

Polpo Capital Management LLC

**17 Pinecrest Drive
Hastings on Hudson, New York 10706
www.polpocapital.com**

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This Brochure provides information about the qualifications and business practices of Polpo Capital Management LLC (“Polpo” or the “Firm”). If you have any questions about the contents of this Brochure, please contact Polpo Capital Management LLC’s Chief Compliance Officer (“CCO”), Brandon Baer at 646-891-5073 or by email at baer@polpocapital.com.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about Polpo Capital Management LLC is also available on the SEC’s website at www.adviserinfo.sec.gov.

Any reference to Polpo Capital Management LLC as a “registered investment adviser” or as being “registered” does not imply a certain level of skill or training.

Item 2: Material Changes

Since the Firm's initial Brochure filing, dated December 31, 2022, the Firm has updated information related to third-party marketers in Item 14.

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Item 4: Advisory Business

Polpo Capital Management LLC is a Delaware limited liability company that was formed in September 2021. Polpo currently offers discretionary investment advisory services to Polpo Capital LP (collectively with the applicable feeder fund, the “Fund”). Polpo is owned by Daniel McNamara.

Polpo provides discretionary investment management services to the Fund pursuant to investment guidelines within the relevant governing and offerings documents (the “Offering Documents”). Polpo does not tailor its services to individual Fund investors nor provide investors with the right to specify, restrict, or influence the Fund’s investment objectives or any investment or trading decisions. Polpo is responsible for providing day-to-day managerial and administrative services to the Fund and has full discretion to make, evaluate and monitor Fund investments in a manner consistent with the investment objective and strategy.

Polpo does not participate in wrap fee programs.

As of December 31, 2023, Polpo managed \$193,207,107 in regulatory assets under management, all of which are managed on a discretionary basis. Polpo does not manage any assets on a non-discretionary basis.

Item 5: Fees and Compensation

Polpo’s fees and compensation are fully described in the Fund’s Offering Documents. Pursuant to the Offering Documents, Polpo receives a management fee during the investment period payable at the maximum rate of 2% per annum on the balance of each limited partner’s capital account, pro-rated for partial quarters. Generally, Polpo deducts management fees directly from the Fund’s assets, quarterly in advance. In general, the proration of management fees is calculated based on the number of days remaining in the applicable quarter, and it would be Polpo’s policy to refund management fees on a prorated basis upon the termination of Polpo’s investment management agreement with the Fund.

Polpo renders its services to the Fund at its own expense, including its overhead expenses such as salaries and fringe benefits of its personnel, rent, office equipment, utilities of any office space maintained, office supplies, secretarial services, and any other overhead-type expenses.

All other expenses are borne by the Fund, including operating expenses such as organizational expenses, placement fees, liquidation expenses, sales or other taxes, fees or government charges which may be assessed against the Fund, property taxes on investments, recording, stamp, or transfer taxes, legal, audit, consulting, administrative and other fees and expenses, broken deal expenses, expenses of members of the advisory committee, expenses for software, subscriptions, and other databases for purposes of sourcing and monitoring expenses, the costs and expenses of hosting annual and special meetings for the Fund, attending conferences, and marketing expenses for trade associations, all expenses incurred in connection with the securing of lending and other financing, principal and interest on all permitted borrowings made by the Fund, and expenses related to the negotiation and documentation of agreements with one or more lenders, litigation expenses, and other types of expenses as outlined in the Fund’s governing documents.

Side Letters

The Fund from time to time enter into letter agreements or other similar agreements (collectively, “Side Letters”) with one or more investors that alter, modify, or change the terms of the interests held by such investors. Side Letters provide such investor(s) with

additional and/or different rights (including, without limitation, with respect to the carried interest, management fee, withdrawal rights, informational rights, or other rights) than the other investors.

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

Polpo or its related persons receive carried interest from the Fund, subject to the terms set forth in the Offering Documents.

It should be noted that such performance-based compensation creates a potential conflict of interest in that it incentivizes Polpo or its related persons to recommend investments that are riskier or more speculative than would be the case absent this performance-based compensation. As such, Polpo has implemented policies for approving investments that are intended to mitigate the potential conflict of interest associated with performance-based compensation. Investors in the Fund are informed of the performance-based compensation in the Offering Documents.

Item 7: Types of Clients

Polpo provides discretionary investment advice to the Fund. Polpo may advise additional private funds in the future. Investors in the Fund are generally institutional investors and high net worth individuals that qualify as “accredited investors” (as defined in Rule 501 under the Securities Act) and “qualified purchasers” (as defined under the 1940 Act). The minimum initial investment in the Fund is generally \$100,000, subject to the Firm’s discretion to accept lesser amounts.

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

Methods of Analysis & Investment Strategy

Polpo focuses primarily on investments in (i) commercial mortgage-backed securities (“CMBS”), residential mortgage-backed securities (“RMBS”), and other asset-backed securities (“ABS”); (ii) whole loans, collateralized debt obligations and corporate debt (as they relate to the foregoing product categories); (iii) tiers in an issuer’s capital structure (rated or unrated); and (iv) derivative instruments (including credit default swaps, options, futures, corporate derivatives and various other hedging instruments). The Fund may also invest in any other investments that meet the Fund’s investment objective as determined by the Firm.

Polpo believes that utilizing a fundamental, bottom-up, research-driven analytic process can be an effective approach to extracting absolute returns from credit sensitive investments in the mortgage- and asset-backed markets. The Firm believes that its flexibility to invest across the CMBS, RMBS and other ABS markets provides a broad range of products from which to find the best relative value opportunities within the structured finance marketplace.

Risk of Loss Factors

Polpo’s investment strategy involves significant risks. A discussion of certain material risks is provided below. For a more complete list of expected risk factors, prospective Fund investors are urged to review the Fund’s Offering Documents.

Risks Relating to Investment Strategy

Risk of Loss. The Firm has broad discretion in making investments for the Fund. Investments may be affected by, among other things, business, financial market, or legal uncertainties. No guarantee or representation is made that the Fund's investment program, including, without limitation, the Fund's investment objective, diversification strategies or risk-monitoring goals will be successful. Investment results may vary substantially over time. *No assurance can be made that profits will be achieved or that substantial or complete losses will not be incurred. Past investment results of the investment professionals of the Firm are not necessarily indicative of their future performance.*

Investment in Undervalued Securities. The Fund aims to invest in securities of companies which the Firm believes to be undervalued on an absolute or relative basis. However, the identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. Furthermore, there is a risk that the securities markets may continue indefinitely to undervalue the investments made by the Fund or that such investments may fail to appreciate as anticipated by the Firm.

Contrarian Strategy. The Fund may invest in securities, geographies, industries and asset classes that are out of favor by other investors. There is a risk that the securities purchased may continue indefinitely to be out of favor by other investors and, as a result, fail to appreciate as anticipated by the Firm.

Fundamental Analysis. The Firm employs a fundamental approach to analyzing investments. 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 Fund's trading strategies, the Fund 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 Fund may incur losses.

Diversification and Concentration. The Firm intends to construct a portfolio that is concentrated in a limited number of positions. By concentrating investments in a small number of positions, a loss in any such position could materially reduce the performance and asset base of the Fund to the extent not offset by other gains. In addition, the Fund's 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 Fund to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in such securities.

Long-Term Strategy. The success of the Fund's 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 Fund may forgo value in short term or temporary investments in order to be able to avail the Fund of additional and/or longer-term opportunities in the future. Consequently, the Fund may not capture maximum available value in the short term, which may be disadvantageous, for example, for limited partners who withdraw all or a portion of their Interests before such long-term value may be realized by the Fund.

Volatility. The Fund's investment program may involve the purchase and sale of relatively volatile securities and/or investments in volatile markets. This is especially true due to the Firm's focus on maximizing long-term returns even if doing so may expose the Fund to short-term volatility. Fluctuations or prolonged changes in the volatility of securities and/or markets can adversely affect the value of investments held by the Fund.

Short-Term Market Considerations. Although the Fund has a long-term investment horizon, the Firm may at times make trading decisions on the basis of short-term market considerations.

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

Lack of Control. The Fund may invest in debt instruments and equity securities of companies that it does not control, which the Fund 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, management or legal decisions with which the Fund does not agree or that the majority stakeholders or the management of the issuer may take risks or otherwise act in a manner that does not serve the Fund's interests. In addition, the Fund may share control over certain investments with co-investors, which may make it more difficult for the Fund to implement its investment strategy or exit the investment when it otherwise would. The occurrence of any of the foregoing could have a material adverse effect on the Fund and the limited partners' investments therein.

Hedging Transactions. The Fund may acquire, sell and otherwise utilize securities for risk management purposes in order to: (i) protect against possible changes in the market value of the Fund's investment portfolio resulting from fluctuations in the markets and changes in interest rates; (ii) protect the Fund's unrealized gains in the value of its investments and investment portfolio; (iii) facilitate the sale of any securities; (iv) enhance or preserve returns, spreads or gains on any security in the Fund's portfolio; (v) hedge against a directional trade; (vi) hedge the

interest rate, credit or currency exchange rate on any of the Fund's securities; (vii) protect against any increase in the price of any securities the Fund anticipates purchasing at a later date; or (viii) act for any other reason that the Firm deems appropriate. The Fund 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 Fund may enter into hedging transactions to attempt to reduce risk, such transactions may result in a poorer overall performance for the Fund than if it had not engaged in any such hedging transaction. Moreover, the portfolio will always be exposed to certain risks that cannot be hedged.

