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COVER PAGE

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PART 2A OF FORM ADV: FIRM BROCHURE

**Quadra Gestão de Recursos S.A.**

March 2024

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This “**Brochure**” provides information about the qualifications and business practices of Quadra Gestão de Recursos S.A. (hereinafter “Quadra Capital”, “**we**”, “**us**”, “**our**” or the “**Firm**”). If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer (“**CCO**”), Lívia Flora, by email at [livia@quadra.capital](mailto:livia@quadra.capital)/ [compliance@quadra.capital](mailto:compliance@quadra.capital). Information in this Brochure has not been approved or verified by the U.S. Securities and Exchange Commission (the “**SEC**”) or by any state securities authority.

Quadra Capital is a Registered Investment Adviser with the SEC. Registration as an investment adviser does not imply that Quadra Capital or any of its principals or employees possesses a particular level of skill or training in the investment advisory business or any other business.

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

**Item 2: Material Changes**

The Brochure is Quadra Capital's Form ADV Part 2A 2024 Annual Updating Amendment. There are no material changes to report.

In the future, if the Brochure contains material changes from our last update, we will identify and discuss those changes in this section.

### ***Item 3: Table of Contents***

Item 2: Material Changes .....	2
Item 4: Advisory Business.....	4
Item 5: Fees & Compensation.....	5
Item 6: Performance-Based Fees & Side-By-Side Management.....	6
Item 7: Types of Clients.....	7
Item 8: Methods of Analysis, Investment Strategies & Risk of Loss.....	7
Item 9: Disciplinary Information .....	45
Item 10: Other Financial Industry Activities & Affiliations .....	45
Item 11: Code of Ethics, Participation or Interest in Client Transactions & Personal Trading .....	46
Item 12: Brokerage Practices.....	46
Item 13: Review of Accounts .....	47
Item 14: Client Referrals & Other Compensation .....	48
Item 15: Custody .....	48
Item 16: Investment Discretion .....	48
Item 17: Voting Client Securities .....	49
Item 18: Financial Information.....	49

## **Item 4: Advisory Business**

### **A. General Description of the Advisory Firm**

Quadra Gestão de Recursos S.A. (“Quadra Capital”, the “Firm”, the “Investment Adviser”, the “Adviser”, “we” or “our”) is a Brazilian Sociedade Anônima, organized under the laws of Brazil that was incorporated on February 25, 2013.

Our principal place of business is located in São Paulo.

We are controlled by our principal owner, Mr. Nilto Calixto (the “**Principal Owner**”), who is a member of CP Investimentos e Participações S.A. (the “**Investment Adviser Parent Company**”) and Quadra Investimentos e Participações Ltda., which are the shareholders of, and control, the Adviser. The Investment Adviser Parent Company has ultimate responsibility for our management, operations and investment decisions.

### **B. DESCRIPTION OF ADVISORY SERVICES**

This Brochure generally includes information about us and our relationships with our clients. While much of this Brochure applies to part of our clients, certain information included herein applies to a specific client only. We have solely provided information with respect to our US clients, which include private funds or separately managed accounts (herein referred to as the “**US Clients**” or “**clients**” – also see below).

#### ***Funds Not Offered to US Investors***

The Investment Adviser’s operations and personnel are all located in Brazil. The Investment Adviser provides discretionary investment management services to several Brazilian clients, including pooled investment vehicles, that are not US entities and have no US investors (such clients, the “**Brazilian Clients**”). The Investment Adviser has tailored this Brochure to reflect information with respect to the investment strategies, fees, expenses, and risks associated with the services that the Investment Adviser provides to US Clients. Information pertaining to the Investment Adviser’s services to the Brazilian Clients is available upon request. To the extent that material conflicts of interest exist between the US Clients and the Brazilian Clients, such conflicts will be disclosed herein.

#### ***Credit Investment Advisory Services***

The Firm’s US Clients include the following private funds:

- QG P Liquid Distressed Master Fund, L.P. , a Delaware limited partnership (the “Master Fund”);
- QG Distressed Credit Fund, L.P., a Delaware limited partnership (the “Credit Fund”);
- QG Distressed Credit Fund II, L.P., a Delaware limited partnership (the “Credit II Fund”)

The above mentioned private funds are herein referred to collectively as the “**Funds**”.

As of December 31, 2023, the Firm has regulatory assets under management of \$ 655,663,362 equated to the private funds which is managed on a discretionary and non-discretionary basis.

### ***Managed Accounts***

In addition, the Investment Adviser may serve as an investment adviser with discretionary trading authority over, and provide discretionary advisory services to, separately managed accounts.

The Investment Adviser provides investment advisory services to a separately managed account for institutional investors ("**Managed Account**"). With respect to the Managed Account that Quadra Capital has an investment management agreement with ("**Investment Management Agreement**"), the Adviser serves as the Managed Account's discretionary investment manager.

As used herein, the term "client" generally refers to each fund and each beneficial owner of the Managed Account.

As of December 31, 2023, the Firm has regulatory assets under management of \$ 126,161,102 which is managed on a discretionary basis.

## **C. AVAILABILITY OF CUSTOMIZED SERVICES FOR CLIENTS**

Our investment decisions and advice with respect to the clients will be subject to the clients' investment objectives and guidelines, as set forth in each client governing documents, offering documents and investment management agreement, as well as any written instructions provided by the client to us.

## **D. WRAP FEE PROGRAMS**

Quadra Capital does not sponsor or participate in wrap fee programs.

## **Item 5: Fees & Compensation**

### **A. ADVISORY FEES AND COMPENSATION**

Quadra Capital will receive an asset-based management fee from the clients. The fees applicable to each client are set forth in detail in each client's governing documents, offering documents and investment management agreement. The fees applicable to each separately managed account are set forth in detail in each separately managed account's investment management agreement.

Generally, the investment management agreements are subject to termination upon receipt by either party from the other of prior written notice of termination and after the expiration of the specified notice period. The clients will be entitled to any unearned prepaid portion of the Management Fee to the extent applicable.

Fees for separately managed account generally do not include brokerage commissions, transaction fees, and other related costs and expenses which will be incurred by the client. Clients will incur certain charges imposed by custodians and brokers, such as custodial fees, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Quadra Capital does not receive any portion of these commissions, fees, and costs.

## **B. PAYMENT OF FEES**

Fees and compensation paid to the Investment Adviser by the clients are generally deducted from the assets of such clients.

## **C. EXPENSES**

Each client bears its own expenses, including, without limitation, the Management Fee; the Performance Compensation, organizational expenses (including organizational expenses related to vehicles formed for the purpose of pursuing investments), investment-related expenses and other expenses, as set forth in the governing documents, offering documents and investment management agreement of each client.

With respect to the Managed Account, the Adviser will not be paid or reimbursed for any expenses, except to the extent such expenses are itemized in detail and expressly authorized by the Managed Account in writing. The Managed Account shall bear (or shall reimburse the Adviser for) (i) all investment-related expenses incurred on behalf of the Managed Account (e.g., expenses related to the investment of the Assets (as defined in the Investment Management Agreement), such as brokerage commissions, expenses related to short sales, clearing and settlement charges, bank service fees, custodial fees, interest expenses, costs and expenses related to currency exchange, costs and expenses related to currency hedging (if any), investment-related regulatory filings the extent required (including, without limitation, Sections 13(d), (f) and (g) and Section 16(a) of the exchange Act, the CEA and the U.S. Hart-Scott-Rodino Act or similar filings under Brazilian laws) and extra-ordinary investment-related expenses and other similar expenses, including investment-related litigation expenses), (ii) the Management Fee and the Performance Fee (as defined in the Investment Management Agreement), and (iii) the pro rata share of expenses incurred, on behalf of the Managed Account and other client (if any), expenses relating to consultants, attorneys, brokers or other professionals or advisors who provide research, advice or due diligence services with regard to investments, appraisal fees and expenses, investment banking expenses, research-related expenses (including lodging and meal expenses) incurred by third-party professionals not an Affiliate of the Adviser (as defined in the Investment Management Agreement). The Managed Account will also bear its organizational and operating expenses and the Brazilian Investment Vehicle (including the fees of the administrator of the Managed Account and the administrator of the FIDC-NP and related costs).

## **D. ADDITIONAL COMPENSATION AND CONFLICTS OF INTEREST**

Neither the Investment Adviser nor any of its supervised persons accepts compensation (e.g., brokerage commissions) for the sale of securities or other investment products. The Adviser carries out structuring activities that might be invested in by the funds under its management. These operations which might be invested by funds managed by the Adviser go through the internal approval process and in accordance with applicable regulation.

### **Item 6: Performance-Based Fees & Side-By-Side Management**

We and our affiliates accept performance-based compensation from clients. Quadra Capital will receive performance-based fees as part of its advisory compensation. Quadra Capital will receive a performance

allocation amount, calculated based on a certain percentage of the positive net capital appreciation of the client.

A performance fee arrangement is a method of compensation where the Adviser receives a percentage of the appreciation of the assets under management. Our receipt of performance-based fees gives us an incentive to maximize investment returns by making investments that may be subject to greater risk than would otherwise be the case if Quadra Capital were not receiving performance-based compensation.

Performance-based fees are individually negotiated by the Adviser with each client. We are committed to allocating investment opportunities on a fair and equitable basis across different clients and have established policies and procedures to address the potential conflicts of interests.

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

We provide investment advice to investment funds, as described above in Item 4.B of this Brochure.

We provide investment advice to the Managed Account, as described above in Item 4.B of this Brochure.

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

##### **A. METHODS OF ANALYSIS**

The descriptions set forth in this Brochure of specific advisory services that we offer to clients, and investment strategies pursued, and investments made by us on behalf of our clients, should not be understood to limit in any way our investment activities. We may offer any advisory services, engage in any investment strategy, and make any investment, including any not described in this Brochure, that we consider appropriate, subject to each client's investment objectives and guidelines. The investment strategies we pursue are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any client will be achieved.

##### **B. CREDIT INVESTMENT STRATEGY**

The investment strategies detailed in this section relate to the credit investment strategy pursued by the Adviser on behalf of certain clients, including the Managed Account. Please refer to the governing documents applicable to a specific client, including the Managed Account, for information relating to its strategy.

The Adviser's investment objective with respect to its clients is to maximize total return while seeking to preserve capital through attractive risk-adjusted returns and low correlation to the overall equity and credit markets through a portfolio of Brazilian long-biased, opportunistic, stressed, distressed and special situation credit-related investments that provide in most cases the downside protection of credit instruments. The portfolio may include distressed leveraged loans, distressed bonds, senior unsecured loans, senior secured loans, bankruptcy and post-bankruptcy securities, judicial claims, and other event-driven credit special situations.

With respect to any investment, loss of principal is a risk of investing. Investing in equity securities, corporate debts, stressed, distressed and special situation credit-related assets involves risk of loss that

clients should be prepared to bear. There is no assurance that an investment will provide positive performance over any period of time. Past performance is no guarantee of future results and different periods and market conditions may result in significantly different outcomes. This Brochure does not include every potential risk associated with the client strategy. Rather, it is a general description of the principal risks of the strategy.

The nature of the clients' investments involves certain risks and utilizes investment techniques (such as short-selling and the use of derivatives) which carry additional risks. An investment by clients carries substantial risks and is suitable only for persons that can assume the risks of losing their entire investment. References to the clients' investments and any associated risks as described in this section are to any investments made by the clients, including the Managed Account, whether directly or through their respective Brazilian investment vehicle, *fundo de investimento em direitos creditórios não padronizados* ("FIDC-NP" or "Brazilian Investment Vehicle").

Various risks discussed below may apply to some or all of the clients' investment strategies and types of financial instruments, including those in which the Managed Account invests. Different or new risks not addressed below may arise in the future and, therefore, the following list is not intended to be exhaustive. The clients, including the Managed Account's investors, should consult their own legal, tax and financial advisors about the risks of investments. Any such risk could have a material adverse effect on the clients, including the Managed Account's investors.

