm’s travel to such meetings; (xx) insurance expenses, including, without limitation, general partner liability insurance and other policies, if any, including directors’ and officers’ liability insurance and to the extent consistent with Section 410(b) of ERISA, if applicable, errors and omissions insurance; (xxi) costs and expenses (including, without limitation, taxes, fees or other governmental charges) associated with the formation, organization and operation of any trading vehicles, including subsidiaries, intermediate funds and/or special purpose vehicles, or similar entity formed with respect to investments, credit facilities or other transactions entered into for the benefit of the Funds or such trading vehicles, including subsidiaries, intermediate funds and/or special purpose vehicles; (xxii) wind-up, liquidation, termination and dissolution expenses; (xxiii) costs, fees and expenses related to registration, qualification and/or exemption under any applicable U.S. federal, state, local or non-U.S. laws, rules or regulations, including, without limitation, blue sky fees, Form D, Form 8.3, CFTC filings and notices, and other securities and/or investment-related filing expenses; (xxiv) costs related to any transfers of interests, unless otherwise charged to or borne by the applicable transferor and/or transferee; (xxv) expenses incurred in connection with the preparation of, and any amendment to, the Funds’ partnership agreements and subscription agreements, and the private placement memorandum of the Funds, as well as the preparation of, compliance with and amendment to any Side Letter Agreement entered into by each of the Funds; (xxvi) expenses incurred in connection with pursuing, defending or participating in any litigation, arbitration, mediation or similar proceeding by the Funds or any such trading vehicles, including subsidiaries, intermediate funds and/or special purpose vehicles; (xxvii) the cost of a fidelity bond satisfying the requirements of Section 412 of ERISA (if applicable); (xxviii) any extraordinary expenses (including, without limitation, all litigation-related and indemnification and contribution expenses, including, without limitation, the amount of any judgment or settlement paid in connection therewith); (xxix) fees of the independent members of the future advisory committee; (xxx) the Management Fee; and (xxxi) all other fees, costs, charges and expenses associated with the business, affairs and/or operations of the Funds or such trading vehicles, including subsidiaries, intermediate funds and/or special purpose vehicles, including, without limitation, any other cost that may otherwise be paid with soft dollars pursuant to Section 28(e) of the Exchange Act.

The Separately Managed Accounts will bear their own transaction costs, including but not limited to brokerage commissions, margin expenses and fees and interest expenses and fees. The Firm will allocate a *pro rata* share of research-related expenses to the Separately Managed Accounts.

To the extent that a client benefits from an item that is chargeable to other clients, but is not permitted to incur such expense under its Governing Documents, the Firm will bear such client's *pro rata* portion of the expense.

The Firm may also allocate a portion of certain clients' capital to money market funds or exchange-traded funds. In addition to the fees and expenses discussed above, clients will indirectly incur similar fees and expenses if the Firm invests their capital in such funds, as these funds in turn pay similar fees and expenses to their Firms and other service providers.

Certain investors in the Funds will also be subject to withdrawal fees if withdrawals are made prior to the satisfaction of agreed-upon holding periods.

The expenses that will be charged to any future client account will be determined on a case-by-case basis.

For a more detailed discussion of brokerage and transaction costs, see *Item 12 - Brokerage Practices*.

#### **Item 6. Performance-Based Fees and Side-By-Side Management**

The Firm, and/or Diadema GP may be entitled to receive a performance allocation from the Funds and/or the Separately Managed Accounts on an annual basis and upon withdrawals by investors in the Funds. The Firm expects that such performance allocation will be based on the net capital appreciation of the Funds' and Separately Managed Accounts' assets and will be subject to a loss-carryforward mechanism. The Firm or its affiliates will have the right to waive or modify the performance allocation with respect to any investor.

The Firm's compensation schedule with respect to any future client account will be contained in the Governing Documents relating to such account.

##### *Side-by-Side Management*

Performance-based compensation arrangements create an incentive for the Firm to recommend investments that may be riskier or more speculative than those that would be recommended under a different compensation arrangement. Performance-based compensation arrangements could also create an incentive for the Firm to favor client accounts with higher performance-based compensation rates over other accounts when allocating investments. The Firm has adopted procedures designed and implemented that seek to ensure that all clients are treated fairly and equitably, and to prevent this conflict from influencing the allocation of investment opportunities among client accounts. All investment opportunities will, to the extent practicable, be allocated among client accounts on a basis that over time is fair and equitable to each client account relative to other accounts, taking into account all relevant facts and circumstances.

In addition, because clients' management fees and performance-based compensation are generally expected to be based on the net asset values of their accounts, the Firm will have a conflict of interest in valuing assets held by such accounts. To mitigate this conflict, the Firm has implemented and follows

documented valuation policies and may periodically consult with auditors and the administrator to each Fund.

#### **Item 7. Types of Clients**

Investors in the Funds are generally expected to be high net worth individuals and institutional investors that qualify as “accredited investors” (as defined in Rule 501 under the securities Act of 1933, as amended) and qualified purchasers. The minimum initial investment in the Funds will be determined by the Firm and set forth in the Funds’ Governing Documents. The Firm may waive such minimum under certain circumstances.

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

##### *Methods of Analysis and Investment Strategies Generally*

The investment objective of the Funds and Separately Managed Accounts is to generate attractive risk-adjusted returns through investments primarily in the biotech and pharmaceutical subsectors within the healthcare sector with the flexibility to take a directional approach. The Funds and Separately Managed Accounts will primarily invest in the equity, debt, and derivatives of public issuers globally, with a focus on North America and Europe. The Funds and Separately Managed Accounts will look to employ a nimble, catalyst-driven approach and take advantage of option market inefficiencies to underwrite outcomes and express risk.

**Investing in securities involves risk of loss that clients and investors should be prepared to bear.**

##### *Risk Factors*

An investment with the Firm will be speculative and will involve a high degree of risk. A discussion of the material risks is provided below. Prospective clients and investors are strongly urged to review the applicable Governing Documents carefully and consult with their own financial, legal and tax advisers before investing with the Firm.