Leverage and Borrowing. The Fund may employ financial leverage to buy additional long positions or borrow against the Fund's respective long portfolio in order to purchase additional long positions. There are no restrictions on the amount of such leverage. In the event that the Fund does so, the following risk factors may apply.

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

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

Collateral. The instruments and borrowings utilized by the Fund to leverage investments may be collateralized by all or a portion of the Fund's portfolio. Accordingly, the Fund 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 Fund's margin accounts decline in value, the Fund could be subject to a "margin call", pursuant to which the Fund 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 Fund can apply essentially discretionary margin, "haircut", financing and collateral valuation policies. Changes by counterparties in any of the foregoing may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous prices. Lenders that provide other types of asset-based or secured financing to the Fund may have similar rights. There can be no assurance that the Fund will be able to secure or maintain adequate financing.

Costs. Borrowings will be subject to interest, transaction and other costs, and other types of leverage also involve transaction and other costs. Any such costs may or may not be recovered by the return on the Fund's portfolio. In addition, the Fund is expected to bear the cost of lender's and borrower's counsel in connection with the structuring, negotiation, and execution of any credit facility, line of credit, or similar financing, and such costs and fees are expected to be substantial.

Portfolio Turnover. The Fund is currently expected to have low portfolio turnover relative to many other funds. As a result, the Fund may be subject to higher brokerage commissions

for execution services, in order to also obtain research and other services, than the commissions that would otherwise be payable for execution, research and other services if its trading volume was higher. Alternatively, if the portfolio turnover of the Fund were to increase, it could result in significant trading related expenses.

Discretion of the Firm; New Strategies and Techniques. While the Firm will generally seek to employ the representative investment strategies and techniques discussed herein, the Firm (subject to the policies and control of Polpo Capital GP LLC (the “General Partner”), in its capacity as general partner of the Fund) has considerable discretion in the types of securities the Fund may trade and has the right to modify the investment strategies and techniques of the Fund without the consent of the limited partners. New investment strategies and techniques may not be thoroughly tested in the market before being employed and may have operational or theoretical shortcomings which could result in unsuccessful trades and, ultimately, losses to the Fund. In addition, any new investment strategy or technique developed by the Fund may be more speculative than earlier investment strategies and techniques and may involve material and as-yet-unanticipated risks that could increase the risk of an investment in the Fund.

Risks Relating to Management

No Operating History. Each of the Fund, the General Partner and the Firm is a newly formed entity and does not have any operating history upon which prospective limited partners can evaluate their anticipated performance. The investment professionals of the Firm have been using investment strategies similar to some of the investment strategies described herein for several years. However, there can be no assurance that the Fund or the Firm will be successful.

Dependence on the Firm. The success of the Fund is dependent upon the ability of the Firm to manage the Fund and effectively implement the Fund’s investment program. The Fund’s governing documents do not permit the limited partners to participate in the management and affairs of the Fund. If the Firm were to lose the services of the Principal or the Fund or any of the Other Accounts managed by the Firm were to incur substantial losses, the Firm might not be able to provide the same level of service to the Fund as it has in the past or continue operations. The loss of the services of the Firm could have a material adverse effect on the Fund and the limited partners’ investments therein.

Investment and Due Diligence Process. Due diligence generally entails evaluation of, among other things, important and complex business, financial, tax, accounting, environmental and legal issues. 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 and making an assessment regarding an investment, the Firm will rely on the resources reasonably available to it. For example, outside consultants, legal advisors, accountants and other third parties may be involved in the due diligence process to varying degrees depending on the type of investment and the facts and circumstances related thereto, and the Firm may rely on the advice of such parties. However, whether or not known to the Firm at the time, such resources may not be sufficient, accurate, complete or reliable and due diligence may not reveal or highlight matters that could have a material adverse effect on the value of an investment. For example, there can be no assurance that the Firm will be able to detect or prevent irregular accounting, employee misconduct or other fraudulent practices during the due diligence phase of an investment or during its efforts to monitor an investment on an ongoing basis.

Furthermore, the Firm may select investments on the basis of information and data filed by the issuers of such securities with the SEC or made directly available to the Firm by the issuers of the securities and other instruments or through sources other than the issuers. Although the Firm evaluates all such information and data and seeks independent corroboration when it considers it appropriate and when it is reasonably available, the Firm is not in a position to confirm the completeness, genuineness or accuracy of such information and data.

Although the Firm intends to conduct deep industry and issuer research prior to making any investment, at times, the investment opportunities pursued by the Fund may require rapid execution, and investment analyses and due diligence and decisions by the Firm may be required to be undertaken on an expedited basis. In such cases, the information available to the Firm at the time of an investment decision may be limited, and the Firm may not have access to detailed information regarding the investment opportunity. Therefore, no assurance can be given that the Firm will have knowledge of all circumstances that may adversely affect an investment. It frequently is difficult to obtain information as to the true condition of an issuer and the Firm may rely upon the accuracy and completeness of representations made by issuers and/or their owners in the due diligence process when it makes an investment.

In countries where generally accepted accounting principles and practices differ significantly from those practiced in the United States, the evaluation of potential investments and the ability to perform due diligence may also be affected. The financial information appearing on the financial statements of an issuer operating in one or more non-U.S. countries may not reflect its financial position or results of operations in the way they would be reflected if the financial statements had been prepared in accordance with GAAP.

Uncertainty of Financial Projections. The Firm may use financial projections to help analyze a potential investment or future capital raises by, and financing for, portfolio companies or other transactions. Projected operating results will often be based on management judgments, with adjustments to such projections made by the Firm in its discretion. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. There can be no assurance that the projected results will be obtained, and actual results may vary significantly from the projections. General economic conditions, which are not predictable, can have a material adverse effect on the reliability of such financial projections.

Dependence on Service Providers. The Fund is also dependent upon its counterparties and the businesses that provide services to the Fund (the “Service Providers”). Examples of Service Providers include the administrator, prime brokers, the custodian, legal counsel and the auditor. Errors are inherent in the business and operations of any business, and although the Firm will adopt measures to prevent and detect errors by, and misconduct of, counterparties and Service Providers, and transact with counterparties and Service Providers it believes to be reliable, such measures may not be effective in all cases. Errors or misconduct could have a material adverse effect on the Fund and the limited partners’ investments therein.

Increased Regulatory Oversight. Increased regulation (whether promulgated under securities laws or any other applicable law) and regulatory oversight of and changes in law applicable to private investment funds and their managers may impose administrative burdens on the Firm, including, without limitation, responding to examinations and other regulatory inquiries and implementing policies and procedures. Such administrative burdens may divert the Firm’s time, attention, and resources from portfolio management activities to responding

to inquiries, examinations and enforcement actions (or threats thereof). Regulatory inquiries often are confidential in nature, may involve a review of an individual's or a firm's activities or may involve studies of the industry or industry practices, as well as the practices of a particular institution.

Misconduct by Personnel. Misconduct by personnel of the Firm, counterparties and Service Providers, or even unsubstantiated allegations of misconduct, could cause significant harm to the Firm and/or the Fund. Misconduct could involve, for example, unauthorized trades, unauthorized wire transfers, the concealment of unsuccessful trading activities or the intentional mis-valuing of securities. Personnel could improperly use or disclose confidential or material non-public information in violation of confidentiality obligations or applicable laws. In addition, losses could result from other deceptive or manipulative conduct. No assurance can be given that measures adopted to prevent and detect misconduct will be effective. Additionally, the Firm and its affiliates may be exculpated and indemnified by the Fund against and from losses resulting from such misconduct.

Risks Relating to Private Investment Funds Generally

Legal and Regulatory Environment for Private Investment Funds and their Managers. The legal, tax and regulatory environment worldwide for private investment funds (such as the Fund) and their managers is evolving. Changes in the regulation of private investment funds, their managers, and their trading and investing activities may have a material adverse effect on the ability of the Fund to pursue its investment program and the value of investments held by the Fund. There has been an increase in scrutiny of the private investment fund industry by governmental agencies and self-regulatory organizations. New laws and regulations or actions taken by regulators that restrict the ability of the Fund to pursue their investment program or employ brokers and other counterparties could have a material adverse effect on the Fund and the limited partners' investments therein. In addition, the Firm may, in its sole discretion, cause the Fund to be subject to certain laws and regulations if it believes that an investment or business activity is in the Fund's interest, even if such laws and regulations may have a detrimental effect on one or more limited partners.

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

Assumption of Business, Terrorism and Catastrophe Risks. The Firm may be subject to the risk of loss arising from exposure that it may incur, indirectly, due to the occurrence of various events, including, without limitation, hurricanes, earthquakes and other natural disasters, pandemics, terrorism, and other catastrophic events. These risks of loss can be substantial and could have a material adverse effect on the Fund and the limited partners' investments therein.

Risks Relating to the Structure of the Fund

Significant Fees and Expenses. The fees and expenses of the Fund may be significant. The Fund must generate sufficient income to offset such fees and expenses to avoid a decrease in the net asset value of the Fund.

Incentive Allocation. The terms of the Fund relating to the incentive allocation may create an incentive for the Firm, an affiliate of the General Partner, to make investments that are riskier or more speculative than would be the case if a performance-based compensation arrangement were not in effect.