### **C. MATERIAL, SIGNIFICANT OR UNUSUAL RISKS RELATING TO THE INVESTMENT STRATEGY**

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the clients advised by the Investment Adviser. These risk factors include only those risks we believe to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by the Investment Adviser.

The risk factors detailed herein may relate to one or more investment strategies pursued by the Investment Adviser, and certain risk factors may overlap between different strategies. The Investment Adviser has not indicated below whether any particular risk factor applies to a specific strategy only. Please see the governing documents for the applicable clients for a comprehensive set of risk factors pertaining to the investment strategy pursued by such clients.

The risk factors presented in this Brochure relate to both the Managed Account and other clients. For this reason, the term "client" refers to the risks as to which both the Managed Account and other clients are subject.

There can be no assurance that the Investment Adviser's investment objective will be achieved or that the Investment Adviser will have success in implementing the stated investment strategy.

### **Risks relating to Systems, Operations and Cybersecurity Risks**

**Systems and Operational Risks.** The client depends on the Adviser to develop and implement appropriate systems for the client's activities. The Adviser relies heavily and on a daily basis on financial, accounting and other data processing systems to recommend or 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 the oversight of the Adviser's activities on behalf of the client. Certain of the client's and the Adviser's activities are dependent upon systems operated by third parties, including prime brokers, the Administrator, market counterparties and other service providers, and the Adviser may not be in a position to verify the risks or reliability of such third-party systems. Failures in the systems employed by the Adviser, 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 client's operations may cause the client 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 client and the investors' investments therein.

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

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

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

### **Risks relating to Key Employees**

**Retention and Motivation of Key Employees.** The success of the client is dependent upon the talents and efforts of highly skilled individuals employed by the Adviser and the Adviser's ability to identify and willingness to provide acceptable compensation to attract, retain and motivate talented investment professionals and other employees. There can be no assurance that the Adviser's investment professionals will continue to be associated with the Adviser throughout the life of the client, and the failure to attract or retain such investment professionals could have a material adverse effect on the client

and the investors' investments therein. Competition in the financial services industry for qualified employees is intense and there is no guarantee that, if lost, the talents of the Adviser's investment professionals could be replaced.

### **Risks Relating to the Investment Structure**

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

**Absence of Regulatory Oversight.** The client and the Interests are not expected to be registered under the securities laws of the United States or any other jurisdiction. In particular, the client is not registered as an investment company under the Investment Company Act ("Company Act") and, therefore, will not be required to adhere to the restrictions and requirements under the Company Act. Accordingly, the provisions of the Company Act (which, among other things, require investment companies to have a majority of disinterested directors, require securities to be held in custody by a bank or broker in accordance with rules requiring the segregation of securities, prohibit the investment companies from engaging in certain transactions with affiliates and regulate the relationship between advisers and investment companies) are not applicable.

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

**Portfolio Valuation.** Valuations of the client's portfolio, which affect the amount of the Management Fee and Performance Fee, may involve uncertainties and judgmental determinations. Third-party pricing information may at times not be available regarding certain of the client's securities, derivatives and other assets. A disruption in the secondary markets for the client's investments may limit the ability of the client to obtain accurate market quotations for purposes of valuing such liquid assets and Brazilian Federal, State, Federal District and Municipal *claims (precatórios)* and calculating the net asset value of the client's capital accounts. If the client's valuation should prove to be incorrect, the net asset value of the client's investments could be adversely affected (and, consequently, the net asset value of the client).

**Governmental Entity Investors.** Governmental entities, including, but not limited to, pension plans maintained by governmental agencies and instrumentalities, may invest in the client. Such investors may be subject to laws that affect the applicability or enforcement of certain terms generally governing the client. 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 client by certain governmental entities may subject the client and/or the Adviser to increased regulatory burdens and public disclosures about the client, its investors and its activities.

**Legal Action.** The client and the Adviser, as independent legal entities, may be subject to lawsuits or proceedings by government entities or private parties. Except in certain limited circumstances, expenses or liabilities of the client arising from any suit will be borne by the client.

**Contingent Liabilities.** Under certain circumstances, the client may establish reserves and holdbacks for estimated accrued expenses, liabilities, and contingencies (even if such reserves or holdbacks are not otherwise required by GAAP).

## **Risks Related to Investments in Brazil Generally**

**Economic Factors.** The Brazilian economy differs from the economies of the United States or Western European countries in such respects as general development, wealth distribution, inflation rate, volatility of the rate of growth of gross domestic product, capital reinvestment, resource self-sufficiency and balance of payments position, among others.

In particular, Brazil has experienced substantial and, over some periods, extreme and volatile inflation rates and fluctuations in the value of its currency. Inflation and rapid fluctuations in currency values have had and may continue to have negative effects on the economy and securities markets of Brazil.

In 2008 and 2009 Brazil was awarded investment-grade status by three rating agencies (Standard & Poor's, Fitch, and Moody's), but following a deterioration in economic and fiscal conditions the country lost this status in 2015 (Standard & Poor's and Fitch) and 2016 (Moody's) and never recovered since then. Economic institutions in Brazil are continuing to evolve and they still trail more developed markets in certain respects. Certain enterprises continue to operate under inefficient management structures and with little accountability. Market institutions have not yet developed in such a way as to allocate resources efficiently among firms. In addition, while basic bankruptcy laws are evolving, there is insufficient experience in Brazil to ensure that such laws will permit the orderly liquidation of inefficient firms.

Also, economic and market conditions abroad influence the Brazilian economy and investors' perception of economic conditions in Brazil. For example, events in other emerging market countries like the Asian economic crisis and the 1998 Russian debt moratorium and devaluation of the Russian currency triggered significant securities market volatility and declines in market indices in Brazil and other emerging market countries' securities markets. Similarly, the Covid-19 pandemic in 2020 also caused significant impacts on the economic, social, and political scenario in Brazil. The market value of Brazilian assets may therefore be adversely affected by events occurring outside of Brazil, especially in – but not limited to – other emerging market countries.

**Brazilian Government's Role in Economy.** The Brazilian economy has been characterized by frequent and occasionally drastic intervention by the Brazilian government, although such interventions have been decreasing in magnitude and frequency since the adoption of the Brazilian Real monetary currency in Brazil in 1994. The Brazilian government has often changed monetary, credit, tariff and other policies to influence the course of Brazil's economy. In the past, the Brazilian government's actions to control inflation have often involved wage and price controls (including controls on the price of food and general merchandise) as well as other interventionist measures, such as freezing bank accounts, which occurred in 1990, and imposing capital controls. Changes in policies involving tariffs, exchange controls, regulations and taxation could adversely affect the assets of the clients held in Brazil, as could the Brazilian government's response to inflation, devaluation, social instability and other political, economic or diplomatic developments. However, the Adviser has no control over and cannot predict what measures or policies the Brazilian government may take in the future.

The clients' businesses, financial condition and results of operations may be adversely affected by changes in policy or regulations involving or affecting such general economic factors as:

- Brazilian economic growth;
- Currency fluctuations;
- Inflation;
- Exchange control policies (including payment restrictions on foreign currency indebtedness);
- Interest rates;
- Liquidity of domestic capital and lending markets;
- Social instability;
- Price instability;
- Fiscal and regulatory policies and changes in tax laws; and
- Other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian federal government will implement changes in policy or regulation affecting these or other factors in the future may contribute to economic uncertainty in Brazil. The clients cannot predict what future fiscal, monetary, social security and other policies will be adopted by the current Brazilian federal government or future Brazilian governments. Presidential elections, along with political and economic transition in Brazil, may result in potential changes in administration or other developments that may adversely affect the clients' business and financial results. The clients cannot predict whether any future policies to be adopted by Brazilian government will result in adverse consequences to the Brazilian economy, to the clients' business, results of operations or financial condition or prospects. While the Adviser intends to manage the client's investments in a manner that will minimize their exposure to such risks, there can be no assurance that adverse political or economic changes will not cause the clients to suffer losses.

**Internal Political and Economic Instability.** Historically, the performance of the Brazilian economy has been affected by Brazil's political environment. Political crises have affected investor confidence in Brazil, which adversely affects the development of the economy. Any such development may have a material adverse effect on the clients' business.

**Inflation in Brazil.** Before the adoption of the Brazilian Real, Brazil has in the past experienced high rates of inflation, with annual inflation rates as measured by the IGP-M, a general price inflation index, reaching 2,567% in 1993 and 870% in 1994. More recently, the annual inflation rate measured by the same index decreased from 25.3% in 2002 to a deflation rate of 1.7% in 2009, due to the effects of the global financial crisis that began in late 2008. In 2017, 2018, 2019, 2020, 2021 and 2022 the inflation rate in Brazil was -0.5%, 7.5%, 7.3%, 23.1%, 17.8% and 5.5% respectively. The historical volatility in Brazilian inflation rates has also resulted in high and frequently fluctuating interest rates in Brazil. If Brazil experiences substantial inflation in the future, the Investment Adviser's costs may increase, the Investment Adviser's opportunity set as well as its operating margins may decrease, and such decrease may adversely affect the Investment Adviser's ability to pay its expenses and the ability of companies in which the Investment Adviser has caused clients to invest to satisfy their payment obligations to clients. Inflationary pressures may also lead to further government intervention in the economy, including the introduction of government policies that may adversely affect the overall performance of the Brazilian economy and the companies to which the Investment Adviser lends or in which the Investment Adviser has invested. The Brazilian monetary authorities have been adopting an inflation target regime since 1999,

but there can be no assurance that increases in inflation will not occur; should increases occur they will likely have a material adverse effect on the performance of client portfolios.

**Brazilian Real-Market and Convertibility Risks.** The clients' investments in Brazil through the Brazilian Investment Vehicle(s) will be exposed to Brazilian Real fluctuation against the U.S. Dollar. Investors in the clients should be aware that the volatility and variations of Brazilian exchange rates may be substantially higher when compared with exchange rates among developed countries and even with some other emerging market exchange rates.

In the past, the Brazilian government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), floating exchange rate systems, exchange controls and dual exchange rate markets. Although over long periods the devaluation of the Brazilian currency generally has correlated with the rate of inflation in Brazil, devaluations over shorter periods have resulted in significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar, as well as currencies of other countries. Historically, depreciations of the Brazilian Real have produced inflationary pressures in the Brazilian economy (either by increasing the price of imported products or as a result of governmental policies instigated to curb aggregate demand), and there can be no assurance that any further devaluation of the Brazilian currency will not cause similar or other adverse effects in the future.

In addition, the Brazilian Real is exposed to convertibility risk (or frontier risk), which means that the country may impose temporary restrictions on foreign capital remittances abroad. The clients could be adversely affected by delays in, or a refusal to grant, any required governmental approval for repatriation of capital, as well as by the application to the clients of any restrictions on investments. (See also, "Certain Risk Factors—Hedging Transactions" and "—Currencies" below.)

**Ability to Enforce Legal Rights.** The clients may have difficulty in successfully pursuing claims in the courts of Brazil. Further, to the extent that the clients may obtain a judgment but is required to seek its enforcement in the courts of Brazil, there can be no assurance that such a court will enforce such a right. A judgment obtained outside Brazil would be enforceable in Brazil, without reconsideration of the merits, upon confirmation of that judgment by the Brazilian Superior Court of Justice (*Superior Tribunal de Justiça*). That confirmation, generally, will occur if the foreign judgment (i) fulfills all formalities required for its enforceability under the laws of the country where the foreign judgment is granted, (ii) is issued by a competent court after proper service of process is made in accordance with Brazilian legislation, (iii) is not subject to appeal, (iv) is authenticated by a Brazilian consular office in the country where the foreign judgment is issued and is accompanied by a sworn translation into Portuguese, and (v) is not contrary to Brazilian national sovereignty, public policy or public morality (as set forth under Brazilian law). Notwithstanding the foregoing, no assurance can be given that such confirmation will be obtained at all or in a timely manner or that a Brazilian court would enforce a judgment obtained outside Brazil.