##### *Risks Related to All Clients*

**Investment and Due Diligence Process.** Before making investments, the Firm will conduct due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, the Firm may be required to evaluate important and complex business, financial, tax, accounting and legal issues. When conducting due diligence and making an assessment regarding an investment, the Firm will rely on the resources reasonably available to it, which in some circumstances, whether or not known to the Firm at the time, may not be sufficient, accurate, complete or reliable. Due diligence may not reveal or highlight matters that could have a material adverse effect on the value of an investment.

**Counterparty Risk.** The client accounts expect to establish relationships to obtain financing, derivative intermediation and prime brokerage services that permit the client accounts to trade in any variety of markets or asset classes over time. However, there can be no assurance that the client accounts will be able to establish or maintain such relationships. An inability to establish or maintain such relationships could limit the client accounts trading activities, create losses, preclude the client accounts from engaging in certain transactions or prevent the client accounts from trading at optimal rates and terms. Moreover,



a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships could have a significant impact on the client accounts' business due to the client accounts' reliance on such counterparties. The client accounts may effect transactions in the over-the-counter (OTC) derivatives markets. The stability and liquidity of OTC derivatives transactions depends in large part on the creditworthiness of the parties to the transactions. In the OTC markets, the client accounts enter into a contract directly with dealer counterparties which may expose the client accounts to the risk that a counterparty will not settle a transaction in accordance with its terms because of a solvency or liquidity problem with the counterparty. Delays in settlement may also result from disputes over the terms of the contract (whether or not bona fide). In addition, the client accounts may have a concentrated risk in a particular counterparty, which may mean that if such counterparty were to become insolvent or have a liquidity problem, losses would be greater than if the client accounts had entered into contracts with multiple counterparties. Certain OTC derivative contracts require that the client accounts post collateral. If there is a default by a counterparty, the client accounts under most normal circumstances will have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the net asset value of the client accounts being less than if the client accounts had not entered into the transaction. Furthermore, there is a risk that any of such counterparties could become insolvent and/or the subject of insolvency proceedings. In such case, the recovery of the client accounts' securities from such counterparty or the payment of claims therefor may be significantly delayed and the client accounts may recover substantially less than the full value of the securities entrusted to such counterparty. Collateral that the client accounts post to its counterparties that is not segregated with a third party custodian may not have the benefit of customer-protected segregation of such funds. In the event that a counterparty were to become insolvent, the client accounts may become subject to the risk that it may not receive the return of its collateral or that the collateral may take some time to return. In addition, the client accounts may use counterparties located in jurisdictions outside the United States. Such local counterparties usually are subject to laws and regulations in non-U.S. jurisdictions that are designed to protect customers in the event of their insolvency. However, the practical effect of these laws and their application to the client accounts' assets are subject to substantial limitations and uncertainties. Because of the range of possible factual scenarios involving the insolvency of a counterparty and the potentially large number of entities and jurisdictions that may be involved, it is impossible to generalize about the effect of such an insolvency on the client accounts and its assets. Investors should assume that the insolvency of any such counterparty would result in significant delays in recovering the client accounts' securities from or the payment of claims therefor by such counterparty and a loss to the client accounts, which could be material.

**Outsourced Trading.** One or more broker-dealers (each, an External Trading Desk) likely will be engaged by the Firm on behalf of the client accounts to execute and/or direct all or a portion of the client accounts' trades on an outsourced basis. The Firm believes that such engagement (i) may benefit investors in the client accounts by providing access to each External Trading Desk's knowledge and experience, connectivity to execution venues, proprietary and third-party trading technology and other services and (ii) is consistent with the Firm's duty to seek best execution.

The Firm expects that the terms of engagement with any External Trading Desk will be arms-length and commercially reasonable; however, such an arrangement differs from the practices of many asset managers, which rely on employees of the asset manager to perform certain of these trading functions. Prospective investors should consider the risks inherent in any arrangement where the Firm does not employ or otherwise exert direct control over the individuals carrying out key operational tasks such as trading.

In particular, under the terms of engagement with an External Trading Desk unless directed by the Firm to do otherwise the External Trading Desk may have discretion on matters such as price, execution timing, venue, broker, and other aspects of trade execution. This discretion may permit an External Trading Desk to act as the executing broker for some or all of the orders for the account of the client accounts that are given to it by the Firm. While the Firm will review the services performed by any External Trading Desk on a periodic basis, it is possible that, in the exercise of its discretion, an External Trading Desk will execute and/or direct trades under sub-optimal conditions or make trading-related errors that will negatively impact the client accounts. Use of an External Trading Desk, and the manner in which the Firm compensates the External Trading Desk, exposes the client accounts to potential conflicts of interest that would be different than the conflicts of interest posed if the Firm employed its own trading desk personnel.

In addition, an External Trading Desk has, and is expected to continue to have, clients other than the Firm and the client accounts. Other client demands could place limitations on, or reduce the responsiveness of, an External Trading Desk, which may adversely affect the client accounts. Further, the actions or omissions of an External Trading Desk may make it more difficult for the Firm to manage its own conflicts of interest and/or carry out and implement its policies and procedures, including those described in this Memorandum with respect to allocations of trades and investment opportunities, order aggregation and average pricing, cross trades, principal transactions and trade errors. In light of the fact that an External Trading Desk, rather than the Firm, will likely execute and/or direct all or a portion of the trades for the client accounts, references to the term Firm, as used in this document in the context of the Firm causing the client accounts to trade, and similar references, should be understood to include an External Trading Desk, unless the context indicates otherwise.

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

**Volatility Risk.** The client accounts' investment program may involve the purchase and sale of relatively volatile securities and/or investments in volatile markets. Fluctuations or prolonged changes in the volatility of such securities and/or markets can adversely affect the value of investments held by the client accounts.

**Currency Exchange Exposure.** The client accounts may invest in securities denominated in currencies other than the U.S. dollar. The client accounts, however, values its securities in U.S. dollars. The client accounts may or may not seek to hedge its non- U.S. currency exposure by entering into currency hedging transactions. There can be no guarantee that securities suitable for hedging currency or market shifts will be available at the time when the client accounts wish to use them, or that hedging techniques employed by the client accounts will be effective. Furthermore, certain currency market risks may not be fully hedged or hedged at all. To the extent unhedged, the value of the client accounts' positions denominated in currencies other than the U.S. dollar will fluctuate with U.S. dollar exchange rates as well as with the price changes of the investments in the various local markets and currencies.