Limited Liquidity. An investment in the Fund has limited liquidity because limited partners will generally have only limited rights to withdraw capital from the Fund or transfer their Interests, and the Fund has the right to suspend withdrawals, as described herein. Limited partners must be prepared to bear the financial risks of an investment in the Fund for an indefinite period of time.

Governmental Entity Investors. Governmental entities, including, but not limited to, pension plans maintained by governmental agencies and instrumentalities, may invest in the Fund. Such investors may be subject to laws that affect the applicability or enforcement of certain terms generally governing the Fund. For example, exculpation, indemnification, confidentiality, choice of law and choice of venue provisions may be applied differently with respect to such investors. In addition, investment in the Fund by certain governmental entities may subject the Fund and/or the Firm to increased regulatory burdens and public disclosures about the Fund, its investors and its activities.

In-Kind Distributions. Under certain circumstances, a Limited Partner may receive securities in lieu of, or in combination with, cash distributions by the Fund, including in connection with a voluntary withdrawal or mandatory withdrawal of all or part of a Capital Account. In each case, each asset selected by the General Partner, in its sole discretion, to be distributed in kind to a withdrawing Limited Partner may be allocated to such withdrawing Limited Partner in such amounts as determined by the General Partner, in its sole discretion. In-kind distributions may be comprised of, among other things, interests in special purpose vehicles holding the actual investment or participations in the actual investment or participation notes (or similar derivative instruments), which provide a return with respect to certain investments owned by the Fund. Each special purpose vehicle will bear its own expenses. To the extent a Limited Partner is distributed interests in any such special purpose vehicle, such Limited Partner will continue to be at risk with respect to the Fund's business. The value of any securities distributed in kind may increase or decrease before they are sold either by the Limited Partner, if received directly, or by the Firm or its affiliates, if held through a special purpose vehicle. In either case, the Limited Partner will incur transaction costs in connection with the sale of any such securities and, in the case of interests in a special purpose vehicle, will bear a proportionate share of the operating and other expenses borne by such vehicle. Securities distributed in kind may not be readily marketable. The risk of loss and delay in liquidating these securities will be borne by the Limited Partner, with the result that such Limited Partner may ultimately receive less cash than it would have received on the date of distribution if it had been paid in cash. Furthermore, to the extent that a Limited Partner receives interests in special purpose vehicles, such Limited Partner will generally have no voting rights or any control over when and at what price the securities in which such vehicles have an interest are sold.

Risks Relating to the Operations and Investment Activities of the Fund

Systems and Operational Risks. The Fund depends on the Firm to develop and implement appropriate systems for the Fund's activities. On a daily basis, the Fund relies heavily on financial, accounting and other data processing systems to execute, clear and settle transactions across

numerous and diverse markets and to evaluate certain securities, to monitor its portfolio and capital, and to generate risk management and other reports that are critical to oversight of the Fund's activities. In addition, the Fund relies on information systems to store sensitive information about the Fund, the Firm, the General Partner, their affiliates and the limited partners. Certain of the Fund's and the Firm's activities will be dependent upon systems operated by third parties, including prime brokers, the administrator, market counterparties and other service providers, and the Firm may not be in a position to verify the risks or reliability of such third-party systems. Failures in the systems employed by the Firm, prime brokers, the administrator, counterparties, exchanges and similar clearance and settlement facilities and other parties could result in mistakes made in the confirmation or settlement of transactions, or in transactions not being properly booked, evaluated or accounted for. Disruptions in the Fund's operations may cause the Fund to suffer, among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing failures or disruptions could have a material adverse effect on the Fund and the limited partners' investments therein.

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 Fund, its investment portfolio, and investments, and personally identifiable information of the limited partners. Similarly, service providers of the Firm and the Fund, especially 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 limited partners may also be susceptible to compromise. Breach of the Firm's information systems may cause information relating to the transactions of the Fund and personally identifiable information of the limited partners to be lost or improperly accessed, used or disclosed.

The service providers of the Firm or the Fund 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 Fund and personally identifiable information of the limited partners may be lost or improperly accessed, used or disclosed.

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

Business Continuity and Disaster Recovery Risks. The Firm and its Clients' business operations may be vulnerable to disruption in the case of catastrophic events such as fires, natural disaster, terrorist attacks or other circumstances resulting in property damage,

network interruption and/or prolong power outages. Although the Firm has implemented, or expects to implement, measures to manage risks relating to these types of events, there can be no assurances that all contingencies can be planned for. These risks of loss can be substantial and could have a material adverse effect on the Firm and investments therein.

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

Social Media and Publicity Risk. The use of social networks, message boards, internet channels and other platforms has become widespread within the United States and globally. As a result, individuals now have the ability to rapidly and broadly disseminate information or misinformation, without independent or authoritative verification. Any such information or misinformation regarding the Firm, the Funds or one or more portfolio companies could have a material and adverse effect on the value of the Funds.

Valuation of Assets and Liabilities. The Fund’s assets and liabilities are valued in accordance with the Firm’s valuation policy (the “Valuation Policy”). The valuation of any asset or liability involves inherent uncertainty. The value of a security determined in accordance with the 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 Fund if the judgments of the General Partner regarding the appropriate valuation should prove to be incorrect.

Counterparty Risk. The Fund will establish relationships to obtain financing, derivative intermediation and prime brokerage services that permit the Fund to trade in any variety of markets or asset classes over time. However, there can be no assurance that the will be able to maintain such relationships. An inability to maintain such relationships could limit the Fund’s trading activities, create losses, preclude the Fund from engaging in certain transactions or prevent the Fund from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships could have a significant impact on the Fund’s business due to the Fund’s reliance on such counterparties. Although the Fund intends to enter into transactions only with counterparties that the Firm believes to be creditworthy and even if the Firm intends to proactively manage the Fund’s counterparty exposure, there can be no assurance that a counterparty will not default and that the Fund will not sustain a loss on a transaction as a result. The Fund is not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. Concentration of transactions with a limited number of counterparties could increase the potential for losses by the Fund. The Fund 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 Fund enters into a contract directly with dealer counterparties which may expose the Fund to the risk that

a counterparty will not settle a transaction in accordance with its terms because of a solvency or liquidity problem with the counterparty. Delays in settlement may also result from disputes over the terms of the contract (whether or not bona fide). In addition, the Fund may have a concentrated risk in a particular counterparty, which may mean that if such counterparty were to become insolvent or have a liquidity problem, losses would be greater than if the Fund had entered into contracts with multiple counterparties. Certain OTC derivative contracts require that the Fund post collateral.

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

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

In addition, the Fund 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 Fund's 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 Fund and its assets. Investors should assume that the insolvency of any such counterparty would result in significant delays in recovering the Fund's securities from or the payment of claims therefor by such counterparty and a loss to the Fund, which could be material.

Competition; Availability of Investments. Certain markets in which the Fund 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.

Significant Positions in Securities; Regulatory Requirements. In the event the Fund acquires a significant stake in certain issuers of securities and such stake exceeds certain percentage or value limits, the Fund may be subject to regulation and regulatory oversight that may impose notification and filing requirements or other administrative burdens on the Fund and the Firm. Any such requirements may impose additional costs on the Fund and may delay the acquisition or disposition of the securities or the Fund's ability to respond in a timely manner to changes in the markets with respect to such securities.

In addition, “position limits” may be imposed by various regulators that may limit the Fund’s ability to effect desired trades. Position limits are the maximum amounts of gross, net long or short positions that any one person or entity may own or control in a particular issuer’s securities. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. To the extent that the Fund’s position limits were aggregated with an affiliate’s position limits, the effect on the Fund and resulting restriction on their investment activities may be significant. If at any time positions managed by the Firm were to exceed applicable position limits, the Firm may be required to liquidate positions, which might include positions of the Fund, to the extent necessary to come within those limits. Further, to avoid exceeding any position limits, the Fund might have to forego or modify certain of its contemplated trades.

In addition, if the Fund, acting alone or as part of a group, acquire(s) beneficial ownership of more than 10% of a certain class of securities of a public company or places a director on the board of directors of such a company, under Section 16 of the U.S. securities Exchange Act of 1934, as amended (the “Exchange Act”), the Fund may be subject to certain additional reporting requirements and may be required to disgorge certain short-swing profits arising from purchases and sales of such securities. Furthermore, in such circumstances, the Fund will be prohibited from entering into a short position in such issuer’s securities, and therefore, will be limited in its ability to hedge such investments. Similar restrictions and requirements may apply in non-U.S. jurisdictions.

Commodity Interest Trading Limit. The Firm currently operates the Fund subject to the CFTC Rule 4.13(a)(3) *de minimis* exemption (the “4.13(a)(3) Exemption”). While the 4.13(a)(3) Exemption provides relief from certain CFTC reporting and recordkeeping requirements, it generally requires the Fund to, among other things, have *de minimis* levels of commodity interest trading. Accordingly, the Fund will operate with significant restrictions upon its trading of the instruments that are restricted under the 4.13(a)(3) Exemption, such as commodity futures, security futures options thereon and certain swaps. As a substitute for such instruments, the Fund may trade other instruments that are not restricted under the 4.13(a)(3) Exemption. As a result, the Fund may incur higher transaction costs or effect a less optimal hedge than it would otherwise be able to if it were not operated subject to the 4.13(a)(3) Exemption.