**Restrictions and Control on Foreign Investments.** Foreign investment in securities of Brazilian issuers is restricted or controlled to varying degrees. These restrictions or controls may at times limit or preclude foreign investment in certain issuers and increase the costs and expenses of the clients. There can be no assurances that these restrictions will not adversely affect the clients' ability to achieve its investment objective or that they will not adversely affect the performance of the clients' investments. In addition, if there is a deterioration in a specific government's balance of payments or for other reasons,

such government may impose temporary restrictions on foreign capital remittances abroad subject to exchange control restrictions and foreign investment legislation, which generally requires, among other things, obtaining a certificate of registration. For example, in 1990, the Brazilian government froze bank deposits as part of an economic stabilization plan, including the deposits of foreign investors investing through government-approved programs. The clients could be adversely affected by delays in, or a refusal to grant any required governmental approval for repatriation of capital, as well as by the application to the clients of any restrictions on investments. Moreover, restrictions may be imposed on remittances to foreign investors relating to distributions or other proceeds relating to their investments. There can be no assurance that additional or different restrictions or adverse policies applicable to the clients could not be imposed in the future, nor as to the duration or impact of such restrictions or policies if imposed.

**Nationalization Risk.** Brazilian governmental authorities may, at any time, cause the expropriation, confiscation, freezing, nationalization, requisition or other action which, directly or indirectly, may deprive the clients of any of its assets (including rights to receive payments) in Brazil. Any such action with respect to the clients' investments or companies in which the clients have invested or extended credit would adversely affect the clients' investment returns.

**Local Intermediary Risk.** Certain of the clients' transactions may be undertaken through local brokers, banks or other organizations in Brazil, and the clients will be subject to the risk of the default, insolvency or fraud of such organizations. There can be no assurance that any money advanced to such organizations will be repaid or that the clients would have any recourse in the event of default. The collection, transfer and deposit of bearer securities and cash expose the clients to a variety of risks including theft, loss, and destruction. Finally, the clients will be dependent upon the general soundness of the Brazilian banking system.

**Accounting Disclosure Standards.** Accounting, auditing, financial and other reporting standards, practices, and disclosure requirements in Brazil (or other countries in which the clients may invest) are not equivalent to those in the United States and certain Western European countries and may differ in fundamental ways. Accordingly, information available to the clients, including both general economic and commercial information and information concerning specific enterprises or assets, may be less reliable and less detailed than information available in more economically sophisticated countries. In addition, in certain circumstances, the clients may not receive access to all available information to determine fully the investments or the manner in which such investments have been serviced and/or operated. As a result, the clients' due diligence activities may provide less information than the due diligence reviews conducted in more developed countries. While the clients and the Adviser will endeavor to conduct appropriate due diligence in connection with each investment, no guarantee can be given that they will obtain the information or assurances that an investor in a more sophisticated economy would obtain before proceeding with an investment.

**Increased Tax Rates in Brazil.** The Brazilian government has in the past changed tax rates and created new taxes, as well as modified the system of taxation with some frequency. In the event that the Brazilian government increases tax rates or creates new taxes that are imposed on the clients or its portfolio investments, the financial condition and results of operations may be materially adversely affected.

**No Guarantee of Risk Elimination.** Investment in the FIDC-NP (as defined below) subjects the clients to the risks affecting the FIDC-NP and their respective portfolios, which may cause the loss of capital invested by the clients in the FIDC-NP. There is no guarantee in the elimination of the potential for

losses by the FIDC-NP and the clients. The FIDC-NP is not guaranteed by the Administrator or the Adviser, by their respective affiliates or by any third parties or by any insurance mechanism, with regard to the reduction or elimination of the risks to which the FIDC-NP is subject. Potential losses sustained by the FIDC-NP are not limited to the amount of subscribed capital and, therefore, the clients may be required to contribute additional capital in the future, including in situations where the FIDC-NP lacks the necessary assets to fulfill its obligations.

**Risks Associated with Investing in Credit Instruments.** The FIDC-NP may invest in a variety of credit instruments issued by mid-sized companies. In addition to the risks of borrower default or delinquency, the FIDC-NP will be subject to a variety of risks in connection with such credit investments, including the risks of mismanagement of the borrower, fraud or a decline in value of collateral, contested foreclosures, bankruptcy of the borrower or debtor, claims for lender liability, violations of usury laws and the imposition of legal restrictions on the FIDC-NP's exercise of contractual remedies for defaults on such investments.

**Investments in Troubled Assets.** The FIDC-NP may make investments in non-performing or other troubled assets that involve a high degree of financial risk, and there can be no assurance that the FIDC-NP's target return objectives will be realized or that there will be any return of the FIDC-NP's capital. Furthermore, investments in distressed assets may, in certain circumstances, be subject to additional potential liabilities that could exceed the value of the FIDC-NP's original investment.

**Operational Risks Related to FIDC-NP's Service Providers.** While the FIDC-NP will maintain certain procedures and controls to protect its investment in creditors' rights, including the implementation of controls to safeguard supporting documents, monitor payment flow and relevant operational proceedings, including enforcement and collection proceedings, the FIDC-NP may hire third-party service providers to fulfill these duties.

The non-fulfillment of these duties by the FIDC-NP's charging agent, deposit agent, administrator, investment manager, custodians or assignor, in accordance with their contracts with the FIDC-NP, the FIDC-NP's administrator and/or custodian, may result in deviations from the FIDC-NP's procedures for creditors' rights' assignment and enforcement and collection, investment management, administration, deposit, safeguard of support documents, recordkeeping, custody and control of assets and bookkeeping. The failure to implement such procedures may subject the FIDC-NP to losses.

### **Certain Risks Associated with the FIDC-NP**

Below are specific risks that apply to any Brazilian Investment Vehicle organized as a FIDC-NP. These risk factors should be read in conjunction with the other risk factors contained in the Investment Management Agreement, including the general risk factors relating to the clients' investments that apply to direct investments by the clients and indirect investments by the clients through any Brazilian Investment Vehicle.

**Limited Liquidity Generally.** The FIDC-NP is subject to liquidity risks with respect to its quotas and/or its investment in creditors' rights. With regard to the amortization of quotas, the FIDC-NP may not be able to make payments relating to scheduled amortizations in the case of (i) reduced liquidity in the markets on which permitted investments are traded; and/or (ii) extraordinary market conditions. As a result of such characteristics and due to the fact that the FIDC-NP will be organized as a closed-end condominium (*i.e.*, it does not accept the possibility of redemption of its quotas at any time), the clients could face difficulties when selling its quotas in the secondary market. Furthermore, the investments of

the FIDC-NP in creditors' rights are different than investments carried out by most Brazilian investment funds, since, in Brazil, there is no liquid secondary market for creditors' rights. If the FIDC-NP needs to sell creditors' rights, there may not be a purchaser or the negotiated price could be very low, which would result in losses to the net worth of the FIDC-NP and, consequently, of the partial or total capital invested by quotaholders.

**Credit Risks.** In the case of a bankruptcy or judicial recovery filing, protection from extrajudicial reorganization plan, or other insolvency proceedings of the debtors or the assignors (the debtors co-obligors), the FIDC-NP may not receive all or a portion of the principal amount and/or interest relating to all or some of the creditors' rights that make up its portfolio, which may adversely affect the results of the FIDC-NP.

As a general rule, the payment by, or the solvency of, the debtors under the creditors' rights held FIDC-NP will not be guaranteed by assignors, by originators of the creditors' rights, by the FIDC-NP's administrator, by the FIDC-NP's investment manager and/or by the FIDC-NP's custodian. As a general rule, the assignors will only be liable for the origination, formalization and assignment and transfer of the creditors' rights sold to the FIDC-NP, not assuming any responsibility for its payment for the solvency of the corresponding debtors. The FIDC-NP may incur credit risks from debtors and the other co-obligors of the creditors' rights and will suffer the impact of any default of overdue creditors' rights, as well as the impossibility to enforce potential guarantees connected to creditors' rights or the insufficiency of funds resulting from the enforcement of such guarantees to meet the full extent of the defaulted credit right. Therefore, should the FIDC-NP acquire portfolios of overdue credit rights, the increase in the value of the investments of the FIDC-NP, and, consequently, of its quotas, will be directly associated to the results of the collection efforts relating to the credit rights to be carried out by the FIDC-NP's collection agent on behalf of the FIDC-NP.

The FIDC-NP's financial assets are subject to their issuers' ability to honor payments of interest and principal relating to such financial assets. Changes in the financial conditions of the issuers of financial assets and/or in the perception that the investors may have about such conditions, as well as changes in the economic and political conditions that could compromise their payment capabilities could have material impact on the price and liquidity of the financial assets. Changes as to the perception of quality of the issuers' credit, even if unfounded, may also bring about profound impacts on prices and on the liquidity of financial assets.

The FIDC-NP may incur credit risk from the issuers of financial assets and brokers and distributors of securities that may intermediate the purchase and sale transactions of the financial assets on behalf of the FIDC-NP, at the time of the liquidation of the transactions carried out through such brokers and distributors. In case of lack of capabilities and/or lack of payment provisions on the part of any of the issuers of financial assets or their counterparts in transactions that are part of the portfolio of the FIDC-NP, the FIDC-NP may sustain losses, which could include costs to enable the recovery of its credits.

**Limited Liquidity.** Except for the amortization of quotas of the FIDC-NP, since the FIDC-NP is a closed-end condominium, the redemption of its quotas can only take place (i) after the end of the term of effectiveness of each series of quotas, at which time all quotaholders of the FIDC-NP (the "FIDC-NP Partners") will mandatorily use their redeemed quotas, or (ii) in cases of early liquidation of the FIDC-NP, as defined in the FIDC-NP's by-laws. The FIDC-NP's administrator and the FIDC-NP's custodian do not ensure that the amortizations and/or redemption of the quotas will take place on the originally scheduled

dates, and no fine of any nature will be payable by the FIDC-NP, by the FIDC-NP's administrator, by the FIDC-NP's investment manager or by the FIDC-NP's custodian.

The FIDC-NP may be liquidated in the manner described in the FIDC-NP's by-laws. Once the FIDC-NP Partners decide, during a general meeting of the FIDC-NP Partners, to liquidate the FIDC-NP in advance, the redemption of the quotas may take place by means of the delivery of creditors' rights and/or financial assets. In those cases, the FIDC-NP Partners may face difficulties (i) in selling the creditors' rights and/or financial assets received at the time of the early liquidation of the FIDC-NP or (ii) in collecting the amounts payable by debtors under the creditors' rights.

**Risk Relating to Court Collection and/or Extrajudicial Defaulted Creditors' Rights.** The FIDC-NP, the FIDC-NP's administrator, the FIDC-NP's investment manager, the FIDC-NP's custodian and the FIDC-NP's collection agent are not responsible for the due performance of the creditors' rights. There is no guarantee that the procedure for the collection of the creditors' rights, including the overdue creditors' rights, would ensure that amounts owed to the FIDC-NP relating to such creditors' rights shall be paid or recovered, which could adversely affect the FIDC-NP's net equity and consequently result in insufficient funds in the FIDC-NP to make payments as scheduled in the FIDC-NP's by-laws. The FIDC-NP or third party engaged by it may file an action for collection of defaulted creditors' rights or enforcement action of guarantees concerning such overdue creditors' rights. It is possible that such actions extend over a period of time excessively higher than estimated and that the FIDC-NP takes or fails to recover the amounts owed. In such cases, the FIDC-NP may not have the resources to make the payments within the deadlines specified in the FIDC-NP's by-laws. Additionally, the FIDC-NP's may enter into agreements and/or renegotiation of overdue creditors' rights, with the granting of discounts and changing payment terms of the creditors' rights, as recommended by the FIDC-NP's collection agent. The agreements and renegotiation of overdue creditors' rights may eventually adversely affect the FIDC-NP's net equity, when performed for the receipt of less than the acquisition cost of the creditors' rights by the FIDC-NP and/or value when the agreement or renegotiation to establish deadlines for payment more extensive than those in effect when the acquisition of the creditors' rights.

