

## **Form ADV Part 2A**

### **Jaffa Capital Management, LLC**

**136 Kingsland Road, Suite 1026  
Clifton, NJ 07014**

**March 2024**

**This brochure provides information about the qualifications and business practices of Jaffa Capital Management, LLC (“Jaffa” or the “Firm”, or “we”, “us” or “our”). If you have any questions about the contents of this brochure, please contact Jack Brown, Jaffa’s Chief Compliance Officer (“CCO”) at [jbrown@jaffacorp.com](mailto:jbrown@jaffacorp.com) or 216-323-5005.**

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

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

**Any reference to Jaffa as a “registered investment adviser” or being “registered” does not imply a certain level of skill or training.**

## ITEM 2 – **MATERIAL CHANGES**

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Items 8, 9, 10 and 11 have been updated since Jaffa's initial ADV filing in August 2023.

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## ITEM 4 – **ADVISORY BUSINESS**

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A. Jaffa Capital Management, LLC (“**Jaffa**,” the “**Firm**,” “**we**,” “**us**” or “**our**”), a Delaware Limited Liability Company, was organized in 2022, began operations in July 2022 and is headquartered in Clifton, NJ. Mr. Mark Zarkhin is the founder and Chief Investment Officer of Jaffa.

B. Jaffa offers investment advisory services to a private investment fund (the “**Fund**”) as well as other separately managed accounts of institutional clients or as sub-adviser to other series or segregated portfolios of private investment funds (each an “**SMA**” or “**SMA Client**” and collectively, the “**SMAs**” or “**SMA Clients**”). An SMA and/or the Fund are hereinafter referred to individually as a “**Client**” or “**Client Account**” and collectively as the “**Clients**” or “**Client Accounts**”. Each Client is managed in accordance with its own investment objectives as set forth in the relevant investment management agreement for an SMA and offering documents for the Fund (each, an “**Investment Management Agreement**” or a “**Governing Document**” and, collectively, the “**Governing Documents**”).

Additional detailed information about Jaffa is provided below, including information about Jaffa’s advisory services, investment approach, personnel and affiliations.

### Reporting and Monitoring of Portfolio Managers

Each SMA Client receives reports from the SMA Client’s custodian on at least quarterly basis. The Jaffa reports are generated from the Client Account’s custodial statements. Jaffa does not assume responsibility for the accuracy of information furnished by any third party.

Each Client is strongly encouraged to undertake appropriate due diligence, including but not limited to a review of the relevant Investment Management Agreement and the additional details about Jaffa’s investment strategies, methods of analysis and related risks (as discussed in Item 8 of this Brochure) in considering whether Jaffa’s advisory services are appropriate to its own circumstances, based on all relevant factors including, but not limited to, the Client’s or Investor’s own investment objectives, liquidity requirements, tax situation and risk tolerance before making an investment decision. Jaffa typically invests primarily in bonds but reserves the right to invest in other products such as equities and exchange-traded funds.

C. Investment objectives for the Fund are not tailored to any particular private investor (each, an “**Investor**”) in the particular Fund. SMA Clients may tailor their advisory services to their individual needs if Jaffa agrees on a case-by-case basis.

D. Jaffa does not participate in wrap fee programs.

E. As of December 31, 2023, Jaffa managed \$91,723,500 in RAUM on a discretionary basis and \$63,502,500 in RAUM on a non-discretionary basis. Total RAUM as of this date was \$155,226,000.

## ITEM 5 – **FEES AND COMPENSATION**

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A. Each SMA Client or investor in the Fund (an “**Investor**”) should review the appropriate

Governing Documents for the Client Account in conjunction with this brochure for more complete information on the applicable management fees.

The Investors in the Fund pay Jaffa an annual management fee equal to 2% of the net asset value of their capital accounts in the Fund, which is payable quarterly in advance.

Current SMA Clients that are also Segregated Portfolios or Series Entities do not pay fees to the Investment Manager.

B. For Investors in the Fund, Jaffa's management fee is deducted from each Investor's capital account in the Fund. For the Fund, management fees are generally collected quarterly in advance. Jaffa debits management fees directly from the Fund's custodial or prime brokerage accounts.