Litigation Risk. Some of the tactics that the Firm may use involve litigation. The Fund could be a party to lawsuits either initiated by it or by a company in which the Fund invests, other shareholders of such company, or U.S. federal, state, and non-U.S. governmental bodies. There can be no assurance that any such litigation, once begun, would be resolved in favor of the Fund or on favorable terms to the Fund.

Exposure to Material Non-Public Information. From time to time, the Firm may, in the course of its activities with respect to the Fund, or in the course of its activities with respect to Other Accounts, receive material non-public information with respect to an issuer of publicly-traded securities. In addition, during the course of the research process, the Firm may share and receive information from other market participants, which could increase the likelihood that the Firm will receive material non-public information and be required to restrict trading in an issuer’s securities. In such circumstances, the Firm may restrict the Fund, or the Fund 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. If these

restrictions or prohibitions apply to securities in which the Fund is considering making an investment, such restrictions or limitations could prevent the Fund from accessing a profitable investment opportunity. If such restrictions or limitations apply to securities in which the Fund has an existing investment, then such restrictions or limitations could give rise to substantial investment losses, which losses, in the case of a security in which the Fund has a short position, are theoretically unlimited.

Delayed Schedules K-1. The Fund will provide final Schedules K-1 to the limited partners within 120 days of the last day of each tax year of the Fund or as soon as reasonably practicable thereafter. Limited partners may be required to obtain extensions of the filing date for their income tax returns at the U.S. federal, state and local levels.

Risks Relating to Specific Investments

To the extent the Fund holds or is otherwise exposed to the types of investments listed below, the Fund will be subject to the following risks:

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

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

Commercial MBS. Mortgage loans on commercial properties often are structured so that a substantial portion of the loan principal is not amortized over the loan term but is payable at maturity and repayment of the loan principal thus often depends upon the future availability of real estate financing from the existing or an alternative lender and/or upon the current value and salability of the real estate. Therefore, the unavailability of real estate financing may lead to default.

Most commercial mortgage loans underlying MBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower’s assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related MBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of MBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed in lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property’s location, the legal status of title to the property, its physical condition

and financial performance, environmental risks, and governmental disclosure requirements with respect to the condition of the property may make a third party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related MBS. Revenues from the assets underlying such MBS may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court appointed receiver to control collateral cash flow.

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

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

Regulatory Risk. ABS backed by consumer receivables such as home mortgages, student loans, automobile loans and leases and credit card receivables are subject to risks related to changes in various federal and state laws and regulations aimed at protecting consumers. The United States Congress and the individual states could further regulate the consumer credit industry in ways that make it more difficult for the servicer to collect payments on the receivables, resulting in reduced collections. Such laws and regulations may, among other things, regulate interest rates and other charges, require certain disclosures, require licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer credit information, and regulate debt collection practices. Violation of certain provisions of these laws and regulations may limit the servicer's ability to collect all or part of the principal of or interest on such loans, entitle the borrower to a refund of amounts previously paid by it, or subject the servicer to damages and sanctions. Any such violation could result also in cash flow delays and losses on the related issuance of ABS.

Changes to federal or state bankruptcy or debtor relief laws may impede collection efforts or alter timing and amount of collections, which may result in acceleration of or reduction in

payment on the ABS. If an obligor sought protection under federal or state bankruptcy or debtor relief laws, a court could reduce or discharge completely the obligor's obligations to repay amounts due on its receivable. As a result, that receivable would be written off as uncollectible. The ABS could suffer a loss if the related credit enhancement is insufficient to protect against such exposure.

Risk of Structured Finance Securities. The value and performance of structured finance securities depend upon the actions of numerous transaction parties and the legal structure for the transaction. ABS are typically created by the sale of assets or collateral to a conduit, which becomes the legal issuer of the ABS. The securitization conduit or issuer is generally a bankruptcy-remote vehicle such as a trust or other special-purpose entity. Interests in, or other securities issued by, the trust or special-purpose entity, that give the holder thereof the right to certain cash flows arising from the underlying assets, are then sold to investors through an investment bank or other securities underwriter in a publicly registered issuance or private placement. Often ABS issuances are structured to reallocate the risks entailed in the underlying collateral (particularly credit risk) into security tranches that match the desires of investors. For example, senior subordinated security structures give holders of senior tranches greater credit risk protection (albeit at lower yields) than holders of subordinated tranches. The subordinated tranches must absorb credit losses on the collateral before losses can be charged to the senior tranches.

Thus, structured finance securities are subject to risks associated with their structure and execution, including the process by which principal and interest payments are allocated and distributed to investors, how credit losses affect the issuing vehicle and the return to investors in such structured finance securities, whether the collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the structured finance instrument) any remaining balance in the accounts may revert to the issuing entity and the extent to which the entity that is the actual source of the collateral assets is obligated to provide support to the issuing vehicle or to the investors in such structured finance securities. In addition, concentrations of structured finance securities of a particular type, as well as concentrations of structured finance securities issued or guaranteed by affiliated obligors, serviced by the same servicer or backed by underlying collateral located in a specific geographic region, may subject the structured finance securities to additional risk.

Side Letters. As noted in Item 4 above, in connection with or as a condition to an investor's agreement to invest in a Fund, the Fund or its general partner may from time to time enter into a "side letter" or similar agreement with an institutional or other investor pursuant to which the Fund or its general partner grants the investor specific rights, benefits or privileges that are not generally made available to all investors. Such rights, benefits or privileges include waivers or discounts on management fees and/or carried interest, "most favored nation" clauses, preferential access to co-investment opportunities, the right to be excused from participating in certain investments made by a Fund, notice rights upon the occurrence of certain events, seats on a Fund's limited partner advisory committee, specialized or additional reporting rights, rights related to tax treatment, rights related to regulatory matters, rights related to immunities or indemnification, rights related to the ability of the investor to transfer its interest in the Fund, additional representations and warranties from the Fund, its general partner and/or the Firm, modifications to the subscription agreement and other benefits. While the ability of a Fund or its general partner to enter into a side letter or similar agreement affording preferential rights to certain investors is generally disclosed to other investors in the Fund, the terms of such "side

letters” or similar agreements are generally not disclosed to other investors in the Fund, except to investors that have separately negotiated for the right to review such agreements.

Subordinate Securities. The Fund may invest in structured finance securities, or synthetic assets referencing structured finance securities that are subordinate in right of payment and rank junior to other securities that are secured by or represent an ownership interest in the same pool of assets. In addition, many of the related transactions have structural features that divert payments of interest and/or principal to more senior classes when the delinquency or loss experience of the pool exceeds certain levels. As a result, such securities have a higher risk of loss as a result of delinquencies or losses on the underlying assets. In certain circumstances, payments of interest may be reduced or eliminated for one or more payment dates. Additionally, as a result of cash flow being diverted to payments of principal of more senior classes, the average life of such securities may lengthen. Subordinate structured finance securities generally do not have the right to call a default or vote on remedies following a default unless more senior securities have been paid in full. As a result, a shortfall in payments to subordinate investors in structured finance securities will generally not result in a default being declared on the transaction nor in an acceleration or restructuring of the obligations thereunder. Furthermore, because subordinate structured finance securities may represent a relatively small percentage of the size of an asset pool being securitized, the impact of a relatively small loss on the overall asset pool may be substantial on the holders of such subordinate security.

Risk of Servicer or Depositor Default. ABS transactions generally include a servicer (which may be the originator of the collateral or an affiliate thereof) that is responsible for

collecting the cash flows generated by the securitized assets—principal, interest and fees net of losses and any servicing costs as well as other expenses—and for distributing such funds to the investors in accordance with the terms of the securities. The servicer processes the payments and administers the assets in the pool. A servicer or other transaction party, such as a trustee, may default on its contractual obligations resulting in additional costs, such as increased servicing fees by a substitute servicer or a diminution in servicing performance, including higher delinquencies and defaults, any of which may have an adverse effect on the ABS.

In ABS transactions, the issuing entity often has the right under certain circumstances to require the depositor to repurchase collateral or provide the issuing entity with a substitute for ABS collateral. This right usually arises if a breach of the representations, warranties or covenants of the depositor has a material adverse effect (individually or in the aggregate) on the underlying collateral and if the breach is not cured or the issuing entity is not reimbursed within the applicable cure period. If the depositor does not have the financial resources to make a purchase or substitution, the ABS will bear any resulting loss from the affected underlying collateral.

Fluctuations in Credit-Ratings. A credit-rating agency will analyze the policies and operations of the originator and servicer, as well as the structure, underlying pool of assets, expected cash flows, credit enhancement and other attributes of the securities. The initial rating of an ABS security only addresses the likelihood of the payment of interest when due and the ultimate payment of principal by its legal maturity date. The ratings do not address the likelihood of the payment of principal on ABS on or before expected final payment dates nor do the ratings guarantee that ABS will never suffer losses or have a delay in payment. The

ratings of ABS may be lowered or withdrawn entirely at any time by the applicable rating agency without notice of such change in rating. The market value of ABS could decrease if the ratings are lowered or withdrawn.