**Risks Related to the Assets Pledged as Collateral of Operations Conducted by the FIDC-NP.** Although it is not the purpose of the FIDC-NP, other assets not covered by the FIDC-NP's by-laws may exceptionally enter into the FIDC-NP's portfolio as a result of enforcing of the guarantees of the creditors' rights. In this case, the FIDC-NP's investment manager may not be able to successfully sell the asset, within the estimated time for him to do so. While the asset is in the portfolio of the FIDC-NP, it may incur costs and expenses related to the maintenance, inspection and asset protection costs, including costs of custody, supervision, payment of taxes and maintenance costs. Therefore, there is risk of the FIDC-NP to issue quotas to raise capital to pay for such costs and expenses of the asset, during the period while the asset is not yet been disposed. Moreover, if the asset is not sold until the expiration of the FIDC-NP, there is a risk of distribution in kind of assets to the FIDC-NP Partners as payment for their quotas yet to be redeemed. Additionally, the FIDC-NP may acquire creditors' rights and/or financial assets, whose guarantee is granted by the debtor in the form of its lien on goods, including, for example, real estate. A chattel mortgage (*alienação fiduciária*) is a certain type of guarantee whereby the debtor to the creditor transfers the ownership of certain resolvable property. Thus, if the FIDC-NP did not timely receive the resources of certain creditors' rights and/or financial assets whose collateral is *alienação fiduciária*, full ownership, will be transferred to the FIDC-NP. Thus, the FIDC-NP may hold in its portfolio a good, running the risks inherent in such assets, for example, in the case of real estate properties, assuming obligations of various kinds, including but not limited to tax and environmental obligations related to the property.

**Liquidity Trading of Quotas on the Secondary Market.** Investment funds in creditors' rights are a new and sophisticated type of investment in the Brazilian financial market and, therefore, possess restricted application to individuals or entities that classify as qualified investors. The quotas will not be negotiated on the secondary market and are being restricted in the transfer to third parties. The negotiation of quotas will be allowed only if the FIDC-NP's by-laws are amended to allow the negotiation of the quotas and to establish the presentation of the risk rating report to the CVM. Additionally, even if the FIDC-NP's by-laws were amended to allow the negotiation of the quotas, the investment funds in creditors' rights, as well as the FIDC-NP, face low liquidity in the Brazilian secondary market. Therefore, the FIDC-NP Partners may have difficulties in selling their quotas on the secondary market, as well as, if the FIDC-NP Partners need to sell their quotas, there may be no buying market, or the selling price of the quotas may reflect such low liquidity, giving cause to asset losses to the FIDC-NP Partners.

#### **Liquidity Risks of Underlying Assets.**

**Concentration Risk for the FIDC-NP.** In compliance with the FIDC-NP's eligibility criteria at each acquisition date of the creditors' rights, the FIDC-NP may maintain in its portfolio creditors' rights and financial assets from the same debtor, or co-obligations of the same person or entity, to the extent of 20% (twenty percent) of the FIDC-NP's net asset value, subject to the following exceptions:

(i) This limit may be increased up to 25% (twenty five percent) when the debtor or co-obliged: (a) is registered as a public company; (b) is a financial institution authorized to operate by the Brazilian Central Bank; or (c) is an entrepreneurial company that has its financial statements for its fiscal year that immediately precedes the date of constitution of the FIDC-NP prepared in accordance with the provisions of Law No. 6404 of December 15, 1976, and ordinances issued by the CVM, and audited by an independent auditor registered with the CVM.

(ii) During the FIDC-NP's investment period, the FIDC-NP may acquire creditors' rights from the same debtor or co-obligations of the same person or entity in excess of 20% (twenty percent) of the FIDC-NP's net asset value, subject to CVM's prior approval. Considering that the investment process takes significant time, given that the majority of the targeted assets are complex, illiquid and difficult to negotiate, requiring a due diligence performance before its acquisition, this exception allows the FIDC-NP's investment manager to search for what it considers to be suitable assets for the FIDC-NP during the its investment period.

(iii) The FIDC-NP may also purchase up to 100% (one hundred percent) of its net asset value in creditors' rights assigned by the same assignor, as may be provided in FIDC-NP's by-laws. This may result in the FIDC-NP's exposure to greater credit, sectorial and other risks, which in turn may have a negative effect on the profitability of the FIDC-NP.

**Risks relating to Brazilian Federal, State, Federal District or Municipal Claims (*precatórios*) (each a "*Precatório*" and collectively, "*Precatórios*").**

**Uncertainty as to the Date of Payments of Brazilian Federal, State, Federal District or Municipal *Precatórios*.** Brazilian Federal, State, Federal District or Municipal *Precatórios* that do not

benefit from a priority under Brazilian law<sup>1</sup> are generally paid in chronological order (based on the date the *Precatório* is issued) and subjected to the budgetary constraints of the public debtor. There is no way to accurately predict the date when payments pursuant to such *Precatórios* will be received by the clients. Even if a *Precatório* has been issued by a court, the receipt of actual payment by the clients may take a longer time, considering the slowness of the Brazilian courts, the possible adoption of delaying procedures by the public debtor and any difficulty in satisfying the debt due to the financial situation of the debtor. The delayed payment of the amounts owed when due pursuant to such *Precatórios* may adversely affect the financial results and cause significant losses to the clients and thereby the investment made by the clients, including total or partial loss of the amount invested, if no payments are received with respect to a particular *Precatório* or the amounts paid are lower than the relevant acquisition costs or the payment is made later than what the clients had estimated.

**Possible Changes of the Payment Terms and Conditions of Brazilian Federal, State, Federal District or Municipal *Precatórios*.** Since September 2000, the Brazilian Federal Constitution has undergone some changes, specially changes to the terms and conditions for payment of judicial debts, including Brazilian State, Federal District or Municipal *Precatórios* (i.e., the extension of the payment term and the possibility of installment payment). For several reasons, the amounts owed pursuant to Brazilian State, Federal District or Municipal *Precatórios* may actually be paid later than when due. For example, uncertainties may arise from changes to Brazilian law, including, without limitation, Constitutional Amendment N. 94, dated December 15, 2016, Constitutional Amendment N. 99, dated December 14, 2017 and Constitutional Amendment N. 109, dated March 15, 2021, which set forth a special regime for payment of Brazilian State, Federal District or Municipal *Precatórios* due prior to March 25, 2015. According to the special regime, these *Precatórios* must be paid in monthly installments and full payment must be made by December 31, 2029. The monthly installments must be calculated based on a certain percentage of the debtor's current net revenue and made into a special bank account at the respective Brazilian State court and subject to the court's sole and exclusive control. The uncertain financial situation of some Brazilian States, Federal District and Municipalities could result in significant losses to the clients. The same changes may ultimately occur with respect to Brazilian Federal *Precatórios*, since there is no guarantee that the terms and conditions for payment of such *Precatórios* will not change. In addition, the Constitutional Amendment N. 113, dated December 8, 2021, and Constitutional Amendment N. 114, dated December 16, 2021, modified the terms and conditions for payment of *Precatórios*. For purposes of monetary adjustment, remuneration of capital and compensation for late payment, *Precatórios* value must be adjusted by the Special System for Settlement and Custody ("Selic"), accrued monthly, exclusively once and until actual payment. Regarding Brazilian Federal *Precatórios* it was established that they must be paid until December 31, 2026 respecting a cap per financial year calculated based on the amount paid in 2016, adjusted for inflation, for the final and non-appealable judicial orders. However, the constitutionality of the payment regime of Brazilian Federal, State, Federal District or Municipal *Precatórios* could be put in question or a new law may come into effect changing the prevailing terms and conditions.

## **Other Risks Related to Investment Activities**

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<sup>1</sup> One example of priority payments are those to holders of Brazilian State, Federal District or Municipal *Precatórios* who suffer from serious diseases or elderly people.

**General Economic and Market Conditions.** The clients' investments will be focused on Brazil credit-related investment opportunities. However, the clients is expected to trade in and across different markets. The clients' activities will therefore be affected by general economic and market conditions in and outside of Brazilian markets, such as the relevant interest rates, availability of credit, credit defaults, inflation rates, commodity prices, economic uncertainty, changes in laws (including laws relating to the taxation of the clients' 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 clients' investments. Volatility or illiquidity could impair the clients' profitability or result in losses. The clients may maintain substantial trading positions that can be adversely affected by the level of volatility in the financial markets. Economic slowdowns or downturns could lead to financial losses in the clients' portfolio securities and net assets of the clients. In addition, many of the clients' investments may be similarly subject to the same economic conditions, which could adversely impact the clients' return. Debt and equity securities are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence and investor perceptions of issuers change. These investor perceptions are based on various and unpredictable factors, including expectations regarding government, economic, monetary and fiscal policies, inflation and interest rates, economic expansion or contraction, and global or regional political, economic or banking crises. Decreases in the market value of the investments made by the clients will adversely affect the returns of the clients.

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

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

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

**Short-Selling.** The clients may engage in short-selling. Short-selling involves selling securities which are not owned and borrowing them for delivery to the purchaser, with an obligation to

replace the borrowed securities at a later date. Short-selling allows the investor to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which the clients may engage in short sales will depend upon the Adviser'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 clients of buying those securities to cover the short position. There can be no assurance that the clients will be able to maintain the ability to borrow securities sold short. In such cases, the clients 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 clients 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 clients secures a "good borrow" of the securities sold short at the time of execution, the lending institution may recall the lent security at any time, thereby forcing the client to purchase the security at the then-prevailing market price, which may be higher than the price at which such security was originally sold short by the client.

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

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

**Hedging Transactions.** As described herein, the Adviser intends to enter currency hedging transactions to hedge against Brazilian Real currency risk (see "Certain Risk Factors—Currency Exchange Exposure" below). Otherwise, the Adviser is not required to, and may not attempt to, hedge market risks or other risks inherent in the clients positions. In addition, the Adviser may not anticipate a particular risk so as to hedge against it.

The clients, however, may utilize a variety of financial instruments (including options and derivatives), both for investment purposes and (to the extent desired) for risk management purposes in order to: (i) protect against possible changes in the market value of the clients' investment portfolio resulting from changes in interest rates and fluctuations in the securities or commodities markets; (ii) protect the unrealized gains in the value of the clients' investment portfolio; (iii) facilitate the sale of any

such investments; (iv) enhance or preserve returns, spreads or gains on any investment in the clients' portfolio; (v) hedge the interest rate or currency exchange rate on any of the clients' liabilities or assets; (vi) protect against any increase in the price of any securities or commodities the clients anticipates purchasing at a later date; or (vii) for any other reason that the Adviser deems appropriate.

The success of the Adviser's hedging is subject to the Adviser's ability to correctly assess the degree of correlation between the performance of the instruments used to hedge and the performance of the investments in the portfolios being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the instances when the Adviser hedges portfolio positions in the clients is also subject to the Adviser's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While the clients may enter into certain hedging transactions, like currency hedging, to seek to reduce risk, such transactions may result in a poorer overall performance for the clients than if they had not engaged in any such hedging transactions. For a variety of reasons, the Adviser may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent the clients from achieving the intended hedge or expose the clients to risk of loss. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the clients' portfolio holdings.

**Currency Exchange Exposure.** All contributions to the clients must be made in U.S. Dollars, while the clients will invest in securities denominated in Brazilian Real or potentially other non-U.S. currencies, the prices of which are determined with reference to the Brazilian Real and/or currencies other than the U.S. Dollar. This exposes the clients to currency risks.