**Long/Short.** The success of the client accounts' long/short investment strategy depends upon the Firms ability to identify and purchase securities that are undervalued and identify and sell short securities that are overvalued. The identification of investment opportunities in the implementation of the client accounts' 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 client accounts' positions were to fail to converge toward, or were to diverge further from values expected by the Firm, the client accounts may incur a loss. In the event of market disruptions, significant losses can be incurred which may force the client 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 Firm's long/short strategies may become outdated and inaccurate as market conditions change.

**Short Selling General Risk.** The success of the client account's short selling investment strategy depends upon the Firm's ability to identify and sell short securities 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 client accounts of buying those securities to cover the short position.

**Borrowing and Counterparty Risk.** There can be no assurance that the client accounts will be able to maintain the ability to borrow securities 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. At the time of execution, the lending institution may recall the lent security at any time, thereby forcing the client 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 client accounts. In addition, the client accounts may be required to provide additional margin to its counterparties, including its prime brokers, on short notice if the price of a security underlying a short position suddenly rises. If the client accounts are unable to deliver the additional margin required, the client accounts may need to prematurely close out the short position at unattractive prices, thereby resulting in a substantial loss. Depending on the timing and magnitude of a price increase in respect of an open short position, the client accounts may be required to liquidate long positions to meet margin requirements, thereby further increasing the losses (or decreasing the gains) of the client accounts. Further, fees charged to the client accounts for borrowing securities may be substantial, and will decrease any gains (or increase losses) associated with a short position. Short strategies can also be implemented synthetically through various instruments and be used with respect to indices or in the OTC 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 client accounts may be entirely dependent on the willingness of OTC 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.

**Short-Squeeze Risk.** A so-called "short squeeze" can occur when the price of securities in which the client accounts have an open short position rise sharply in a short time frame. The rapid rise may be a result of (i) multiple short sellers seeking to cover their short positions in the same time frame by purchasing the security, resulting in a rapid price increase; (ii) market participants collectively purchasing a significant amount of shares, thereby causing a substantial increase in the price of such securities; or (iii) one or more lenders of a security that was used to facilitate a short position suddenly demanding the return of the security that has been loaned. A "short squeeze" may result in the client accounts having to prematurely close out a short position at relatively unattractive high prices, resulting in a substantial loss. Further, the risk of a "short squeeze" likely will increase if other short sellers, market participants and/or lenders become aware of the client accounts' short positions, including, without limitation, as a result of legally-

required reporting with respect to the client accounts' ownership of options to purchase the underlying security being shorted.

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

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

**Leverage for Investment Purposes.** The use of leverage will allow the client accounts to make additional investments, thereby increasing its exposure to assets, such that its total assets may be greater than its capital. However, leverage will also magnify the volatility of changes in the value of the client accounts' portfolio. The effect of the use of leverage by the client accounts in a market that moves adversely to its investments could result in substantial losses to the client accounts, which would be greater than if the client accounts were not leveraged.

**Diversification and Concentration.** The Firm may select investments that are concentrated in a limited number or types of securities. In addition, the client accounts' portfolio 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 client accounts to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in such securities.

**Lack of Control.** The client accounts may invest in debt instruments and equity securities of companies that it does not control, which the client 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 client 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 do not serve the client accounts' interests. In addition, the client accounts may share control over certain investments with co-investors, which may make it more difficult for the client accounts 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 client account and the investors investments therein.

**Hedging Transactions.** The client accounts may utilize securities for risk management purposes in order to: (i) protect against possible changes in the market value of the client accounts' investment portfolio resulting from fluctuations in the markets and changes in interest rates; (ii) protect the client accounts' unrealized gains in the value of its investment portfolio; (iii) facilitate the sale of any securities; (iv) enhance or preserve returns, spreads or gains on any security in the client accounts' portfolio; (v) hedge against a directional trade; (vi) hedge the interest rate, credit or currency exchange rate on any of the client accounts' securities; (vii) protect against any increase in the price of any securities the client accounts anticipate purchasing at a later date; or (viii) act for any other reason that the Firm deems

appropriate. The client accounts will not be required to hedge any particular risk in connection with a particular transaction or its portfolio 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 client accounts may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the client accounts than if it had not engaged in any such hedging transaction. Moreover, the portfolio will always be exposed to certain risks that cannot be hedged.

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

**Trend Following.** Certain trading decisions made by the Firm may be based on trend following. Any factor that would lessen the prospect of major trends occurring in the future (such as increased governmental control of, or participation in, the financial markets) may reduce the prospect that a particular trading method or strategy will be profitable in the future. In the past, there have been periods without discernible trends and, presumably, such periods will continue to occur in the future. Moreover, any factor that would make it more difficult to execute trades at desired prices in accordance with the signals of the trading method or strategy (such as a significant lessening of liquidity in a particular market) would also be detrimental to profitability. Further, many managers trading methods utilize similar analyses in making trading decisions. Therefore, bunching of buy and sell orders can occur, which makes it more difficult for a position to be taken or liquidated.

**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 client accounts' ability to effect its trading strategy.

**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.

**Investing in the Healthcare Sector.** Investing in securities and other instruments of healthcare companies involves substantial risks, including (but not limited to) the following: certain companies in the portfolio of the client accounts may have limited operating histories; scarcity of management and marketing

personnel with appropriate scientific or medical training may slow or impede companies growth; the possibility of lawsuits related to patents or products; obsolescence of products; binomial outcomes; changes in law and government policies; changing investor sentiments and preferences with regard to healthcare sector investments (some of which are generally perceived as risky) may have an adverse effect on the price of underlying securities; volatility in the U.S. securities markets affecting the prices of healthcare company securities may cause the performance of the client accounts to experience substantial volatility; and many companies in the healthcare sector are subject to extensive government regulation. In addition, obtaining approval for new products from governmental agencies can be lengthy, expensive and uncertain.