Prepayment Risk. Prepayment risk arises from prepayments, repurchases or early termination of an ABS trust. As a result, investors may not be able to reinvest the principal paid to them earlier than they expected at a rate of return that is equal to or greater than the rate of return on the ABS. Prepayments on the receivables by the related obligors and repurchase of the receivables by the depositor or the originator will shorten the life of the ABS to an extent that cannot be fully predicted. Further, the receivables included in the trust may be prepaid, in full or in part, voluntarily or as a result of defaults or for other reasons, such as a call-right. In most ABS transactions, the ABS trust may be terminated by a transaction party if the balance of the outstanding collateral remaining in the ABS trust is significantly reduced. The rate of prepayments on the receivables may be influenced by a variety of economic, social and other factors in addition to those described above.

Effects of Credit Enhancements. ABS often use various forms of credit enhancements to transform the risk return profile of the underlying collateral and to attempt to minimize the exposure of ABS to credit losses on the underlying collateral, including over-collateralization, senior-subordinate structures, reserve accounts and third-party credit enhancements. The rating of a third-party credit enhancement provider may affect the ratings of the ABS. If an ABS trust enters into any third-party credit enhancement arrangement, the rating agencies that rate the trust's ABS will consider the provisions of the arrangement and the rating of any third-party credit enhancement provider. If a rating agency downgrades the debt rating of any third-party credit enhancement provider, it is also likely to downgrade the rating of the ABS. Any downgrade in the rating of the ABS could have severe adverse consequences on their liquidity or market value. There is no assurance that the types of credit enhancement related to ABS will be sufficient to cover all losses.

Risk of Bankruptcy Proceedings. If the originator, the depositor or the servicer becomes subject to bankruptcy or insolvency proceedings, there could be losses or delays in the payments on the ABS. An ABS transaction has a legal structure designed to minimize the risks associated with a bankruptcy or insolvency proceeding but no assurances can be given that a court or regulator will respect the legal structure of the transaction in every instance. Holders of ABS are subject to the risk that a court or regulator in such proceeding may prevent payments on the underlying collateral from being distributed to the holders of the ABS and liquidate the underlying collateral in satisfaction of creditors' claims.

Specific Risks Associated with Automobile-Related ABS. In addition to the risks related to all types of ABS set forth above, ABS backed by automobile loans and leases and dealer floorplan loans are susceptible to additional risks. Adverse events with respect to an automobile finance company or its affiliates may affect the timing of payments on the ABS or have other adverse effects the ABS. Such events with respect to an automobile finance company, its affiliates or third-party providers to whom an automobile finance company outsources its activities may result in servicing disruptions or reduce the market value of the ABS. The inability of an automobile finance company to repurchase receivables that do not comply with representations and warranties made by the automobile manufacturer, the impairment of the depositor's security interest in individual vehicles, the reduction in the residual value of leased vehicles and the inability of dealers to generate sufficient cash flow to repay dealer floorplans may reduce amounts available to distribute to holders of ABS.

Specific Risks Associated with Credit Card ABS. In addition to the risks related to general types of ABS set forth above, ABS backed by credit card receivables are susceptible to certain additional risks. Social, economic, and geographic factors can affect credit card payments and may cause a delay in or default on payments to the ABS. Changes in credit card use, payment patterns and the rate of defaults by cardholders may result from a variety of social, economic, and geographic factors. Social factors include changes in consumer confidence levels and attitudes toward incurring debt, the public's perception of the use of credit cards and changing attitudes about incurring debt and the stigma of personal bankruptcy. Economic factors include the rates of inflation, the unemployment rates and the relative interest rates offered for various types of loans. The Firm cannot predict how any of these or other factors will affect repayment patterns or card use and, consequently, the timing and amount of payments on the ABS. Any reductions in the amount or timing of interest or principal payments will reduce the amount available for distribution on the ABS.

Credit card ABS trusts generally are structured as master trusts that have issued other series of ABS and are expected to issue additional series from time to time. All such ABS are payable from the receivables in the trust. The ABS trust may issue additional series with terms that are different from the series of ABS held by the Fund without notice and without prior review or consent. Before a trust can issue a new series, each rating agency that has rated an outstanding series must confirm in writing that the issuance of the new series will not result in a reduction or withdrawal of its earlier rating. Nevertheless, the terms of a new series could affect the timing and amounts of payments on any other outstanding series. In addition, the owners of the ABS of any new series will have voting rights that will reduce the percentage interest represented by an earlier series. Such voting rights may relate to the ability to approve waivers and give consents. The actions which may be affected include directing the appointment of a successor servicer following a servicer default, amending the pooling and servicing agreement and directing a reassignment of the entire portfolio of accounts.

Specific Risks Related to Student Loan ABS. In addition to the risks related to general types of ABS set forth above, ABS backed by student loan receivables are susceptible to certain additional risks.

ABS backed by student loans are highly susceptible to prepayment risk and extension risk due to actions taken by individual borrowers and other variables beyond the issuer's control. A borrower may prepay a student loan in whole or in part at any time. The rate of prepayments on the student loans may be influenced by a variety of economic, social, competitive, and other factors, including changes in interest rates, the availability of alternative financings and the general economy. Consequently, the length of time that the ABS is outstanding and accruing interest may be shorter than expected. On the other hand, student loans may be extended as a result of grace periods, deferment periods and, under some circumstances, forbearance periods. This may lengthen the remaining term of the student loans and delay principal payments to ABS holders. In addition, the amount available for distribution will be reduced if borrowers fail to pay timely the principal and interest due on the trust's student loans.

ABS backed by private credit student loans receivables may have a greater risk of default. Private credit student loans are made to students who may have higher debt burdens than student loan borrowers as a whole. Borrowers of private credit student loans typically have already borrowed up to the maximum annual or aggregate limits of federally-guaranteed student loans. In addition, the private credit student loans are not secured by any collateral of the borrowers and are not insured by any governmental agency. Consequently, if a

borrower defaults on a private credit student loan, investors in the ABS will bear the risk of loss to the extent that the reserve account or other specified credit enhancement for the ABS is insufficient or unavailable to cover that default.

Even if a student loan is guaranteed, there is a risk of default for private guarantors or insurers of student loans. If a private guarantor or insurer defaults on its guarantee or surety obligations, holders of ABS will rely solely on payments from the related borrower for payments on the related private guaranteed loan. In these circumstances, ABS investors will bear the risk of loss resulting from the failure of any borrower of a private guaranteed or insured student loan to the extent this loss is not covered by the limited credit enhancement provided in the financing structure for the ABS.

Specific Risks Associated with Residential MBS. In addition to the risks related to general types of ABS set forth above, RMBS are susceptible to certain additional risks. Mortgage loans underlying certain RMBS may be originated according to underwriting guidelines that are not as strict as Fannie Mae or Freddie Mac guidelines and may be likely to experience rates of delinquency, foreclosure and bankruptcy that are higher, or substantially higher, than those experienced by mortgage loans underwritten in accordance with higher standards. These types of mortgage loans are referred to as “subprime,” “non-prime” or “non-conforming” mortgage loans. Whereas “prime” loans are typically made to borrowers who have a strong credit history and can demonstrate a capacity to repay their loans, subprime loans are typically made to borrowers who are perceived as deficient in either or both of these respects. The borrowers may have imperfect credit histories, ranging from minor delinquencies to bankruptcy, or relatively high ratios of monthly mortgage payments to income or relatively high ratios of total monthly credit payments to income. RMBS collateralized by subprime mortgage loans may consequently carry a higher risk of loss.

Rising unemployment, higher interest rates, or a decline in housing prices generally or in certain regions of the United States may have a greater effect on the delinquency, foreclosure, bankruptcy and loss experience of subprime mortgage loans and other mortgage loans of relatively low credit quality than on mortgage loans originated under stricter guidelines. The values of the mortgaged properties may not remain at levels in effect on the dates of origination of the related mortgage loans. These risks are magnified with respect to adjustable payment mortgage loans, interest-only mortgage loans, loans with balloon payments and loans which provide for negative amortization.

Various factors in the process of originating residential mortgage loans may have the effect of increasing delinquencies and defaults on the mortgage loans. Although the aspects of the mortgage loan origination process described below may be indicative of the performance of the mortgage loans, information regarding these factors may not be available at the time the RMBS is purchased. These factors may include any or all of the following:

Appraisal quality. Inaccurate or inflated appraisals may result in an increase in the number of mortgage loans suffering a loss and the severity of losses on the related mortgage loans.

Stated income underwriting guidelines. Most underwriting guidelines applied in the origination of mortgage loans have several different levels of documentation requirements applicable to prospective borrowers. However, “stated income” programs permit an applicant to qualify for a mortgage loan based upon monthly

income as stated on the mortgage loan application, if the applicant meets certain criteria. Typically no verification of monthly income is required under stated income programs, which increases the risk that these borrowers have overstated their income and may not have sufficient income to make their monthly mortgage loan payments.

Underwriting guideline exceptions. Although mortgage originators generally underwrite mortgage loans in accordance with their pre-determined loan underwriting guidelines, from time to time and in the ordinary course of business, originators will make exceptions to these guidelines. Mortgage loans originated with exceptions may result in a higher number of delinquencies and loss severities than loans originated in strict compliance with the designated underwriting guidelines.

Non-owner occupied properties. Mortgage loans secured by properties acquired by investors for the purposes of rental income or capital appreciation, or properties acquired as second homes, tend to have higher severities of default than properties that are regularly occupied by the related borrowers. In a default, real property investors who do not reside in the mortgaged property may be more likely to abandon the related mortgaged property, increasing the severity of the default.