In the past, the Brazilian Central Bank periodically devalued the Brazilian currency, but since 1999, when Brazil changed its exchange rate regime, the Brazilian Central Bank's intervention has been less obstructive. The exchange rate between the Brazilian Real and the U.S. Dollar has varied significantly since then, as the Brazilian currency has floated more freely. However, more dramatic Brazilian Central Bank intervention in response to political developments in Brazil and changing global, regional and local economic circumstances remains a risk. From time to time, there have been significant exchange rate fluctuations between the Brazilian Real and the U.S. Dollar and other currencies. The return of the clients on any investment will be affected by fluctuations in currency exchange rates and exchange control regulations as well as by the success of the investment itself. Potential devaluations of the Brazilian Real against the U.S. Dollar may also create inflationary pressures in Brazil that may negatively affect the clients. Further, a significant devaluation generally results in a curtailment of access to foreign financial markets for the clients and can lead to government intervention, including recessionary government policies.

To the extent the clients seeks to hedge against currency exchange risk, the clients may enter into spot and forward currency contracts or invest in currency futures contracts and options on currencies and futures to hedge currency risk by shifting exposure to foreign currency fluctuations from one currency to another with respect to the clients. Currency transactions made on a spot (*i.e.*, cash) basis are at the spot rate prevailing in the currency exchange market. A forward currency contract, which involves an obligation to purchase or sell a specific currency at a future date at a price set at the time of the contract, reduces the clients' exposure with respect to its investment to changes in the value of the currency it will deliver and increases the clients' exposure to changes in the value of the currency it will receive for the duration of the contract.

There can be no guarantee that securities suitable for hedging currency or market shifts will be available at the time when the clients wishes to use them, or that hedging techniques employed by the clients will be effective. Furthermore, certain currency market risks may not be fully hedged or hedged at all. To the extent unhedged, the value of the clients' positions in Brazilian and other non-U.S. investments will fluctuate with U.S. Dollar exchange rates, as well as with the price changes of the investments in the various local markets and currencies. Likewise, the value of the clients' positions in U.S. Dollar and other non-BRL investment will fluctuate with the Brazilian Real exchange rate, as well as with price changes of the investment in the various local markets and currencies. Such fluctuations may result in a loss to the client and adversely affect the investors.

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

**Currency Trading.** Currency trading is subject to risks different from those of other securities transactions. Because exchange rate control is of great importance to the issuing governments and influences economic planning and policy, purchases and sales of currency and related instruments can be negatively affected by government exchange controls, blockages, and manipulations or exchange restrictions imposed by governments. These government actions can result in losses to the client if it is unable to deliver or receive currency or funds in settlement of obligations. Buyers and sellers of currency futures are subject to the same risks that apply to the use of futures generally. Furthermore, settlement of a currency forward contract for the purchase of most currencies must occur at a bank based in the issuing nation. The ability to establish and close out options on currency futures is subject to the maintenance of a liquid market, which may not always be available. Currency exchange rates may fluctuate based on factors extrinsic to that country's economy.

At or before the maturity of a forward currency contract, the client may either make delivery of the currency, or terminate its contractual obligation to deliver the currency by buying an "offsetting" contract obligating it to buy, on the same maturity date, the same amount of the currency.

If the client engages in an offsetting transaction, it may later enter into a new forward currency contract to sell the currency. If the client engages in an offsetting transaction, it will incur a gain or loss to the extent that there has been movement in forward currency contract prices. If forward prices go down during the period between the date the client enters into a forward currency contract for the sale of a currency and the date it enters into an offsetting contract for the purchase of the currency, the client will realize a gain to the extent that the price of the currency it has agreed to sell exceeds the price of the currency it has agreed to buy. If forward prices go up, the client will suffer a loss to the extent the price of the currency it has agreed to buy exceeds the price of the currency it has agreed to sell.

**Fundamental Analysis.** The Adviser's investment process is based on fundamental analysis. Data on which fundamental analysis relies may be inaccurate or may be generally available to

other market participants. To the extent that any such data are inaccurate or that other market participants have developed, based on such data, trading strategies similar to the client's trading strategies, the client may not be able to realize its investment goals. In addition, fundamental market information is subject to interpretation. To the extent that the Adviser misinterprets the meaning of certain data, the client may incur losses.

**Analytical Model Risks.** The client employs certain strategies which depend upon the reliability, accuracy and analysis of the Adviser's analytical models. To the extent such models (or the assumptions underlying them) do not prove to be correct, the client may not perform as anticipated, which could result in substantial losses. All models ultimately depend upon the judgment of the Adviser and the assumptions embedded in them. To the extent that with respect to any investment, the judgment or assumptions are incorrect, the client can suffer losses.

**Counterparty Risk.** The client expects to establish relationships to obtain financing, derivative execution, derivative intermediation and prime brokerage services that permit the client to trade in any variety of markets or asset classes over time. However, there can be no assurance that the client will be able to establish or maintain such relationships. An inability to establish or maintain such relationships could limit the client's trading activities, create losses, preclude the client from engaging in certain transactions or prevent the client from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships could have a significant impact on the client's business due to the client's reliance on such counterparties.

The client may effect transactions in the "over-the-counter" or "OTC" derivatives markets. The stability and liquidity of OTC derivatives transactions depends in large part on the creditworthiness of the parties to the transactions. In the OTC markets, the client enters into a contract directly with dealer counterparties, which may expose the client to the risk that a counterparty will not settle a transaction in accordance with its terms because of a solvency or liquidity problem with the counterparty. Delays in settlement may also result from disputes over the terms of the contract (whether or not *bona fide*). In addition, the client may have a concentrated risk in a particular counterparty, which may mean that, if such counterparty were to become insolvent or have a liquidity problem, losses would be greater than if the client had entered into contracts with multiple counterparties. Certain OTC derivative contracts require that the client post collateral.

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

Collateral that the client 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 client may become subject to the risk that it may not receive the return of its collateral or that the collateral may take some time to return.

In addition, the client may use counterparties located in jurisdictions outside the United States such as Brazil. Such local counterparties usually are subject to laws and regulations in non-U.S. jurisdictions that are designed to protect customers in the event of their insolvency. However, the practical effect of these laws and their application to the client'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 client and its assets. Investors should assume that the insolvency of any such counterparty would result in significant delays in recovering the client's securities from or the payment of claims therefor by such counterparty and a loss to the client, which could be material.

**Credit Ratings.** In general, the credit rating assigned by a nationally recognized rating agency to a security represents such rating agency's opinion of the safety of the principal and interest payments of the rated instrument based on available information. Such ratings are relative and subjective; they are not absolute standards of quality and do not evaluate the market value risk of such securities. Such ratings also do not reflect macroeconomic or systemic risk, including the risk of increased illiquidity in the credit markets. Further, credit ratings may change over time due to various factors, including changes in the creditworthiness of the issuer and/or changes in the rating agency's analytics and processes. It is possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events and, as a result, outstanding ratings may not reflect the issuer's current credit standing. The client may incur losses if it makes investments based on credit ratings that subsequently change in a way not favorable to the client's investment objective.

**Counterparty Fraud.** Of paramount concern in investments is the possibility of material misrepresentation or omission on the part of a counterparty. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying an investment. To the extent that the Adviser makes investments on behalf of the client, the Adviser relies upon the accuracy and completeness of representations made by counterparties to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to the client may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

**Counterparty Insolvency.** The client's assets may be held in one or more accounts maintained for the client by counterparties, including its prime brokers. There is a risk that any of such counterparties could become insolvent. The insolvency of the client's counterparties is likely to impair the operational capabilities or the assets of the client. If one or more of the client's counterparties were to become insolvent or the subject of liquidation proceedings in the U.S. (either under the Securities Investor Protection Act or the U.S. Bankruptcy Code), there exists the risk that the recovery of the client's securities and other assets from such prime broker or broker-dealer will be delayed or be of a value less than the value of the securities or assets originally entrusted to such prime broker or broker-dealer.

In addition, the client may use counterparties located in various jurisdictions outside the U.S., in particular in Brazil. Such local counterparties are subject to various laws and regulations in various jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to the client's assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the

range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of their insolvency on the client and its assets. Investors should assume that the insolvency of any client counterparty would result in a loss to the client, which could be material.

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

**Exposure to Material Non-Public Information.** From time to time, the Adviser may receive material non-public information with respect to an issuer of publicly traded securities. In such circumstances, the client 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, (iii) pursuing other investment opportunities related to such issuer, and (iv) investing in securities of other issuers for which the client deems itself restricted by virtue of the Adviser's involvement in such issuer of publicly traded securities.

**Restricted Investments.** The client may invest in securities which are subject to legal or other restrictions on transfer. The market prices, if any, for such securities tend to be volatile and may not be readily ascertainable, and the client may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale.

**Non-U.S. Investments.** The client is expected to make investments in companies outside the United States, particularly in Brazil and certain other offshore jurisdictions. Investing in the securities of companies in non-U.S. countries involves certain considerations not usually associated with investing in securities of U.S. companies or U.S. markets, including: political and economic considerations, such as greater risks of expropriation and nationalization, confiscatory taxation, the potential difficulty of repatriating funds, general social, political and economic instability and adverse diplomatic developments; the possibility of imposition of withholding or other taxes on dividends, interest, capital gain, other income or gross sale or disposition proceeds; the 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; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the client's investment opportunities. In addition, accounting and financial reporting standards that prevail in such countries generally are not equivalent to U.S. standards and, consequently, less information is available to investors in companies located in such countries than is available to investors in companies located in the U.S. There is also less regulation, generally, of the securities markets in such countries than there is in the U.S. As a result, the client may be unable to structure its transactions to achieve the intended results or to mitigate all risks associated with such markets. It may also be difficult to enforce the client'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, the securities and commodities laws and regulations of the U.S. Accordingly, the protections accorded to the client under such laws and regulations are unavailable for transactions on non-U.S. exchanges and with non-U.S. counterparties.

**Emerging Markets Generally.** In addition to the risks associated with investments outside of the United States, investments in emerging markets (*i.e.*, developing countries, such as Brazil) may involve additional risks. Emerging markets generally are not as efficient as those in developed countries.

In some cases, a market for the financial instrument may not exist locally, and transactions will need to be made on a neighboring exchange or OTC. Volume and liquidity levels in emerging markets are lower than in developed countries. When seeking to sell emerging market financial instruments, little or no market may exist for such instruments. In addition, imposition of exchange regulations, limitations on removal of funds, political instability, corruption and confiscatory taxation are more likely to occur in emerging markets.

Issuers based in emerging markets are not generally subject to uniform accounting and financial reporting standards, practices and requirements comparable to those applicable to issuers based in developed countries, thereby potentially increasing the risk of fraud or other deceptive practices. Furthermore, the quality and reliability of official data published by the government or securities exchanges in emerging markets may not accurately reflect the actual circumstances being reported. The issuers of some non-U.S. securities, such as banks and other financial institutions, may be subject to less stringent regulations than would be the case for issuers in developed countries and therefore potentially carry greater risk. Custodial expenses for a portfolio of emerging markets securities generally are higher than for a portfolio of securities of issuers based in developed countries.

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

### **Risks Related to Specific Investments**

**Debt Investments.** Private and public debt investments of all types 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.

*Dealer Market Making.* The value of the client'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 client's profitability or result in losses.

*Interest Rate Risk.* Changes in interest rates can affect the value of the client's investments in fixed-income instruments. Increases in interest rates may cause the value of the client's debt investments to decline. The client may experience increased interest rate risk to the extent it invests, if at all, in lower-rated instruments, debt instruments with longer maturities, debt

instruments paying no interest (such as zero-coupon debt instruments) or debt instruments paying non-cash interest in the form of other debt instruments.