The client accounts may invest in the securities of healthcare companies engaged in the development of products or technologies or that are conducting clinical trials on products. Obtaining product approval often requires the submission of extensive preclinical and clinical data, information about product manufacturing processes, and inspection of facilities and supporting information for each therapeutic indication to establish a product candidates safety and efficacy. Varying interpretations of the data obtained from preclinical and clinical testing could delay, limit or prevent regulatory approval of a product candidate. The process of obtaining and maintaining regulatory approvals may vary and involves substantial regulatory discretion, is expensive, and often takes many years, if approval is obtained at all. Failure to obtain and maintain regulatory approval for a product candidate following a business combination would have an adverse effect on the value of the underlying securities of a healthcare company.

Intellectual property rights in the fields of medical devices, diagnostics, pharmaceuticals and biotechnology are highly uncertain and may involve complex legal and scientific questions. Healthcare companies may not be able to obtain additional issued patents relating to their products, methods, processes, services or other technologies. Even if issued, patents may be challenged, narrowed, invalidated or circumvented, or others may obtain patents claiming aspects similar to those covered by such patents and patent applications, which factors could limit a companys ability to stop competitors from marketing similar products or services, limit the length of term of patent protection they may have for their products or services, and expose them to substantial costs and risks in litigation and administrative proceedings and drain resources. Changes in either patent laws or in interpretations of patent laws in the United States and other countries may diminish the value of a company s intellectual property or narrow the scope of its patent protection.

The testing and marketing of medical products and technologies entail an inherent risk of product liability. Accordingly, companies in the healthcare industry may be exposed to potential liability risks inherent in the testing, manufacturing, marketing and sale of healthcare products and/or the provision of healthcare services. A liability claim or the imposition of liability may have an adverse effect on the market prices of a companys securities.

**Investment and Trading Out of Sector.** The client accounts may trade in regions other than the healthcare sector, including for hedging purposes and/or on an opportunistic basis. Although out-of-sector positions are not expected to represent core positions, the profit or loss from those positions could have a material impact on the client accounts' performance.

**Bankruptcy Claims.** The client accounts' investments include debt and equity of financially distressed companies. In the event that the issuer files for bankruptcy protection, the client accounts will likely be unable to sell its 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 client accounts will be able to recover the entire amount of its 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 client accounts (in its role as a creditor). 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 client accounts are found to have engaged in such misconduct, the client accounts may lose its 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 client 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 client accounts may recover the entire amount of its bankruptcy claim, the client accounts may be adversely impacted by any costs incurred by the client accounts in representing its 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 client 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 client accounts intend to invest some of its 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 Firm, on behalf of the client accounts, may elect to serve on creditors committees, equityholders committees or other groups to ensure preservation or enhancement of the client 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 Firm may resign from that committee or group for any reason, including, for example, if the Firm concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to the client accounts. In such case, the client accounts may not realize the benefits, if any, of participation on the committee or group. In addition, if the client accounts are represented on a committee or group, it may be restricted or prohibited under applicable law from disposing of or increasing its investments in such company while it continues to be represented on such committee or group. The client 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 client accounts.

**Convertible Securities.** A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by the client accounts is called for redemption, the client accounts 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 client accounts' ability to achieve its 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 client 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.

**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.

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

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

**Prepayment Risk.** The frequency at which prepayments (including voluntary prepayments by the obligors and accelerations due to defaults) occur on debt instruments will be affected by a variety of factors



including the prevailing level of interest rates and spreads as well as economic, demographic, tax, social, legal and other factors. Generally, obligors tend to prepay their fixed rate obligations when prevailing interest rates fall below the coupon rates on their obligations. Similarly, floating rate issuers and borrowers tend to prepay their obligations when spreads narrow. In general, premium securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and discount securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since many fixed rate obligations will be discount instruments when interest rates and/or spreads are high, and will be premium instruments when interest rates and/or spreads are low, such debt instruments may be adversely affected by changes in prepayments in any interest rate environment. The adverse effects of prepayments may impact the client accounts' portfolio in two ways. First, particular investments may experience outright losses, as in the case of an interestonly instrument in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that the Firm may have constructed for these investments, resulting in a loss to the client accounts' overall portfolio. In particular, prepayments (at par) may limit the potential upside of many instruments to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

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

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

The client accounts may invest in obligations of issuers that are generally trading at significantly higher yields than had been historically typical of the applicable issuers obligations. Such investments may include debt obligations that have a heightened probability of being in covenant or payment default in the future or that are currently in default and are generally considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or

other payments. Typically such workout or bankruptcy proceedings result only in partial recovery of cash payments or an exchange of the defaulted security for other debt or equity securities of the issuer or its affiliates, which may in turn be illiquid or speculative.

**Corporate Debt.** Bonds, notes and debentures issued by corporations may pay fixed, variable or floating rates of interest, and may include zero-coupon obligations. Corporate debt instruments may be subject to credit ratings downgrades. Other instruments may have the lowest quality ratings or may be unrated. In addition, the client accounts may be paid interest in kind in connection with its investments in corporate debt and related financial instruments (e.g., the principal owed to the client accounts in connection with a debt investment may be increased by the amount of interest due on such debt investment). Such investments may experience greater market value volatility than debt obligations that provide for regular payments of interest in cash and, in the event of a default, the client accounts may experience substantial losses.

**Mezzanine Debt.** Mezzanine debt is typically junior to the obligations of a company to senior creditors, trade creditors and employees. The ability of the client accounts to influence a company's affairs, especially during periods of financial distress or following an insolvency, will be substantially less than that of senior creditors. Mezzanine debt instruments are often issued in connection with leveraged acquisitions or recapitalizations in which the issuers incur a substantially higher amount of indebtedness than the level at which they had previously operated. Default rates for mezzanine debt instruments have historically been higher than for investment-grade instruments. In the event of the insolvency of a portfolio company of the client accounts or similar event, the client accounts' debt investment therein will be subject to fraudulent conveyance, subordination and preference laws.

**Stressed Debt.** Stressed issuers are issuers that are not yet deemed distressed or bankrupt and whose debt securities are trading at a discount to par, but not yet at distressed levels. An example would be an issuer that is in technical default of its credit agreement, or undergoing strategic or operational changes, which results in market pricing uncertainty. The market prices of stressed and distressed instruments are highly volatile, and the spread between the bid and the ask prices of such instruments is often unusually wide.