Fraud. Fraud committed in the origination process may increase delinquencies and defaults on the mortgage loans. For example, a borrower may present fraudulent documentation to a lender during the mortgage loan underwriting process, which may enable the borrower to qualify for a higher balance or lower interest rate mortgage loan than the borrower would otherwise qualify for. To the extent that residential mortgage loans were originated electronically over the Internet, these originations are more likely to be fraudulent.

Self-employed or first time borrowers. Self-employed borrowers may be more likely to default on their mortgage loans than salaried or commissioned borrowers and generally have less predictable income. First time home buyers are often younger, have shorter credit histories, are more highly leveraged and have less experience with undertaking mortgage debt and maintaining a residential property than other borrowers. The presence of such loans in the mortgage pool may increase the number of defaults on the mortgage loans.

A trust may include adjustable rate, interest-only or negative amortization mortgage loans, each of which present elevated default and prepayment risks. The primary attraction to borrowers of such mortgage loan products is that initial monthly mortgage loan payments can be significantly lower than fixed rate or level pay mortgage loans under which the borrower pays both principal and interest at an interest rate fixed for the life of the mortgage loan. As a result, many borrowers are able to incur substantially greater mortgage debt using one of these adjustable payment mortgage loan products than if they used a standard amortizing fixed rate mortgage loan. Borrowers with adjustable payment mortgage loans will likely be exposed to increased monthly payments (1) when the mortgage interest rate adjusts upward from a low introductory rate to the rate computed in accordance with the applicable index and margin, (2) if interest rates rise significantly, (3) in the case of interest-only mortgage loans, from the large increases in monthly payments when the interest-only terms expire and the monthly payments on these loans are recalculated to amortize the outstanding principal balance over the remaining term or (4) in the case of loans with

negative amortization features, from the large increases in monthly payments when the payments are recalculated to amortize the outstanding principal balance.

Substantial delays could be encountered in connection with the liquidation of delinquent mortgage loans. Further, reimbursement of advances made by the servicers and liquidation expenses such as legal fees, real estate taxes and maintenance and preservation expenses may reduce the portion of liquidation proceeds payable to holders of RMBS. If a mortgaged property fails to provide adequate security for the related mortgage loan, the certificate holder could incur a loss on its investment if applicable credit enhancement is insufficient to cover the loss.

It is possible that servicing of mortgage loans may be transferred in accordance with the provisions of the transaction documents. All transfers of servicing involve some risk of disruption in collections due to data input errors, misapplied or misdirected payments, system incompatibilities and other reasons. As a result, the mortgage loans may experience increased delinquencies and defaults, at least for a period of time, until all of the borrowers are informed of the transfer and the related servicing mortgage files and records and all the other relevant data has been obtained by the new servicer. There can be no assurance as to the extent or duration of any disruptions associated with the transfer of servicing or as to the resulting effects on the yield on the related RMBS.

Prepayments on the underlying mortgage loans in an issue of RMBS will be influenced by the prepayment provisions of the related mortgage notes and may also be affected by a variety of economic, geographic and other factors, including the difference between the interest rates on the underlying mortgage loans (giving consideration to the cost of refinancing) and prevailing mortgage rates and the availability of refinancing.

The mortgage lending and servicing business involves the collection of numerous accounts and compliance with various federal, state and local laws that regulate consumer lending. Lenders and servicers may be subject from time to time to various types of claims, legal actions (including class action lawsuits), investigations, subpoenas and inquiries in the course of their business. It is impossible to predict the outcome of any particular actions, investigations or inquiries or the resulting legal and financial liability. If any legal or governmental proceeding were determined adversely to an originator or servicer of mortgage loans included in a trust and were to have a material adverse effect on its financial condition, or if the servicer or originator experiences serious financial difficulties, the ability of the affected servicer to service the mortgage loans in accordance with the applicable servicing agreement, or the ability of the affected originator to fulfill its obligation to repurchase or substitute for defective mortgage loans, could be impaired.

Legislative and regulatory initiatives by federal, state or local legislative bodies or administrative agencies, if enacted or adopted, could delay foreclosure, provide new defenses to foreclosure or otherwise impair the ability of a servicer to foreclose on a defaulted loan. The Firm cannot predict the nature or extent of limitations on foreclosure that may be enacted. Any such governmental actions that interfere with the foreclosure process could affect RMBS yields.

Specific Risks Associated with Commercial MBS. In addition to the risks related to general types of ABS set forth above, CMBS are susceptible to certain additional risks. Repayment of a commercial or multifamily mortgage loan depends on the performance and value of the underlying real property, which may decline over time, and the related borrower's

ability to refinance the property, of which there is no assurance. Mortgage loans underlying CMBS generally are nonrecourse loans. This means that, in the event of a default, recourse will be limited to the related real property or properties securing the defaulted mortgage loan. In the event that the income generated by a real property was to decline as a result of the poor economic performance of that real property with the result that the real property is not able to support debt service payments on the related mortgage loan, neither the related borrower nor any other person would be obligated to remedy the situation by making payments out of their own funds. In such a situation, the borrower could choose instead to surrender the related mortgaged property to the lender or let it be foreclosed upon.

Full and timely payment on each mortgage loan underlying the CMBS will depend on one or more of the following factors: the sufficiency of the net operating income of the applicable real property; the market value of the applicable real property at or prior to maturity; and the ability of the related borrower to refinance or sell the applicable real property. In general, the value of a multifamily or commercial property will depend on its ability to generate net operating income. The ability of an owner to finance a multifamily or commercial property will depend, in large part, on the property's value and ability to generate net operating income.

The following factors, among others, will affect the ability of a multifamily or commercial property to generate net operating income and, accordingly, its value: the location, age, functionality, design and construction quality of the subject property; perceptions regarding the safety, convenience and attractiveness of the property; the characteristics of the neighborhood where the property is located; the degree to which the subject property competes with other properties in the area; the proximity and attractiveness of competing properties; the existence and construction of competing properties; the adequacy of the property's management and maintenance; tenant mix and concentration; national, regional or local economic conditions, including plant closings, industry slowdowns and unemployment rates; local real estate conditions, including an increase in or oversupply of comparable commercial or residential space; demographic factors; customer confidence, tastes and preferences; retroactive changes in building codes and other applicable laws; changes in governmental rules, regulations and fiscal policies, including environmental legislation; and vulnerability to litigation by tenants and patrons.

Particular factors that may adversely affect the ability of a multifamily or commercial property to generate net operating income include the following: an increase in interest rates, real estate taxes and other operating expenses; an increase in the capital expenditures needed to maintain the property or make improvements; a decline in the financial condition of a major tenant and, in particular, a sole tenant or anchor tenant; an increase in vacancy rates; a decline in rental rates as leases are renewed or replaced; natural disasters and civil disturbances such as earthquakes, hurricanes, floods, eruptions, terrorist attacks or riots; and environmental contamination.

The volatility of net operating income generated by a multifamily or commercial property over time will be influenced by many of the foregoing factors, as well as by the following: the length of tenant leases; the creditworthiness of tenants; the rental rates at which leases are renewed or replaced; the percentage of total property expenses in relation to revenue; the ratio of fixed operating expenses to those that vary with revenues; and the level of capital expenditures required to maintain the property and to maintain or replace tenants.

The effects of any of the factors described above occurring individually or in the aggregate with respect to CMBS may adversely affect the performance and value of the CMBS.

Specific Risks Associated with Collateralized Debt Obligations. Collateralized Debt Obligation (“CDO”) securities are limited recourse obligations of the issuer thereof payable solely from the underlying securities and other assets owned by the issuer or proceeds thereof. Consequently, holders of CDO securities must rely solely on distributions on the collateral underlying such CDO securities or the proceeds thereof for payment. Such assets may consist of investment grade debt securities, high yield debt securities, loans, structured finance securities, synthetic securities and other debt instruments. Investments in assets through the purchase of synthetic securities present risks in addition to those resulting from direct purchases of those assets because the buyer of such synthetic security usually will have a contractual relationship only with the synthetic security counterparty and not the obligor on the reference obligation of such synthetic security. The buyer of a synthetic security will not benefit from any collateral supporting the reference obligation of such synthetic security, will not have any remedies that would normally be available to the holder of such reference obligation and will be subject to the credit risk of the synthetic security counterparty as well as the obligor on such reference obligation. High yield debt securities are generally unsecured (and loans may be unsecured) and may be subordinated to certain other obligations of the issuer thereof. The lower rating of high yield securities and below-investment grade loans reflects a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the issuer to make payments of principal or interest. Such investments may be speculative. As a result of increases in the default rates, there would be a decrease in the amount of credit support available for CDO securities backed by such corporate debt securities and loans since the issue date thereof. Diminished credit support as a result of increases in the default rates of and rating downgrades reported on corporate debt securities or loans could increase the likelihood that payments may not be made to holders of CDO securities that are secured by corporate debt securities and loans.