For other SMA Clients, Jaffa's management fee is payable quarterly in arrears.

The management fees above are generally subject to waiver or reduction by Jaffa in its sole discretion with certain Clients or Investors. For example, Jaffa officers and employees generally will not pay management fees though they do pay their pro-rata share of operating costs. The management fee may vary by Client. The Governing Documents specify the fees applicable to each Client.

C. Jaffa is responsible for all ordinary administrative and overhead expenses incurred in connection with maintaining and operating its office, including employee's salaries, rent, utilities and equipment expenses, as provided in the Investment Management Agreement or other Governing Documents with each Client.

The Fund (and thus Investors) is responsible for paying certain fees and expenses including (a) all expenses, incurred in connection with the offer and sale of interests after the initial closing date, other than placement agent fees, including, but not limited to, marketing expenses, documentation of performance and the admission of Investors, (b) all operating expenses of the Fund such as tax preparation fees (including, without limitation, any such fees related to the preparation of tax returns and Schedule K-1s), governmental fees and taxes (or any other governmental charges levied against the Fund), Fund administrators, custodial and brokerage (and if applicable, prime brokerage) fees and expenses, communications with Investors and ongoing legal, accounting, auditing, administration, appraisal, bookkeeping, consulting and other professional fees and expenses, including for litigation, and preparation of the Fund's financial statements and reports, (c) all Fund costs, expenses and charges incurred in connection with the investment and trading activities of the Fund (e.g., brokerage commissions, mark-ups, margin interest, expenses related to short sales, custodial fees, clearing and settlement charges and other transaction costs to brokers), (d) professional and other advisory and consulting expenses and travel expenses incurred in connection with investment due diligence, monitoring or the assertion of rights or pursuit of remedies (including, without limitation, pursuant to bankruptcy or other legal proceedings, or participation in informal committees of creditors or other security holders of an issuer), (e) all fees and other expenses incurred in connection with the investigation, prosecution or defense of any claims by or against the Fund, (f) interest on, and fees and expenses arising out of, all borrowings made by the Fund, (g) expenses of any meetings of the Investors, (h) the costs of any litigation and indemnification relating to the affairs of the

Fund, (i) expenses related to third party research, publications, data and data services, including real time pricing and market information (such as Bloomberg and Reuters services) and historical pricing and other data, (j) costs of compliance with applicable laws and regulations of governmental and self-regulatory bodies, including costs incurred by the General Partner, Jaffa and their respective affiliates in complying with laws and regulations that apply to any such entities as a result of their services to the Fund, (k) the Fund's expenses associated with forming and maintaining the legal existence of the Fund, including directors' fees, administrators' fees, occupancy costs and other operating costs of entities that maintain their own offices in certain jurisdictions, (l) all fees and expenses of any kind related to the provision of technology for the Fund or for Jaffa, including but not limited to computers, storage, networking and other physical devices, infrastructure and processes to create, process, store, secure and exchange all forms of electronic data, technology associated with research, and/or product testing and remote access, and third party technology providers, (m) costs associated with regulatory filings including but not limited to Form PF, (n) insurance premiums (such as D&O and E&O) of the Fund, the General Partner (as defined herein) and Jaffa, (o) all expenses incurred and charged to investors at the underlying vehicle levels (which will likely include all of the expenses set forth in (a)-(n) above as well as all costs related to the formation and maintenance of a captive insurance or reinsurance entity, including management fees, insurance audits, ratings acquisition costs, regulatory fees and expenses and other compliance costs and expenses), and (p) all other reasonable expenses related to the management and operation of the Fund and/or the purchase, sale or disposition of the Interests, including, in the case of any expenses directly related to the Fund's and one or more of its related funds' investments, any portion of any such joint expenses that the General Partner determines are properly and ratably allocable to the Fund.

To the extent that any of the foregoing expenses relate to the operations of one or more other Clients managed by Jaffa or any of their respective affiliates, Jaffa attempts to allocate such expenses based on a good faith determination of the relative benefits of such expenses to all Clients benefiting from such expenses. Any such expense common to multiple Clients managed by Jaffa generally are paid pro rata by such Clients based on the approximate size of the relevant investment relating to such expense or otherwise on assets under management, as appropriate (or in any other manner deemed fair and equitable by Jaffa, in its sole discretion).