**Non-Performing Nature of Debt.** Certain debt instruments may be non-performing or in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to such debt instruments.

**Troubled Origination.** When financial institutions or other entities that are insolvent or in serious financial difficulty originate debt, the standards by which such instruments were originated, the recourse to the selling institution, or the standards by which such instruments are being serviced or operated may be adversely affected.

**Sovereign Debt.** Several factors may affect (i) the ability of a government, its agencies, instrumentalities or its central bank to make payments on the debt it has issued ( Sovereign Debt ), including securities that the Firm believes are likely to be included in restructurings of the external debt obligations of the issuer in question, (ii) the market value of such debt and (iii) the inclusion of Sovereign Debt in future restructurings, including such issuers (x) balance of trade and access to international financing, (y) cost of servicing such obligations, which may be affected by changes in international interest rates, and (z) level of international currency reserves, which may affect the amount of non-U.S. exchange

available for external debt payments. Significant ongoing uncertainties and exposure to adverse conditions may undermine the issuer's ability to make timely payment of interest and principal, and issuers may default on their Sovereign Debt.

**Equitable Subordination.** Under common law principles that in some cases form the basis for lender liability claims, if a lender (i) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called equitable subordination). If the client accounts engage in such conduct, the client accounts may be subject to claims from creditors of an obligor that debt held by the client accounts should be equitably subordinated.

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

**Call and Put Options.** The client 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 options 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 options 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 client 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 client 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 client accounts may sell credit default protection in which it receives a premium to take on the risk. In such an instance, the obligation of the client accounts to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. The client 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 client 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 client accounts' positions trade or of its clearinghouses 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 client accounts from promptly liquidating unfavorable positions and subject the client accounts to substantial losses or prevent it from entering into desired trades. Also, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

**Non-U.S. Futures Transactions.** Foreign futures transactions involve executing and clearing trades on a foreign exchange. This is the case even if the foreign exchange is formally linked to a domestic exchange, whereby a trade executed on one exchange liquidates or establishes a position on the other exchange. No domestic organization regulates the activities of a foreign exchange, including the execution, delivery, and clearing of transactions on such an exchange, and no domestic regulator has the power to compel enforcement of the rules of the foreign exchange or the laws of the foreign country. Moreover, such laws or regulations will vary depending on the foreign country in which the transaction occurs. For these reasons, the client 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 client accounts may enter into forward contracts and options thereon, including nondeliverable forwards. 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 client accounts. In its forward trading, the client accounts will be subject to the risk of the failure of, or the inability or refusal to perform with respect to its forward contracts by, the principals with which the client accounts trade. Client accounts' 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 client accounts in such markets through agents. Accordingly, the insolvency or bankruptcy of such parties could also subject the client 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 client accounts' obligation to its counterparty under the CFDs and the return on related assets in its portfolio, the CFD transaction may increase the client accounts' financial risk.

**Failure to Enter into Offsetting Trade.** To the extent the client accounts invest in a futures contract or long option, unless an offsetting trade is made, the client 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 client accounts may suffer a loss since neither the client 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 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 client 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 options 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.

**Distressed Obligations.** The obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems (including companies involved in bankruptcy or other reorganization and liquidation proceedings) are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the risk that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate, recharacterize debt as equity or disenfranchise particular claims. Such companies' obligations may be considered speculative, and the ability of such companies to pay their debts



on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to the client accounts' investments in any security. Obligations in which the client accounts invest may be less than investment grade. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that value of the assets collateralizing the client accounts' investments will be sufficient or that prospects for a successful reorganization or similar action will become available. In any reorganization or liquidation proceeding relating to a company in which the client accounts invest, the client accounts may lose its entire investment, may be required to accept cash or securities with a value less than its original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the client accounts' investments may not compensate the Limited Partners adequately for the risks assumed. In addition, under certain circumstances, payments and distributions may be disgorged if any such payment is later determined to have been a fraudulent conveyance or a preferential payment. In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the client accounts of the security in respect of which such distribution was made.

**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 client accounts may suffer losses if it invests in equity instruments of issuers whose performance diverges from the Firm's expectations or if equity markets generally move in a single direction and the client accounts have not hedged against such a general move. The client 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.

**Exchange-Traded Funds.** Exchange-traded funds ( ETFs ) are publicly traded unit investment trusts, open-end funds or depository receipts that seek to track the performance and dividend yield of specific indexes or companies in related industries. These indexes may be either broad-based, sector, or international. However, ETF shareholders are generally subject to the same risk as holders of the underlying securities they are designed to track. ETFs are also subject to certain additional risks, including the risk that their prices may not correlate perfectly with changes in the prices of the underlying securities they are designed to track, and the risk of trading in an ETF halting due to market conditions or other reasons, based on the policies of the exchange upon which the ETF trades. Generally, each shareholder of an ETF bears a pro rata portion of the ETFs expenses, including management fees. Accordingly, in addition to bearing their proportionate share of the client accounts' expenses (e.g., Management Fees and operating expenses), investors may also indirectly bear similar expenses of an ETF.

**Illiquid Securities.** Certain securities may be illiquid because, for example, they are subject to legal or other restrictions on transfer or there is no liquid market for such securities. Valuation of such securities may be difficult or uncertain because there may be limited information available about the issuers of such securities. The market prices, if any, for such securities tend to be volatile and may not be readily ascertainable, and the client accounts may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid securities

often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. The client accounts may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. As a result, the client accounts may be required to hold such securities despite adverse price movements. Even those markets which the Firm expects to be liquid can experience periods, possibly extended periods, of illiquidity. Occasions have arisen in the past where previously liquid investments have rapidly become illiquid.