Specific Risks of CDO Equity Securities. The Fund may acquire equity securities issued by CDOs, or certificates issued by CDOs with equity-like features. Investments in CDO equity interests involve a high degree of risk. Such CDO equity interests will be fully subordinated by operation of law and pursuant to an indenture, to the CDO notes and to the payment of the fees owing by the CDO to the trustee and paying agent under the indenture, and the expenses of the CDO. Under the terms of the indenture, there will be no scheduled repayments to the CDO equity interest holders. Generally, no distributions will be made to the equity interest holders until all senior obligations have been paid in full. In addition, in case of an event of default under the indenture, as long as any notes are outstanding, certain holders of the notes, rather than the equity interest holders, will be entitled to determine the remedies to be exercised under the indenture. Remedies pursued by the holders of the notes could be adverse to the interests of the equity interest holders. Although the scheduled payments of principal and interest on such CDO’s assets will be expected to exceed the amounts required to pay principal of, and interest due on, the notes, there can be no assurance that payments of principal of, and interest on, and other proceeds from, the CDO assets will continue to exceed required fees and expenses and payments of principal and interest on the notes.

Equity Securities Generally. The value of equity securities of public and private, listed and unlisted issuers and equity derivatives generally varies with the performance of the issuer and movements in the equity markets. As a result, the Fund may suffer losses if it invests in equity instruments of issuers whose performance diverges from the Firm’s expectations or if equity

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

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

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

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

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

In general, "premium" securities (i.e., securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" securities (i.e., 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 prepayment frequency in any interest rate environment.

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

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

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

The Fund may invest in obligations of issuers that are generally trading at significantly higher yields than had been historically typical of the applicable issuer's obligations. 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 Fund may be paid interest in kind in connection with its investments in corporate debt and related financial instruments (e.g., the principal owed to the Fund in connection with a debt investment may be increased by the amount of interest due on such debt investment). Such investments may experience greater market value volatility than debt obligations that provide for regular payments of interest in cash and, in the event of a default, the Fund 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 Fund 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 Fund or similar event, the Fund's 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 nonperforming 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 issuer's (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 Fund engages in such conduct, the Fund may be subject to claims from creditors of an obligor that debt held by the Fund should be equitably subordinated.

Illiquid Investments. The Fund may invest in illiquid investments, whether or not designated by the Firm as Special Investments, including both public and private investments (such as private equity investments and unlisted securities of U.S. and non-U.S. companies and private companies on a global basis), and may acquire assets or securities that the General Partner believes either lack a readily assessable market value or should be held until the resolution of a special event or circumstance. Additionally, investments may become illiquid due to market conditions, given the relative size of the investment. The market prices, if any, for such securities tend to be volatile and may not be readily ascertainable, and the limited liquidity of these investments may subject them to more extensive fluctuations in value. Accordingly, the Fund may not be able to (i) sell them when it desires to do so (or may be contractually prohibited from doing so) or (ii) realize what it perceives to be their fair value in the event of a sale. Such investments, in particular Special Investments (including Special Investments in which a particular Limited Partner may not be participating), may consume a substantial amount of the Firm's time. As a result, an investment in the Fund is suitable only for certain sophisticated investors who do not require immediate liquidity for their investments.

The Fund may invest in partnerships, investment vehicles and joint ventures whose principal assets are composed of illiquid investments. The management and day-to-day operation of such partnerships, vehicles or joint ventures may not be subject to the Firm's complete control. Although the Firm may seek protective provisions, including, possibly, board representation, in connection with certain of its illiquid investments, to the extent that the Fund takes minority positions in companies in which it invests, the Firm may not be in a position to exercise control over the management of such companies, and, accordingly, may have a limited ability to protect its position in such companies. Notwithstanding the foregoing, the Firm may engage with the management of such companies with a view to sharing ideas regarding the business and affairs of such companies.

Rule 144A Securities. The Fund may invest in "Rule 144A Securities," which are securities that are not registered for sale to the general public under the Securities Act, but may be sold to and resold by certain institutional investors, provided the Fund meets the definition of "qualified institutional buyer" or "QIB." The Fund may not be able to qualify as a QIB unless it has \$100 million in assets. Such securities are subject to contractual or legal restrictions on subsequent transfer. As a result of the absence of a public trading market, such securities may

be less liquid and more difficult to value than publicly traded securities. Although these securities may be resold in privately negotiated transactions, the prices realized from the sales could, because of the illiquid nature of the market, be less than the prices originally paid for the securities by the Fund or less than their fair value. In some instances, it may be difficult to locate any purchaser for Rule 144A Securities. If any Rule 144A Securities held by the Fund are required to be registered under the securities laws of one or more jurisdictions before being resold, the Fund may be required to bear the expenses of registration. Securities which are freely tradable under Rule 144A may be treated as liquid if the Firm is satisfied that sufficient trading activity and reliable price information exists. Investing in Rule 144A Securities could have the effect of increasing the illiquidity of the Fund's portfolio to the extent that qualified institutional buyers are reluctant to purchase such securities.

Bank Debt. The Fund may invest in bank loans and participations. Risks associated with these obligations include, but are not limited to: inadequate perfection of the security interest granted under the loan documents, the possible invalidation or compromise of a loan transaction as a fraudulent conveyance or preference under relevant creditors' rights laws; the validity and seniority of bank claims and guarantees; environmental liability that may arise with respect to collateral securing the obligations; adverse consequences resulting from participating in such instruments with other institutions with lower credit quality; long and less certain settlement periods; limitations on the ability of the Firm to directly enforce its rights with respect to participations and illiquidity in the market for the resale of such loans.

Distressed Obligations. The obligations or securities 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 or securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to the Fund's investments in any security. Obligations in which the Fund invests may be less than investment grade. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the value of the assets collateralizing the Fund's investments will be sufficient or that the prospects for a successful reorganization or similar action will become available. In any reorganization or liquidation proceeding relating to a company in which the Fund invests, the Fund may lose its entire investment, may be required to accept cash or securities with a value less than their original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Fund's investments may not compensate the limited partners adequately for the risks assumed. In 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 paid by the Fund of the security in respect to which such distribution was made.

Private Lending. The Fund may, directly or indirectly, from time to time make loans (or purchase debt from other non-bank entities) which may present additional risks as compared to other types of debt such as underwritten bonds or bank loans. In general, less creditworthy borrowers may turn to the private lending market, and a private fund or other non-bank lender has more latitude to lend to entities which may not have the creditworthiness to borrow from banks or raise debt in the bond market. Such private debt may lack a readily ascertainable value and have a limited market. As a result, private debt may be difficult and slow to sell. Additionally, private lender underwriting standards, due diligence requirements and loan terms may be less rigorous, less stringent and more flexible than is the case for underwritten debt and bank loans. Rights and obligations of the lenders and borrowers of private debt (for example, borrower covenants and the ability to pay interest in kind) may be more expansive or narrower than underwritten debt and bank loans. Consequently, private lending may be a riskier activity than investing in other forms of debt.

Loan Origination. The Fund, directly or indirectly, may participate in certain loan origination activities. Such activities may subject the Fund or the Firm to regulatory requirements under the laws of certain jurisdictions. If the Fund is unable to sell, assign or successfully close transactions for participations in the loans that it originates, the Fund will be forced to hold its excess interest in such loans for an indeterminate period of time.

Preferred Stock. Investments in preferred stock involve risks related to priority in the event of the 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 that 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 withdrawal provisions.

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

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

Fund may participate is evolving, and changes in the regulation or taxation of such securities may have a material adverse effect on the Fund.

Trade Claims. The Fund may purchase creditor claims subsequent to the commencement of a bankruptcy case, including, without limitation, unsecured claims of a debtor's suppliers, vendors and service providers (such claims, "trade claims"). The price ultimately recovered on a trade claim could be less than the price originally paid by the Fund for such claim because there is no regulated market for, and no transparent pricing information with respect to, trade claims. The Fund may also be subject to actions during the bankruptcy case, including preference actions and, in certain circumstances, equitable subordination actions, based solely on prior conduct of the seller of such trade claim. Such actions may result in the reduction or disallowance of a trade claim, losses to the Fund (as the purchaser of such claim) and/or a delay in the realization of the value of such trade claim. Further, the Fund may also be subject to the risk that the seller of a trade claim will fail to deliver upon the terms of the investment. For example, in the event a seller of a trade claim subsequently becomes insolvent or itself files for bankruptcy protection, the Fund (as the purchaser of such claim) may not benefit from any warranties, representations or indemnities provided by the seller to the Fund in the purchase documents, and, with respect to insolvent claim sellers, be subject to credit and litigation risk. A trade claim may be also disallowed by the bankruptcy court if the court determines that the Fund (as the purchaser of such claim) 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. Given the absence of a formal market, indices, or regulation of trade claims, the market for trade claims may be illiquid and trading in trade claims may be subject to increased settlement risk. Trade claims are also subject to the credit and recovery risk of the bankrupt company, as well as the general risks associated with bankruptcy cases. In the event that any of these risks materialize with respect to trade claims purchased by the Fund, the Fund may suffer significant losses.

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, without limitation, 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 Fund's interests in those securities.

Risks Relating to Market Conditions Generally

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

Governmental Interventions. Extreme volatility and illiquidity in markets has in the past led to, and may in the future lead to, extensive governmental interventions in equity, credit, currency and other markets. Generally, such interventions are intended to reduce volatility and precipitous drops in value. In certain cases, governments have intervened on an “emergency” basis, suddenly and substantially eliminating market participants’ ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition, these interventions have typically been unclear in scope and application, resulting in uncertainty. It is impossible to predict when these restrictions will be imposed, what the interim or permanent restrictions will be and/or the effect of such restrictions on the Fund’s strategies.