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

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

The adverse effects of prepayments may impact the client’s portfolio in that particular investments may experience outright losses, as in the case of an interest-only instrument in an environment of faster actual or anticipated prepayments.

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

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

have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments.

The client 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 client may be paid interest in kind in connection with its investments in corporate debt and related financial instruments (e.g., the principal owed to the client in connection with a debt investment may be increased by the amount of interest due on such debt investment). Such investments may experience greater market value volatility than debt obligations that provide for regular payments of interest in cash and, in the event of a default, the client may experience substantial losses.

*Mezzanine Debt.* Mezzanine debt is typically junior to the obligations of a company to senior creditors, trade creditors and employees. The ability of the client 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 more senior instruments. In the event of the insolvency of a portfolio company of the client or similar event, the client'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 non-performing or in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to such debt instruments.

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

*Sovereign Debt and Other Public Debt.* Several factors may affect (i) the ability of a government, its agencies, instrumentalities or its central bank, including those of Brazil, to make payments on the debt it has issued ("**Sovereign Debt**"), including Brazilian Federal, State, Federal District and Municipal *Precatórios* (*precatórios*) and securities that the Adviser 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 client engages in such conduct, the client may be subject to claims from creditors of an obligor that debt held by the client should be equitably subordinated.

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

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

*Hung Loans.* The term "hung loan" commonly refers to a loan that has been made (or has been committed to be made), and the lender is not able to syndicate the loan on the originally anticipated terms. Hung loans are illiquid and lack readily ascertainable market values; there is no assurance that the price to be paid for hung loans by the client will reflect a discounted price that

should allow the client to achieve a positive return on such loans or avoid losses. Since the price of the loans to be purchased is expected to continue to be significantly impacted by, in addition to the specific circumstances relating to each loan (e.g., in the case of a loan relating to a leveraged buyout (“LBO”), the financial condition of the target), global and macro-economic conditions (e.g., monetary policy, changes to currency exchange rates, governmental intervention or changes to existing laws, international geo-political events, etc.) as well as other systemic factors, it is possible that loans purchased by the client will suffer significant impairments in value as a result of events not predicted by the client. The client may also face difficulties in disposing of or leveraging such loans, or in doing so without incurring losses. The markets in which hung loans are purchased and sold have been volatile and are likely to continue to be volatile in the future.

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

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

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

*Bridge Loans.* It is a common practice for financial institutions to commit to providing bridge loans to facilitate acquisitions, including LBOs, where they serve as advisers to the purchaser. Bridge loans are frequently made because, for timing or market reasons, longer-term

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

*Fraud Associated with Loans.* Of paramount concern in loan investments is the possibility of material misrepresentation or omission on the part of the borrower or loan seller. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of the client to perfect or effectuate a lien on the collateral securing the loan. The client will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to the client may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

*Lender Liability Claims.* There may be circumstances where a loan or other debt investment of the client could be subordinated to claims of other creditors or the client could be subject to lender liability claims. If a company that the client is invested in were to go bankrupt, even though the client may have structured its investment as senior debt, depending on the facts and circumstances, a bankruptcy court might recharacterize such debt holding as an equity investment and subordinate or disallow all or a portion of the client's senior debt claim to that of other creditors. In addition, lenders can be subject to lender liability claims for actions taken by them where they become too involved in the borrower's business or exercise control over the borrower as described above for debt investments. (See Certain Risk Factors—"Equitable Subordination" above.)

Additionally, should the client need to collect on a defaulted loan, litigation could result. There is a high cost associated with any litigation and the results of litigation are always uncertain. Even before litigation is commenced, the client could experience substantial costs in trying to collect on defaulted investments, such as legal fees, collection agency fees, or discounts related to the assignment of a defaulted loan to a third party.

*Incurrence of Additional Debt by Borrowers.* Although the client expects to negotiate approval rights limiting or preventing borrowers from incurring further debt in addition to the loans, any such increase of debt levels could impair the ability of borrowers to service their loans,

which in turn could result in higher rates of delinquency and loss on the loans underlying the client's investments.

**Distressed Obligations.** The obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems (including companies involved in bankruptcy or other reorganization and liquidation proceedings) are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the risk that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate, re-characterize debt as equity or disenfranchise particular claims. Such companies' obligations may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to the client's investments in any security. Obligations in which the client invests may be less than investment grade, considered high yield or lack any conventional third-party rating. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that value of the assets collateralizing the client's investments will be sufficient or that prospects for a successful reorganization or similar action will become available. In any reorganization or liquidation proceeding relating to a company in which the client invests, the client may lose its entire investment, may be required to accept cash or securities with a value less than its original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the client's investments may not compensate the investors 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.

**Bankruptcy Claims.** Bankruptcy claims, which are amounts owed to creditors of companies that are debtors in pending bankruptcy cases, typically are illiquid and generally do not pay interest. Because bankruptcy claims are frequently unsecured, holders of such claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding. In addition, the debt of companies in financial reorganization may be adversely affected by an erosion of the issuer's fundamental values. Accordingly, there can be no guarantee that the debtor will ever be able to satisfy the obligation on a bankruptcy claim.

Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to appear and be heard, there can be no assurance that a bankruptcy court would not approve actions that may be contrary to the interests of the client. Furthermore, there are instances where creditors lose their priority or are recharacterized as equity if, for example, they have exercised excessive control over management or engaged in misconduct that harms other creditors. In those cases where the client, by virtue of such action, is found to exercise "domination and control" of a debtor, the client may lose its priority if the debtor can demonstrate that its business was adversely impacted, or other creditors and equity holders were harmed by the client.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and the client; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets.

U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for the purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that the client's influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors (for example, claims for taxes) may be quite high.

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

The client may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser. Additionally, the claim may be disallowed or subordinated if the bankruptcy court determines that the seller engaged in inequitable conduct that harmed other creditors.

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

**Real Estate Debt Investments.** Real estate debt investments present additional risks not necessarily present in other types of investments. In the case of certain real estate debt investments, the client's investment strategy may be based, in part, upon the premise that real estate loans and/or participation interests therein that are otherwise performing are from time to time available for purchase by the client at "discounted" rates or at "undervalued" prices. Purchasing debt instruments and/or other interests at what may appear to be "undervalued" or "discounted" levels is no guarantee that these investments will generate attractive risk-adjusted returns to the client or will not be subject to further reductions in value. No assurance can be given that real estate loans and/or participation interests can be acquired at favorable prices or that the market for such interests will continue to improve since this depends, in part, upon events and factors outside the control of the Adviser. There can be no assurance

that the market conditions for investing in real estate-related debt instruments may not deteriorate further, which could have an adverse effect on the performance of these investments.

In the case of any real estate loans acquired by the client that are non-performing at the time of their acquisition and/or become non-performing following their acquisition for a wide variety of reasons, such non-performing real estate loans may require a substantial amount of workout negotiations and/or restructuring, which can entail, among other things, a substantial reduction in the interest rate and a substantial writedown of the principal of such loan. However, even if a restructuring were successfully accomplished, a risk exists that, upon maturity of such real estate loan, replacement “takeout” financing will not be available. Purchases of participations in real estate loans raise many of the same risks as investments in real estate loans and also carry risks of illiquidity and lack of control. It is possible that the Adviser and its affiliates will find it necessary or desirable to foreclose on collateral securing one or more real estate loans purchased by the client. The foreclosure process varies jurisdiction by jurisdiction and can be lengthy and expensive. Borrowers in real estate projects often resist foreclosure actions, which often prolongs and complicates an already difficult and time-consuming process. In some states or other jurisdictions, real estate foreclosure actions can take up to several years or more to conclude. During the foreclosure proceedings, a borrower may have the ability to file for bankruptcy, potentially staying the foreclosure action and further delaying the foreclosure process. Foreclosure litigation tends to create a negative public image of the collateral property and may result in disrupting ongoing leasing and management of the property.

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

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

**Derivative Instruments Generally.** Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk. Derivatives traded over-the-counter may not have an authoritative source of valuation and the models used to value such derivatives is subject to change. Special risks may apply in the future that cannot be determined at this time with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available. The regulatory and tax environment for derivative instruments in which the client may participate is evolving, and changes in the regulation or taxation of such securities may have a material adverse effect on the client.

**Call Options.** There are risks associated with the sale and purchase of call options. The seller (writer) of a call option which is covered (*e.g.*, the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security offset by the gain by the premium received if the option expires

out of the money, and gives up the opportunity for gain on the underlying security above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The buyer of a call option assumes the risk of losing the premium if the option expires out of the money.

*Put Options.* There are risks associated with the sale and purchase of put options. The seller (writer) of a put option which is covered (e.g., the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sale price of the short position of the underlying security offset by the premium if the option expires out of the money, and thus the gain in the premium, and the option seller gives up the opportunity for gain on the underlying security below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security to zero. The buyer of a put option assumes the risk of losing the premium if the option expires out of the money.

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

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

*Futures Contracts.* The client may invest in futures contracts or options thereon. Futures positions may be illiquid because, for example, many commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Futures contract prices on various commodities or financial instruments occasionally have moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the client from promptly liquidating unfavorable positions and subject the client to substantial losses. In addition, the client may not be able to execute futures contract trades at favorable prices if trading volume in such contracts is low. It is also possible that an exchange or a regulator may suspend trading in a particular contract, order immediate liquidation and

settlement of a particular contract or order that trading in a particular contract be conducted for liquidation only.

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

*Forward Trading.* Forward contracts and options thereon, unlike futures contracts, are generally not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and “cash” trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually widespread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market traded by the client due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward (and futures) trading to less than that which the Adviser would otherwise recommend, to the possible detriment of the client. Market illiquidity or disruption could result in major losses to the client.

*Swap Agreements.* The client may enter into swap agreements. These agreements are individually negotiated and can be structured to include exposure to a variety of different types of investments, asset classes or market factors. Depending on their structure, swap agreements may increase or decrease the client’s exposure to, for example, equity securities. Swap agreements can take many different forms and are known by a variety of names. The client is not limited to any particular form of swap agreement if consistent with the client’s investment objective. Whether the client’s use of swap agreements will be successful depends on the Adviser’s ability to select appropriate transactions for the client. Swap transactions may be highly illiquid and may increase or decrease the volatility of the client’s portfolio. Moreover, the client bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty. The client also bears the risk of loss related to swap agreements, for example, for breaches of such agreements or the failure of the client to

post or maintain required collateral. Many swap markets are relatively new and still developing. It is possible that developments in the swap markets, including potential government regulation, could adversely affect the client's ability to terminate existing swap transactions or to realize amounts to be received under such transactions.

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

*High Volatility.* The prices of derivative instruments, including currencies, futures and option prices, can be highly volatile. Price movements of derivative contracts in which the client portfolio's assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies, financial instruments, futures and options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. The client's portfolio is also subject to the risk of the failure of any exchanges on which its positions trade or of their clearinghouses.

**Equity Securities.** The client's investment portfolio includes equity and equity-related securities of Brazilian Companies and may include equity and equity-related securities of U.S. and other non-U.S. companies, especially (but not limited to) credit-sensitive equity and equity-related securities. The value of equity securities of public companies and equity derivatives generally varies with the performance of the issuer and movements in the equity markets. As a result, the client may suffer losses if it will invest in equity instruments of issuers whose performance diverges from the Adviser's expectations or if equity markets generally move in a single direction and the client has not hedged against such a general move.

**ABS and MBS Generally.** The investment characteristics of asset-backed securities ("ABS") and mortgage-backed securities ("MBS"), whether issued by U.S., Brazil or other non-U.S. issuers, 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 applicable U.S., Brazilian or non-U.S. laws and regulations, 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, Brazilian or other non-U.S. consumer loan laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. Most issuers of ABS backed by automobile receivables permit the servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related ABS. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the ABS may not have a proper security interest in all of the obligations backing such ABS. Therefore, there is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor.