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

**PIPE Transactions.** Private investments in public companies whose stocks are quoted on stock exchanges or which trade in the over-the-counter securities market, a type of investment commonly referred to as a PIPE transaction, may be entered into with smaller capitalization public companies, which will entail business and financial risks comparable to those of investments in the publicly-issued securities of smaller capitalization companies, which may be less likely to be able to weather business or cyclical downturns than larger companies and are more likely to be substantially hurt by the loss of a few key personnel. In addition, PIPE transactions will generally result in the client accounts acquiring either restricted stock or an instrument convertible into restricted stock. As with investments in other types of restricted securities, such an investment may be illiquid. The client accounts' ability to dispose of securities acquired in PIPE transactions may depend on the registration of such securities for resale. Any number of factors may prevent or delay a proposed registration. Alternatively, it may be possible for securities acquired in a PIPE transaction to be resold in transactions exempt from registration in accordance with Rule 144 under the securities Act, or otherwise under the U.S. federal securities laws. There can be no guarantee that there will be an active or liquid market for the stock of any small capitalization company due to the possible small number of stockholders. As a result, even if the client accounts are able to have securities acquired in a PIPE transaction registered or sell such securities through an exempt transaction, the client accounts may not be able to sell all the securities on short notice, and the sale of the securities could lower the market price of the securities. There is no guarantee that an active trading market for the securities will exist at the time of disposition of the securities, and the lack of such a market could hurt the market value of the client accounts' investments.

**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.

**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 client accounts' investments may not adequately compensate for the business and financial risks assumed.

**Non-U.S. Exchanges.** The client accounts may trade on exchanges or markets located outside of the United States. Trading on such exchanges or markets is not regulated by the SEC and the CFTC and may, therefore, be subject to more risks than trading on U.S. exchanges, such as the risks of exchange controls, expropriation, burdensome taxation, moratoria and political or diplomatic events. Risks in investments in non-U.S. securities may also include reduced and less reliable information about issuers and markets, less stringent accounting standards, illiquidity of securities and markets, higher brokerage commissions and custody fees.

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

**Exposure to Material Non-Public Information.** From time to time, the Firm may receive material non-public information with respect to an issuer of publicly traded securities. In such circumstances, the client accounts may be prohibited, by law, policy or contract, for a period of time from (i) unwinding a position in such issuer, (ii) establishing an initial position or taking any greater position in such issuer, and (iii) pursuing other investment opportunities related to such issuer.

**Alternative Data.** The Firm uses alternative data in its investment process. Alternative data includes datasets that have been culled from a variety of sources, such as internet usage, payment records, financial transactions, weather and other physical phenomena sensors, applications and devices (such as

smartphones) that generate location and mobility data, data gathered by satellites, and government and other public records databases. These data are sometimes referred to as big data or alternative data. The Firm applies these alternative data to better anticipate micro- and macro-economic trends and otherwise to develop or improve trading or investment themes. The analysis and interpretation of alternative data involves a high degree of uncertainty and may entail significant expense, including technological efforts, that are expected to be borne in whole or in part by the client account. No assurance can be given that the Firm will be successful in utilizing alternative data in its investment process. Moreover, there has been increased scrutiny from a variety of regulators regarding the use of alternative data in this manner, and its use or misuse under current or future laws and regulations could create liability for the Firm and the client accounts in numerous jurisdictions. The Firm cannot predict what, if any, regulatory or other actions may be asserted with regard to alternative data, but any adverse inquiries or formal actions could cause reputational, financial, or other harm to the Firm or to the client account. Conversely, any future limitations on the use of alternative data could have a material adverse impact on the performance of the client account.

**Cybersecurity Risk.** As part of its business, the Firm processes, stores and transmits large amounts of electronic information, including information relating to the transactions of the client accounts and personally identifiable information of the investors. Similarly, service providers of the Firm or the client accounts, including the Administrator, may process, store and transmit such information. The Firm 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 Firm may be susceptible to compromise, leading to a breach of the Firm's network. The Firm's systems or facilities may be susceptible to employee error or malfeasance, government surveillance, or other security threats. On-line services provided by the Firm to the investors may also be susceptible to compromise. Breach of the Firm's information systems may cause information relating to the transactions of the client accounts and personally identifiable information of the investors to be lost or improperly accessed, used or disclosed.

The service providers of the Firm and the client accounts are subject to the same electronic information security threats as the Firm. 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 client accounts and personally identifiable information of the investors may be lost or improperly accessed, used or disclosed.

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

#### *Risks Related to the Funds Only*

**Valuation of Assets and Liabilities.** The client accounts' assets and liabilities are valued in accordance with the Valuation Policy. The valuation of any asset or liability involves inherent uncertainty. The value of a security determined in accordance with the Firm's valuation policy may differ materially from the value

that could have been realized in an actual sale or transfer for a variety of reasons, including the timing of the transaction and liquidity in the market. Uncertainties as to the valuation of portfolio positions could have an impact on the net asset value of the client accounts if the judgments of the Firm, and or the General Partner, regarding the appropriate valuation should prove to be incorrect.

**Co-Investments with Third Parties.** The client accounts may co-invest with third parties through joint ventures or other entities. Third-party involvement with an investment may negatively impact the returns of such investment if, for example, the third-party co-venturer has financial difficulties, has economic or business interests or goals that are inconsistent with those of the client accounts or is in a position to take (or block) action in a manner contrary to the client accounts' investment objective. In circumstances where such third parties involve a management group, such third parties may enter into compensation arrangements relating to such investments, including incentive compensation arrangements. Such compensation arrangements will reduce the returns to participants in the investments.

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

**Collateral.** The instruments and borrowings utilized by the client accounts to leverage investments may be collateralized by all or a portion of the client accounts' portfolio. Accordingly, the client accounts 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 client accounts' margin accounts decline in value, the client accounts could be subject to a margin call, pursuant to which the client accounts 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 client 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 client accounts may have similar rights. There can be no assurance that the client 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 client accounts' portfolio.

**Lending of Portfolio securities.** The client accounts 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 client 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.

**Discretion of the Investment Manager; New Strategies and Techniques.** While the Firm will generally seek to employ the representative investment strategies and techniques discussed herein, the Firm and or the General Partner, has considerable discretion in the types of securities the client accounts may trade and has the right to modify the investment strategies and techniques of the client 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 client accounts. In addition, any new investment strategy or technique developed by the client accounts 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 client accounts.

**Item 9. Disciplinary Information**

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

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

As noted above, the Diadema GP serves as the general partner to certain Funds.