The global outbreak of the 2019 novel coronavirus (“COVID-19”), together with resulting voluntary and U.S. federal and state and non-U.S. governmental actions, including, without limitation, mandatory business closures, public gathering limitations, restrictions on travel and quarantines, has meaningfully disrupted the global economy and markets. COVID-19 has and is expected to continue to have ongoing material adverse effects across many, if not all, aspects of the regional, national and global economy. In particular, the COVID-19 outbreak has already, and will continue to, adversely affect and the industries in which the Fund will invest. Furthermore, the Firm’s ability to operate effectively, including the ability of its personnel or its service providers and other contractors to function, communicate and travel to the extent necessary to carry out the Fund’s investment strategies and objectives and the Firm’s business and to satisfy its obligations to the Fund, its investors, and pursuant to applicable law will be impaired. The spread of COVID-19 among the Firm’s personnel and its service providers would also significantly affect the Firm’s ability to properly oversee the affairs of the Fund (particularly to the extent such impacted personnel include key investment professionals or other members of senior management), which could result in a temporary or permanent suspension of the Fund’s investment activities or operations. The full effects, duration and costs of the COVID-19 pandemic are impossible to predict, and the circumstances surrounding the COVID-19 pandemic will continue to evolve.

Both U.S. and non-U.S. markets have been experiencing increased volatility and turmoil, and it is uncertain whether or for how long these conditions will continue. In addition to the recent unprecedented turbulence in financial markets, the reduced liquidity in markets may adversely affect many companies relying on equity and/or debt for their operations. These events and possible continuing market turbulence may have an adverse effect on the Fund, may decrease the likelihood that it will achieve its investment objectives, may reduce its ability to precisely value the investments, or reduce their liquidity. The COVID-19 pandemic has resulted in significant governmental intervention in providing capital to financial institutions and other businesses, in some cases taking control of such institutions. There can be no assurance that this intervention will improve market conditions, that such conditions will not continue to deteriorate, or that further government intervention will or will not occur.

Additionally, in recent years, the effects of global warming and climate change have begun to manifest themselves more directly on local, national, and international economies and markets. Disruptions caused by floods, heatwaves, fires, hurricanes, and tornadoes, among other natural disasters, could significantly impair the Fund’s investments as well as the ability of the Firm to carry on the operations of the Fund, particularly if such disasters were concentrated in locations where key personnel and the Principal lives and works.

Potential Interest Rate Increases. The United States has experienced a decade-long period of historically low interest rate levels. The recovery of the U.S. economy, recent changes in U.S. government policy, including the tapering of the U.S. Federal Reserve Board's quantitative easing program, and increases in the federal funds rate, increase the risk that interest rates will rise in the future. Any future interest rate increases may result in periods of volatility and cause the value of the fixed income securities held by the Fund to decrease, which may result in substantial withdrawals from the Fund that, in turn, force the Fund to liquidate such securities at disadvantageous prices negatively impacting the performance of the Fund.

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 Fund's ability to effect its trading strategy.

Risks Relating to Non-U.S. Investments and Non-U.S. Jurisdictions

Non-U.S. Exchanges. The Fund may trade on exchanges or markets located outside the U.S. 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 Fund's investment opportunities. In addition, accounting and financial reporting standards that prevail outside of the U.S. generally are not as high as U.S. standards and, consequently, less information is typically available concerning companies located outside of the U.S. than for those located in the U.S. As a result, the Fund may be unable to structure its transactions to achieve intended results or to mitigate all risks associated with such markets. It may also be difficult to enforce the Fund's 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 Fund under such laws and regulations are unavailable for transactions on non-U.S. exchanges and with non-U.S. counterparties.

Item 9: Disciplinary Information

Polpo has not been subject to any disciplinary action, whether criminal, civil or administrative, including regulatory, in any jurisdiction. Likewise, no persons involved in the management of Polpo have been subject to such actions.

Item 10: Other Financial Industry Activities and Affiliations

Polpo Capital GP LLC serves as the General Partner to the Fund. Neither Polpo nor any of its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

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

Code of Ethics Pursuant to Rule 204A-1 of the Investment Advisers Act of 1940 (the “Advisers Act”)

Polpo has adopted a Code of Ethics (the “Code”), which is designed to ensure that the Firm and its employees conduct business in accordance with all applicable laws and regulations and in an ethical and professional manner. All employees of Polpo assume a duty of loyalty, fairness and good faith towards the Fund and underlying investors, which includes an obligation to adhere not only to the specific provisions, but to the general principles that guide the Code. The Code was adopted to avoid possible conflicts of interest, avoid the inappropriate use of material, non-public information and ensure the propriety of Polpo employees’ trading activity. Polpo will provide a copy of the Code to any current or prospective client or investor upon request.

Personal Trading

Pursuant to Rule 204A-1 under the Advisers Act, Polpo has adopted the Code and a Personal Trading Policy, as defined within the Code. The Personal Trading Policy imposes certain restrictions on the personal securities trading of employees and any family member living in the same household or to whom employees provide primary financial support. Such restrictions include obtaining pre-approval for certain trades or private transactions and reporting certain trading activities and securities holdings on an initial and annual basis thereafter.

In order to abide by the Personal Trading Policy, all employees must obtain pre-clearance from the Chief Compliance Officer (“CCO”) or their designee prior to executing certain trades and participating in certain investments, so that a determination may be made as to whether or not the transaction could pose a conflict to the Fund. Additionally, employees must direct duplicate copies of brokerage statements to the CCO, to assist in monitoring compliance with Polpo’s Personal Trading Policy.

Neither Polpo, nor any of its related persons, recommend that any Fund acquire or sell securities in which Polpo, or any related person has a material financial interest.

As a matter of general practice, neither Polpo, nor any of its related persons, acquire or sell securities that are also recommended to the Fund.

Item 12: Brokerage Practices

Polpo does not typically make use of brokers for the purposes of purchasing or selling securities on behalf of the Fund.

If Polpo determines to engage a broker the general partner will select the broker considering the range and quality of its brokerage services, its execution capability, commission rate, financial responsibility, responsiveness to us, the value of research provided (if any), and the broker's referral of prospective investors to Polpo (if any). If a broker were to provide research or refer prospective investors, there could be a conflict between our interest in receiving such services and our interest in providing best execution for the Fund. Polpo will negotiate the commission rates and other transaction costs relating to broker services. Any commission rates paid by the Fund may not be the lowest rates the Fund could have obtained, but they will be competitive with rates paid by similar customers.

Polpo does not currently have any soft dollar relationships and does not receive any research or any other soft dollar benefits or investor referrals from broker-dealers in connection with Fund transactions.

Item 13: Review of Accounts

Review of Accounts

The Fund's investments are reviewed on an ongoing basis by Polpo's investment professionals to assure conformity with the investment objectives and guidelines set forth in the Offering Documents.

Reporting

Each limited partner will receive annual audited financial statements for the Fund, within 120 days after the end of each fiscal year, as well as periodic performance reports.

The valuation of the Fund's investments is reviewed and reported to investors via the quarterly unaudited financial statements distributed to investors, pursuant to the Fund's Offering Documents.

Item 14: Client Referrals and Other Compensation

From time to time, the Firm and/or the Funds compensates one or more placement agents for referrals of Fund investors. Such placement agents will, in certain circumstances, also seek to do business with, and earn fees or commissions from, affiliates of the Adviser and/or the Funds' portfolio companies. Under Rule 206(4)-I under the Advisers Act, such placement agents could be considered to be providing a "compensated endorsement" of the Funds. Prospective investors should be aware that such placement agents are subject to certain conflicts of interest, including an incentive to recommend a Fund over other investment opportunities due to the fact that the placement agent is being compensated in connection with any investors that it successfully refers to a Fund.

Item 15: Custody

Pursuant to Rule 206(4)-2 under the Advisers Act (the "Custody Rule"), Polpo is deemed to have custody over the assets of the Fund. In accordance with the Custody Rule, a qualified custodian will not be required to deliver quarterly account statements to the Fund or their respective investors as long as (i) the Fund is audited by an independent public accountant that

is registered with, and subject to inspection by, the Public Company Accounting Oversight Board, (ii) the Fund's audited financial statements are prepared in accordance with U.S. generally accepted accounting principles, and (iii) Polpo delivers such annual audited financial statements to investors within 120 days after the end of the Fund's fiscal year.

Item 16: Investment Discretion

Polpo is responsible for providing day-to-day managerial and administrative services to the Fund and will have full discretion, through the execution of the investment management agreement with the Fund, to make, evaluate and monitor Fund investments in a manner consistent with the investment objective and strategy described in the Offering Documents.

Item 17: Voting Client Securities

As Polpo primarily makes investments in real estate debt and other derivative or credit instruments, the Fund typically does not hold the securities of publicly traded companies and would do so only in rare circumstances. In the event that the Fund would come into ownership of such securities or would be asked to vote as shareholders, the CCO will be consulted to ensure that the Fund's best interests are represented, including through the voting of such securities, whether by Polpo or a third-party service provider if needed to address any conflict of interest. Current and prospective clients and investors can obtain a copy of Polpo's proxy voting policies and procedures upon request.

Item 18: Financial Information

Registered investment advisers are required in this section to provide certain financial information or disclosures about Polpo's financial condition. Polpo has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to the Fund or investors and has not been the subject of a bankruptcy proceeding.