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

*RMBS.* Holders of residential mortgage-backed securities ("**RMBS**") bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by one- to four-family residential mortgage loans. Such loans may be prepaid at any time. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity, although such loans may be securitized by government agencies and the securities issued are guaranteed. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the geographic area where the mortgaged property is located, the terms of the mortgage loan, the borrower's "equity" in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

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

**Energy.** The client may make investments in the energy sector. The energy sector is affected by changes in supply and demand, geo-political dynamics and other factors. Currently, the energy sector is suffering from a major decline in energy prices, resulting in a significant loss of value. There can be no assurance that weakness in the energy sector will not continue for a protracted period, or that a recovery will not be temporary. In addition, the energy sector is highly regulated and companies operating in the industry are subject to significant regulation of nearly every aspect of their operations by federal, state and local governmental agencies. Examples of governmental regulations which impact companies operating in the energy sector include, without limitation, regulation of the construction, maintenance and operation of facilities, environmental regulation, worker safety regulation, labor regulation, trade regulation and the regulation of the prices charged for products and services. Compliance with these regulations is enforced by numerous governmental agencies and authorities through administrative, civil and criminal penalties. Stricter laws or regulations or stricter enforcement policies with respect to existing regulations would likely increase the costs of regulatory compliance and could have an adverse effect on the financial performance of companies operating in the energy sector.

Companies operating in the energy sector are subject to many dangers inherent in the production, exploration, management, transportation, processing and distribution of natural gas, natural gas liquids, crude oil, refined petroleum and petroleum products and other hydrocarbons. These dangers include leaks, fires, explosions, damage to facilities and equipment resulting from natural disasters, inadvertent damage to facilities and equipment and terrorist acts. These dangers give rise to risks of substantial losses as a result of the following: loss or destruction of commodity reserves; damage to or destruction of property, facilities and equipment; pollution and environmental damage; and personal injury or loss of life. Any occurrence of such catastrophic events could bring about a limitation, suspension or discontinuation of the operations of companies operating in the energy sector. Companies operating in the energy sector may not be fully insured against all risks inherent in their business operations and, therefore, accidents and catastrophic events could adversely affect such companies' financial conditions and ability to service debt obligations.

**Industrials.** The client may invest in natural resource companies involved in the mining and extraction of iron ore, coal, steel, scrap steel and other related commodities. Industrial-related companies are particularly affected by political events, strikes, natural disasters, exploration and development success or failure in terms of production and are affected by cyclical economic conditions and political events in terms of demand. Any of these events could adversely affect such companies' financial conditions and ability to service debt obligations.

## **Risks Relating to Private Investment Clients Generally**

### **Reporting**

Most swap transactions have become subject to anonymous "real-time reporting," meaning that information relating to transactions entered into by the client will become visible to the market in ways that may harm the client's ability to enter into additional transactions at comparable prices or could enable competitors to "front-run" or replicate the client's strategies.

### **Central Clearing**

In order to mitigate counterparty risk and systemic risk in general, various U.S. and international regulatory initiatives are underway to require certain derivatives to be cleared through central clearinghouses. In the United States, clearing requirements have been implemented as part of the Dodd-Frank Act. The CFTC imposed its first clearing mandate on December 13, 2012 affecting certain interest rate and credit default swaps. It is expected that the CFTC and the SEC will introduce clearing requirements for additional classes of derivatives in the future. EMIR also requires OTC derivatives contracts meeting specific criteria to be cleared through central counterparties.

While such clearing requirements may be beneficial for the client in many respects (for instance, they may reduce the counterparty risk to the dealers to which the client would be exposed under non-cleared derivatives), the client could be exposed to new risks, such as the risk that an increasing percentage of derivatives will be required to be standardized and/or cleared through central clearinghouses, and as a result the client may not be able to hedge its risks or express an investment view as well as it would using customizable derivatives available in the over-the-counter markets. The client may have to split its derivatives portfolio between centrally cleared and over-the-counter derivatives, which may result in operational inefficiencies and an inability to offset risk between centrally cleared and over-the-counter positions, and which could lead to increased costs.

Another risk is that the client may be subject to more onerous and more frequent (daily or even intraday) margin calls from both the client's FCM and the clearinghouse. Virtually all margin models utilized by the clearinghouses are dynamic, meaning that unlike traditional bilateral swap contracts, where the amount of initial margin posted on the contract is typically static throughout the life of the contract, the amount of the initial margin that is required to be posted in respect of a cleared contract will fluctuate, sometimes significantly, throughout the life of the contract. The dynamic nature of the margin models utilized by the clearinghouses and the fact that the margin models might be changed at any time may subject the client to an unexpected increase in collateral obligations by clearinghouses during a volatile market environment, which could have a detrimental effect on the client. Clearinghouses also limit the collateral that they will accept to cash, U.S. Treasury bonds and, in some cases, other highly rated sovereign and private debt instruments, which may require the client to borrow eligible securities from a dealer to meet margin calls and raise the costs of cleared trades to the client. In addition,

clearinghouses may not allow the client to portfolio-margin its positions, which may increase the client's costs.

Although standardized clearing for derivatives is intended to reduce risk (for instance, it may reduce the counterparty risk to the dealers to which the client would be exposed under OTC derivatives), it does not eliminate risk. Derivatives clearing may also lead to concentration of counterparty risk, namely in the clearinghouse and the client's FCM, subjecting the client to the risk that the assets of the FCM are insufficient to satisfy all of the FCM's payment obligations, leading to a payment default. The failure of a clearinghouse or FCM could have a significant impact on the financial system. Even if a clearinghouse does not fail, large losses could force significant capital calls on FCMs during a financial crisis, which could lead FCMs to default and thus worsen the crisis.

### **Swap Execution Facilities**

In addition to the central clearing requirement, certain swap transactions are now required to trade on regulated electronic platforms such as swap execution facilities ("SEFs"), which will require the client to subject itself to regulation by these venues and subject the client to the jurisdiction of the CFTC.

The EU regulatory framework governing derivatives is set not only by EMIR but also a legislative package known as a recast of the Markets in Financial Instruments Directive ("MIFID II"). Among other things, MIFID II will require transactions in derivatives to be executed on regulated trading venues. MIFID II has not yet been implemented into the local law of EU member states and as such it is currently difficult to assess a full impact of such regulatory reforms on the client. Similarly, the SEC has yet to finalize rules related to security-based swap execution facilities.

It is not clear whether these trading venues will benefit or impede liquidity, or how they will fare in times of market stress. Trading on these trading venues may increase the pricing discrepancy between assets and their hedges as products may not be able to be executed simultaneously, therefore increasing basis risk. It may also become relatively expensive for the client to obtain tailored swap products to hedge particular risks in its portfolio due to higher collateral requirements on bilateral transactions as a result of the new regulations.

### **Margin Requirements for Non-Cleared Swaps**

New rules issued by U.S., EU and other regulators globally (the "**Margin Rules**") impose various margin requirements on all swaps that are not centrally cleared, including the establishment of minimum amounts of initial margin that must be posted, and, in some cases, the mandatory segregation of initial margin with a third-party custodian. Although the Margin Rules are intended to increase the stability of the derivatives market, the overall amount of margin that the client will be required to post to swap counterparties may increase by a material amount, and as a result the client may not be able to deploy capital as effectively. Additionally, to the extent that the client is required to segregate initial margin with a third party custodian, additional costs will be incurred by the client.

### **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 clearinghouses, banks, securities firms and exchanges with

which the client interacts, as well as the client, are all subject to systemic risk. A systemic failure could have material adverse consequences on the client and on the markets for the securities in which the client seeks to invest.

### **Assumption of Business, Terrorism and Catastrophe Risks**

Opportunities involving the assumption by the clients of various risks relating to particular assets, markets or events may be considered from time to time. The client's portfolio is subject to the risk of loss arising from exposure that it may incur, directly or indirectly, due to the occurrence of various events, including, without limitation, hurricanes, earthquakes, and other natural disasters, terrorism and other catastrophic events that could adversely affect the health or life expectancy of people. These risks of loss can be substantial, could greatly exceed all income or other gains, if any, received by the client in assuming these risks and, depending on the size of the loss, could adversely affect the return of the client.

### **POTENTIAL CONFLICTS OF INTEREST**

The Adviser and its affiliates are subject, and the client is exposed, to a number of actual and potential conflicts of interest. Any such conflict of interest could have a material adverse effect on the client and the investors' investments therein. However, the existence of an actual or potential conflict of interest does not mean that it is acted upon to the detriment of the client. When a conflict of interest arises, the Adviser will endeavor to ensure that the conflict is resolved fairly and in an equitable manner that is consistent with its fiduciary duties to the client. The Adviser has in place policies and procedures that it believes are reasonably designed to identify and resolve actual and potential conflicts of interest. Unless the context indicates otherwise, references in this section to conflicts of interest that may apply to the Adviser should be understood to apply to the Adviser and its affiliates.

The Client Parties should understand that (i) the relationships among the client, other investment funds or accounts managed by the Adviser ("**Other Accounts**"), the Adviser and its affiliates are complex and dynamic and (ii) as the Adviser's and the client's businesses change over time, the Adviser and its affiliates may be subject, and the client may be exposed, to new or additional conflicts of interest. There can be no assurance that the Investment Management Agreement addresses or anticipates every possible current or future conflict of interest that may arise or that is or may be detrimental to the client or the investors. *The Client Parties should consult with their own advisers regarding the possible implications on their investment in the client of the conflicts of interest described in the Investment Management Agreement.*

**Investments in Securities by Investment Adviser Personnel.** The Adviser's compliance policies place restrictions on personal trades by employees, including requiring that upon being hired (i) they acknowledge they are generally prohibited from trading securities, including those which the client may invest ("Prohibited Securities"); (ii) they disclose their personal securities holdings and transactions to the Adviser and shall dispose of such securities that qualify as Prohibited Securities, subject to internal compliance policies and approval procedures. Additionally, employees must pre-clear certain types of personal securities transactions.

The Adviser, its affiliates and its employees may give advice or take action for their own accounts that may differ from, conflict with or be adverse to advice given or action taken for the client. These activities may adversely affect the prices and availability of other securities held by or potentially considered for purchase by the client.

**Allocations of Trades and Investment Opportunities.** It is the policy of the Adviser to allocate investment opportunities to the client and to any Other Accounts on a fair and equitable basis, to the extent practical and in accordance with the client's or Other Accounts' applicable investment strategies, over a period of time. Investment opportunities will generally be allocated among those Accounts for which participation in the respective opportunity is considered appropriate, taking into account, among other considerations: (i) whether the risk-return profile of the proposed investment is consistent with an Account's objectives; (ii) the potential for the proposed investment to create an imbalance in an Account's portfolio; (iii) the liquidity requirements of an Account; (iv) potentially adverse tax consequences; (v) regulatory restrictions that would or could limit an Account's ability to participate in a proposed investment; and (vi) the need to re-size risk in an Account's portfolio.

The Adviser will have no obligation to purchase or sell a security for, enter into a transaction on behalf of, or provide an investment opportunity to, the client or Other Accounts solely because the Adviser purchases or sells the same security for, enters into a transaction on behalf of, or provides an opportunity to, an Other Account or the client if, in its reasonable opinion, such security, transaction or investment opportunity does not appear to be suitable, practicable or desirable for the client or the Other Account.

In particular, when the client is ramping up its investment or trading strategies, it may receive larger allocations of certain securities than the Other Accounts in order to obtain its desired risk and portfolio size. Conversely, when Other Accounts ramp up their investment and trading strategies, the client may receive reduced or no allocations of certain securities.