*Management of Multiple Client Accounts*

The management of multiple client accounts results in a potential conflict of interest when the Firm and its related persons allocate time and investment opportunities among such accounts. For example, the Principal and/or other related persons have more of their personal assets invested in certain client accounts than in others. In addition, the compensation the Firm earns from each client account differs from the compensation earned from other client accounts. In order to mitigate associated conflicts, the Firm follows documented procedures regarding the allocation of investment opportunities among its clients. (See Item 6 – Performance-Based Fees and Side-By-Side Management)

A cross-trade occurs when an investment adviser effects a trade between two or more of its advisory clients. If the Firm were to cause a cross-trade between two clients, it may result in a conflict of interest because the transaction may result in benefits to one client that may be greater than the benefits to the other client. The Firm does not generally expect to engage in cross trades. In the event that the Firm determines to make a cross-trade, it will only do so if it determines that it is in the best interests of, and is fair and equitable to, the participating clients. All cross-trades between clients require the prior approval of the Firm's Chief Compliance Officer (the "CCO"). Cross-trades, if any, would generally be made at the closing price for the applicable security on such day or, if no closing price is available, at a price for the relevant security that is determined in accordance with the Firm's valuation policies. No brokerage commission, transfer fee or other commission will be paid to the Firm or its affiliates in connection with any such transaction.

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

The Firm has adopted a Code of Ethics, which is designed to help ensure that it conducts its business in accordance with all applicable laws and regulations and in an ethical and professional manner. In addition, the Firm's Code of Ethics sets forth standards of conduct for its employees to ensure that they conduct their business on the Firm's behalf in a manner that enables the Firm to fulfill its fiduciary duty to its clients.

Among other things, the Firm's Code of Ethics: (i) governs personal trading by the Firm's employees, (ii) contains the Firm's policies with respect to gifts and entertainment, (iii) contains the Firm's policies

regarding certain outside activities of its employees, and (iv) sets forth the manner in which employees may report violations of law or the Firm's policies and procedures. The Firm will provide a copy of its Code of Ethics to any client or prospective client upon request.

#### *Personal Trading Policy*

Employees are generally prohibited from engaging in personal trading in issuers in the healthcare sector, including the biotechnology and pharmaceutical sub-sectors. Employees must obtain pre-clearance from the Firm's Chief Compliance Officer (the "CCO") prior to engaging in any other transactions in Reportable securities, but are able to transact in: (i) municipal bonds, exchange-traded funds and mutual funds without obtaining prior approval from the CCO. Employees may invest in private investments (*e.g.*, hedge funds) after obtaining prior approval from the CCO. Additionally, employees are required to provide the CCO with periodic reporting relating to their trading activity and personal accounts. The Firm's policies relating to personal trading will also generally apply to an employee's spouse or minor child, or an immediate family member of an employee living in the same household as such employee.

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

The Firm will make available to qualified prospective investors the opportunity to invest in the Funds. The Firm's Principal has significant personal investments in the Funds. In addition, the Firm and or Diadema GP, its affiliate, may be entitled to receive performance-based allocations from the Funds and Separately Managed Accounts.

The Firm will not engage in a principal transaction unless it has determined that the transaction is in the relevant clients' best interests and has obtained client consent in accordance with the Firm's written procedures and applicable law.

### **Item 12. Brokerage Practices**

#### *Selection of Brokers*

The Firm has an obligation to seek to obtain "best execution" for clients with respect to their trading activity. While not defined by statute or regulation, best execution generally means the execution of client trades at the best net price considering all relevant circumstances. The Firm seeks best execution with respect to all types of client transactions, taking into account various factors. Such factors include, among others: price, 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.

Brokers sometimes suggest a level of business they would like to receive in return for the various services they provide. The Firm will not commit to provide any level of brokerage business to any broker, and actual brokerage business received by any broker may be less than the suggested allocations but can (and often does) exceed the suggestions, because total brokerage is allocated based on all the considerations described above.

The Firm periodically evaluates, among other things, the execution that it receives from brokers. In conducting its analysis, the Firm considers the factors listed above, among others, and will review gifts

and entertainment received, and any known conflicts of interests (e.g., directing commissions to a broker that employs a family member of one of the Firm's employees).

#### *Outsourced Trading*

The Firm delegates the authority to select brokers for certain client transactions to a third party. As a result, client expenses may be higher than if the Firm traded directly with brokers only.

#### *Research and Other Soft Dollar Benefits*

The Firm has entered into soft dollar arrangements with certain brokers. Soft dollar arrangements arise when an investment adviser obtains products and services, other than securities execution, from a broker or a third party in connection with client securities transactions. Soft dollar arrangements create a potential incentive for the Firm to select a broker based on the Firm's interest in receiving the research or other products or services offered by such broker, rather than on its clients' interests in receiving most favorable execution. Further, soft dollar arrangements pose a possible conflict of interest for the Firm in that such arrangements potentially allow the Firm to pay with client commissions expenses that would otherwise be borne by the Firm. However, the Firm only expects to use client commissions to pay for expenses that would otherwise be borne by its clients (and not by the Firm).

When engaging in soft dollar transactions, the Firm will comply with the safe harbor requirements of Section 28(e) of the securities Exchange Act of 1934, as amended. Under this provision, in exercising the Firm's discretionary authority to select or arrange for the selection of brokers for execution of transactions for its clients, and, subject to the Firm's duty to obtain best execution, the Firm may consider the value of research and brokerage products and services provided by such brokers. Accordingly, if the Firm determines in good faith that the amount of commissions charged by a broker is reasonable in relation to the value of the brokerage and products or services provided by such broker, a client may pay commissions to such broker in an amount greater than the amount another broker might charge.

Research provided by such brokers may be used to service all clients and not exclusively in connection with the management of the clients that generated the particular soft dollar credits.

Where a product or service obtained with client commission dollars provides both research and non-research assistance to the Firm, the Firm will make a reasonable allocation of the cost which may be paid for with client commission dollars.

The Firm also executes transactions on behalf of its clients with brokers that may provide the Firm with access to bundled services, including access to proprietary research reports (such as standard investment research and credit reports) and invitations to attend conferences. To the best of the Firm's knowledge, these services are generally made available to all institutional investors doing business with such brokers. These bundled services are made available to the Firm on an unsolicited basis and without regard to the rates of commissions charged or paid by clients or the volume of business that the Firm directs to such brokers.