**Order Aggregation and Average Pricing.** If the Adviser determines that the purchase or sale of a security is appropriate with regard to the client and any Other Accounts, the Adviser will purchase or sell such a security on behalf of such Accounts with an aggregated order, for the purpose of reducing transaction costs, to the extent permitted by applicable law. When an aggregated order is filled through multiple trades at different prices on the same day, each participating Account will receive the average price, with transaction costs generally allocated *pro rata* based on the size of each Account's participation in the order (or allocation in the event of a partial fill) as determined by the Adviser. In the event of a partial fill, allocations may be modified on a basis that the Adviser deems to be appropriate, including, for example, in order to avoid odd lots or *de minimis* allocations.

**The Adviser Could Have Different Compensation Arrangements with Other Accounts.** The Adviser could be subject to a conflict of interest because varying compensation arrangements among the client and Other Accounts could incentivize the Adviser to manage the client and such Other Accounts differently. These and other differences could make the client less profitable to the Adviser than certain Other Accounts.

**Performance Fee.** The Adviser will receive the Performance Fee as performance-based compensation in connection with the management of the Assets. Because the Performance Fee is calculated on a basis which includes unrealized appreciation of the Assets, it may be greater than if such compensation were based solely on realized gains.

The Performance Fee may give rise to potential conflicts of interest, including, but not limited to, the following:

***Allocation of Investment Opportunities***

The Performance Fee may create an incentive for the Adviser to direct the best investment ideas to, or to allocate or sequence trades in favor of, (i) advisory clients with performance compensation arrangements over advisory clients that are not charged, or from which the Adviser or its Affiliates will not receive (e.g., because the relevant account is below its high water mark), performance compensation, and (ii) advisory clients from which the Adviser or its Affiliates will receive a greater performance compensation over advisory clients from which the Adviser or its Affiliates will receive lesser performance compensation.

### ***Investment Risk***

The Performance Fee may create an incentive for the Adviser to make investments that are riskier or more speculative than would be the case if a performance-based compensation arrangement were not in effect.

**Proxy Voting Policy.** The Adviser has adopted policies and procedures regarding proxy voting. The general policy is to vote proxy proposals, amendments, consents or resolutions (collectively, “**Proxies**”) in a prudent and diligent manner that will serve the applicable Account’s best interest and is in line with each Account’s investment objectives.

The Adviser may take into account all relevant factors, as determined by the Adviser in its sole discretion, including, without limitation: (i) the impact on the value of the securities or instruments owned by the relevant Account and the returns on those securities; (ii) the anticipated associated costs and benefits; (iii) the continued or increased availability of portfolio information; and (iv) industry and business practices.

In limited circumstances, the Adviser may refrain from voting Proxies where the Adviser believes that voting would be inappropriate, taking into consideration the cost of voting the Proxies and the anticipated benefit to its Accounts. Generally, the investors and Accounts may not direct the Adviser’s vote in a particular solicitation.

Conflicts of interest may arise between the interests of the Accounts on the one hand and the Adviser or its affiliates on the other hand. If the Adviser determines that it may have, or is perceived to have, a conflict of interest when voting Proxies, the Adviser will vote in accordance with its Proxy voting policies and procedures. The investors may obtain a copy of the Adviser’s Proxy voting policies and its Proxy voting record upon request.

### **Item 9: Disciplinary Information**

Neither Quadra Capital nor any of its management persons have any material legal and/or disciplinary events to disclose.

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

Neither Quadra Capital nor any officer or employee is registered as a broker dealer or as a representative of a broker dealer; or as a futures commission merchant, a commodity pool operator, or a commodity trading advisor or representative of the foregoing.

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

We have implemented a Code of Ethics (the “Code”) based on the principle that all employees of Quadra Capital have a fiduciary duty to place the clients’ interests ahead of their own or Quadra Capital’s interests. The Code applies to all “Access Persons,” defined below. Access Persons must avoid activities, interests and relationships that might interfere with making decisions in the best interests of our clients.

We maintain and enforce written policies reasonably designed to prevent the misuse or dissemination of any material non-public information about our clients or their account holdings by us or any of our employees. Employees are not permitted to trade any securities in their personal accounts.

“**Access Persons**” means all employees, directors and officers of Quadra Capital who: (i) have access to non-public information regarding our clients purchases or sales of securities; or (ii) are involved in making securities recommendations to clients.

Clients and prospective clients may obtain a copy of our Code of Ethics by contacting Quadra Capital at the address or telephone number on the first page of this Brochure.

Neither Quadra Capital, nor any of its related persons recommends securities to clients, or buys or sells securities for clients accounts, at or about the same time that Quadra Capital’s or a related person buys or sells the same securities for their own account.

### **Item 12: Brokerage Practices**

As the client invests primarily in illiquid securities, the Adviser anticipates that investments in publicly traded securities will be infrequent occurrences (e.g., money market instruments pending investment in a portfolio company, securities held as a result of initial public offerings of portfolio companies, going-private transactions, etc.). However, to meet its fiduciary duties to the client, the Adviser has adopted written policies to address issues that might arise with respect to purchasing, holding, and selling publicly traded securities. Selection of Brokers and Dealers for the client, if applicable, is determined by the Adviser in its discretion over the purchase and sale of investments (including the size of such transactions) and the broker or dealer, if any, to be used to effect transactions. In placing each transaction for the client involving a broker-dealer, the Adviser will seek “best execution” of the transaction except to the extent it may be permitted to pay higher brokerage commissions in exchange for brokerage and research services (as discussed below).

“Best execution” means obtaining for the client account the lowest total cost (in purchasing a security) or highest total proceeds (in selling a security), taking into account the circumstances of the transaction and the reputability and reliability of the executing broker or dealer. Best execution is not limited solely to the consideration of the best available commission rate. In determining whether a particular broker or dealer is likely to provide best execution in a particular transaction, the Adviser’s investment professionals take into account all factors that they deem relevant to the broker’s or dealer’s execution capability, including, by way of illustration, price, the size of the transaction, the nature of the market for the security, the amount of the commission, the timing of the transaction taking into account market prices and trends, the reputation, experience and financial stability of the broker or dealer, and the quality of service rendered by the broker or dealer in other transactions. In addition, the Adviser may consider the use of Electronic Communications Networks (“ECNs”) when placing trades on behalf of the client. When purchasing or selling over-the-counter securities with market makers, the Adviser generally seeks to select

market makers it believes to be actively and effectively trading the security being purchased or sold. In order to monitor best execution, the Adviser's investment professionals, in consultation with the Adviser's Chief Compliance Officer, will periodically monitor broker-dealers to assess the quality of execution of brokerage transactions effected on behalf of the Adviser and the client.

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

Quadra Capital currently has no soft dollar arrangements.

### ***Directed Brokerage***

Quadra Capital does not permit its clients to instruct it to direct a portion of the securities transactions for its account to a specified broker-dealer.

### ***Allocation and Aggregated Trade Orders***

The Adviser will enforce in the future its trade allocation policy among multiple clients, as follows below.

Where an opportunity is appropriate for more than one client, we seek to allocate investments *pro rata*, but may vary an allocation based on many factors, including terms and conditions of the investment policy agreed contractually, buying power, matching existing allocation percentages, IPO size, portfolio liquidity or cash available.

Quadra Capital will frequently aggregate multiple contemporaneous client purchase or sell orders into a block order for execution. If the aggregated order is not filled in its entirety, the partially filled order is allocated pro rata or another method that is fair to all clients over time. Accounts for which orders are aggregated generally receive the average share price of such transaction, which could be higher or lower than the actual price that would otherwise be paid by such client absent the aggregation of orders. Any transaction costs incurred in the aggregated transaction will be shared pro rata based on each client's participation in the transaction.

### ***Trade Errors***

In the event of a trading error, which is generally not applicable, for example an incorrect security is purchased or sold for a client's portfolio, Quadra Capital will first seek to cancel the trade with the broker-dealer. If the trade cannot be cancelled or has otherwise settled, Quadra Capital will take reasonable steps to put the client in the same position it would have been in had the error not occurred. If correcting the trade results in a net loss to the client's account, Quadra Capital will reimburse the client account and may seek recourse against third parties it deems responsible for the error (for example, the broker). Any net gain from the correction of the error shall be given to the client.

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

### **A. FREQUENCY AND NATURE OF REVIEW OF CLIENT ACCOUNTS OR FINANCIAL PLANS**

We perform daily, weekly, monthly, quarterly and periodic reviews of each client's portfolio. Such reviews are conducted by the members of the Investment Adviser's investment team, operations, risk and compliance teams.

## **B. FACTORS PROMPTING REVIEW OF CLIENT ACCOUNTS OTHER THAN A PERIODIC REVIEW**

A review of a client account may be triggered by any unusual activity or special circumstances. We may conduct special reviews based on factors such as a change in the investment environment or tax laws, or newly identified investment areas and opportunities.

## **C. CONTENT AND FREQUENCY OF ACCOUNT REPORTS TO CLIENTS**

We provide our clients performance updates on a monthly basis.

### **Item 14: Client Referrals & Other Compensation**

#### **A. ECONOMIC BENEFITS FOR PROVIDING SERVICES TO CLIENTS**

We do not receive economic benefits from non-clients for providing investment advice and other advisory services.

#### **B. COMPENSATION TO NON-SUPERVISED PERSONS FOR CLIENT REFERRALS**

Neither we nor any of our related persons directly or indirectly compensates any person who is not a supervised person, for client referrals. Following Quadra Capital's SEC registration as an investment adviser, Quadra Capital entered into a placement agreement with the placement agent which introduced the US clients.

### **Item 15: Custody**

We will not be deemed to have custody of the funds of the client and securities because we do not have the authority to obtain funds or securities on behalf of the client, for example, by deducting advisory fees from the fund's account or otherwise withdrawing funds from the fund's account. Quadra Capital is not responsible for the audit of the client, this obligation is completed by the client.

### **Item 16: Investment Discretion**

The Investment Adviser serves as the management company with discretionary trading authority to each client. In addition, to the extent that the Investment Adviser advises separately managed accounts, the Investment Adviser will serve as the investment adviser with discretionary trading authority and also provide discretionary advisory services for the separately managed accounts.

Our investment decisions and advice with respect to each client are subject to each clients' investment objectives and guidelines, as set forth in its governing and offering documents. Similarly, our investment decisions and advice with respect to each separately managed account are subject to each client's investment objectives and guidelines, as set forth in the client's investment management agreement, as well as any written instructions provided by the client to us.

Upon Quadra's registration with SEC as Investment Adviser, it will enter into the investment management agreement with the beneficial owners of the client, pursuant to which the Investment Adviser will be granted discretionary trading authority.

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

### **A. POLICIES AND PROCEDURES RELATING TO VOTING CLIENT SECURITIES**

In compliance with Advisers Act Rule 206(4)-6, the Investment Adviser has adopted proxy voting policies and procedures. The general policy is to vote proxy proposals, amendments, consents or resolutions (collectively, “**Proxies**”) in a prudent and diligent manner that will serve the applicable client’s best interests and is in line with each client’s investment objectives.

We may take into account all relevant factors, as determined by us in our discretion, including, without limitation:

- the impact on the value of the securities or instruments owned by the relevant client and the returns on those securities;
- the anticipated associated costs and benefits;
- the continued or increased availability of portfolio information; and
- industry and business practices.

In limited circumstances, the Investment Adviser may refrain from voting Proxies where we believe that voting would be inappropriate, taking into consideration the cost of voting the Proxies and the anticipated benefit to its clients. Generally, clients may not direct our vote in a particular solicitation.

Conflicts of interest may arise between the interests of the clients on the one hand and us or our affiliates on the other hand. If we determine that we may have, or be perceived to have, a conflict of interest when voting Proxies, we will vote in accordance with our Proxy voting policies and procedures. Clients may obtain a copy of our Proxy voting policies and our Proxy voting record upon request.

## **Item 18: Financial Information**

Quadra Capital is not required to attach a balance sheet for its most recent fiscal year. We are not aware of any financial condition that would impair our ability to meet our contractual commitments to our clients, and we have not been the subject of a bankruptcy petition at any time during the last ten years.