#### *Brokerage for Client Referrals*

Subject to applicable law, the Firm may direct client brokerage business to brokers that refer prospective investors to the Firm. Because such referrals, if any, are likely to benefit the Firm but may not provide a benefit to the Firm's clients, the Firm would have a conflict of interest with its clients when allocating

brokerage business to such brokers. To mitigate this potential conflict, the Firm will not allocate brokerage business to a referring broker unless it determines that such allocation is consistent with its best execution duties.

#### *Trade Errors*

The Firm may on occasion experience errors with respect to trades made on behalf of client accounts. The Firm will reimburse each client account for losses resulting from trade errors in accordance with the terms of such client's Governing Documents.

#### *Aggregation of Orders*

Aggregation, or "bunching," describes a procedure whereby an investment adviser combines the orders of two or more clients into a single order for the purpose of obtaining better prices and lower execution costs. Aggregation opportunities for the Firm generally arise when more than one client account is capable of purchasing or selling a particular security.

To the extent that a security is purchased or sold for more than one client account, the Firm will generally aggregate orders for such security unless aggregation is not consistent with its duty to seek best execution or the terms of the investment guidelines and restrictions applicable to client accounts. Each client that participates in an aggregated order will participate at the average price for all of the Firm's transactions in that security on a given business day, with transaction costs shared *pro rata* based on each client's participation in the transaction. When an aggregated order is only partially filled, the Firm will allocate the investment opportunity *pro rata* in accordance with its intended allocation.

### **Item 13. Review of Accounts**

#### *Review of Accounts*

Client portfolios are reviewed, and their performance analyzed, by the Principal on a regular basis. In addition, the Principal and the CCO regularly review client portfolios to confirm that the securities held by them remain consistent with their investment strategies, objectives and guidelines.

#### *Reporting*

In addition to the reporting below, clients and investors may be provided with certain information about the Firm and the accounts that it manages in response to questions and requests. This information may not be distributed to other clients, investors or prospective investors. Each client and investor is responsible for asking such questions as it believes are necessary in order to make its own investment decisions and must decide for itself whether the limited information provided by the Firm is sufficient for its needs.

#### *The Funds*

The Firm furnishes investors in the Funds with periodic written unaudited performance reports as set forth in their Governing Documents. In addition, on an annual basis, the Firm will provide investors with a copy of the relevant Fund's annual audited financial statements and, if applicable, a statement of taxable income (Schedule K-1).



Pursuant to “side letter” or other agreements, the Firm provides certain investors with access to more frequent and/or more detailed information regarding the Funds’ securities positions, performance, finances, and management and/or other information about the Funds or the Firm (including notifications of redemptions from a Fund by the Firm and/or its personnel), possibly enabling such investors to better assess the prospects and performance of the Funds.

#### *The Separately Manages Accounts*

The Firm provide the owners or advisers of the Separately Managed Accounts with periodic reports at such times as have been agreed upon with such owners or advisers. In addition, any such owner or adviser would have full, real-time transparency as to all transactions and holdings in the relevant account, and will be better able to assess the future prospects of a portfolio that may be substantially similar to that of the Funds.

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

Other than the products and services that the Firm receives from broker-dealers (described above in *Item 12*), the Firm does not expect that it will receive any economic benefits from third parties in connection with the provision of investment advice to the Funds.

The Firm does not compensate any third-party marketers for introductions to potential investors or clients.

#### **Item 15. Custody**

For purposes of Rule 206(4)-2 under the Advisers Act (the “Custody Rule”), the Firm will be deemed to have custody over the Funds’ assets. In accordance with the Custody Rule, a qualified custodian is not required to deliver quarterly account statements to the Funds or their respective investors as long as: (i) the Funds are audited by an independent public accountant that is registered with, and subject to inspection by, the Public Company Accounting Oversight Board, (ii) the Funds’ audited financial statements are prepared in accordance with U.S. generally accepted accounting principles, and (iii) the Firm delivers such annual audited financial statements to investors within 120 days after the end of each Fund’s fiscal year.

The owners or advisers of the Separately Managed Accounts should carefully review the account statements that they receive from the custodians to their accounts and are urged to compare these account statements to the reports provided by the Firm directly to them or to their financial advisors.

#### **Item 16. Investment Discretion**

The Firm has discretionary authority to manage securities and other investments on behalf of client accounts. The investors in the Funds generally will not be able to place any limits on the Firm’s authority beyond the limitations set forth in their respective Governing Documents. Under certain circumstances, the Firm may contract with a client to adhere to limited risk and/or operating guidelines imposed by the client. The Firm would negotiate such arrangements on a case-by-case basis.



**Item 17. Voting Client securities**

The Firm generally has voting discretion over client securities. Clients will generally not be able to direct their votes in a particular situation. The Firm has adopted proxy voting policies and procedures, which are summarized below.

In the absence of specific voting guidelines from the client or conflicts of interest, the Firm will vote all proxies in the best interests of each client, which may result in different voting results for proxies for the same issuer. In addition, the Firm may determine to abstain from voting a proxy if it believes that such action is in the best interests of a particular client. The Firm may take into account the following factors, among others, in determining if a specific proposal is in the best interests of a particular client: (i) management of the issuer's views and recommendations on such proposal, (ii) whether the proposal may have the effect of entrenching existing management and/or making management less responsive to shareholders' concerns (*e.g.*, instituting or removing a poison pill, classified board of directors and/or other anti-takeover measure), and (iii) whether the Firm believes that the proposal will fairly compensate management for its and/or the issuer's performance. If the Firm deems that the issue being voted upon is not material for the Firm and its clients or it determines that the cost of voting a proxy would exceed the expected benefit to the Firm's clients, the Firm will not be obligated to vote on such matter.

Upon the request by a client, the Firm will disclose to such client how it voted proxies for securities owned by such client. The Firm will also provide a copy of its proxy voting policies and procedures to clients upon request.

**Item 18. Financial Information**

The Firm is not required to include its balance sheet for its most recent fiscal year with this Brochure.

**Item 19. Requirements for State-Registered Advisers**

The Firm is not a state-registered adviser.