D. Investors in the Fund who withdraw prior to a quarter end are rebated the management fees pro rata.

If an SMA Client terminates the Investment Management Agreement other than the beginning of a particular month (as described in the appropriate Governing Documents), Jaffa rebates such management fees pro rata.

E. Neither Jaffa nor any of its supervised persons accept compensation for the sale of securities or other investment products.

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#### ITEM 6 – **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Jaffa's affiliate, Jaffa GP, LLC (the "**General Partner**") is entitled to receive annual performance

based compensation (the “**Incentive Fee**”) at a rate of 20% subject to a hurdle based upon the net profits of each capital account as of the end of each calendar year (or upon a withdrawal from the Fund, among other instances set forth therein). The Incentive Fee may be waived or reduced in the General Partner’s discretion on a case by case basis and is subject to a high water mark.

Jaffa is entitled to receive an Incentive Fee with respect to any SMA Client that is also a segregated portfolio or series entity. The Incentive Fee is generally subject to waiver or reduction by Jaffa in its sole discretion on a case-by-case basis with certain Clients. For example, Jaffa officers or employees generally do not incur any Incentive Fees.

The Incentive Fees may vary by Client. Each prospective Client or Investor should review the appropriate Governing Documents for more information on the applicable Incentive Fee.

Performance-based fee arrangements create an incentive for Jaffa to make investments with greater risk than would otherwise be the case in the absence of such arrangements. In addition, it creates an incentive for Jaffa to favor Clients that have greater performance fee arrangements over other Clients that have lesser or no performance fee arrangements in the allocation of investment opportunities. To mitigate this conflict, Jaffa has adopted policies and procedures intended to address conflicts of interest that may arise relating to the management of multiple Client Accounts, including accounts with different fee arrangements and the allocation of investment opportunities. Jaffa reviews investment decisions for the purpose of ensuring that all accounts with substantially similar investment objectives are treated equitably. It is Jaffa’s general policy to advise and trade the portfolios of all Clients on a pari passu basis based on relative capital. However, allocations may be made on a basis other than pro rata for a number of reasons, including, but not limited to: a Client’s investment guidelines and restrictions; request of a Client to use a particular broker; available cash; liquidity requirements; tax or legal reasons; to avoid odd lots; or in cases in which such an allocation would result in a de minimis allocation to a Client.

Any Client or Investor that is charged an Incentive Fee will meet the minimum standard of “Qualified Client”, as defined in Rule 205-3 of the Advisers Act.

## ITEM 7 – **TYPES OF CLIENTS**

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Jaffa currently provides discretionary investment advice to institutional and/or high net worth individuals and/or series or segregated portfolios of private investment fund SMA Clients and the Fund.

The Governing Documents provide the eligibility criteria and minimum investment requirements to be an SMA or an Investor in the Fund.

Each Client, Investor, or SMA is at a minimum is (i) an “Accredited Investor”, as defined in Regulation D under the U.S. Securities Act of 1933 (the “**Securities Act**”); and (ii) a “Qualified Purchaser”, as defined in Section 2(a)(51)(A) of the Investment Company Act of 1940, as amended (the “Company Act”).

An Investor in the Fund must invest at least \$1,000,000 unless otherwise waived or reduced by the General Partner.

An SMA Client must allocate at least \$5,000,000 in order for Jaffa to consider opening the Account, unless it otherwise agrees on a case-by-case basis in its sole discretion.

## **ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

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### **A. Investment Strategies.**

In advising the Clients, Jaffa seeks consistent, above average returns, while protecting Client assets from risk of principal loss. Jaffa employs a strategy that is focused on relative value and arbitrage opportunities in highly rated fixed income instruments, including but not limited to - U.S. government and mortgage-related opportunities. Jaffa believes that the Firm's advantages come from a deep understanding of the inefficiencies, valuations, modeling, and flow dynamics of the highly rated securities market.

Jaffa believes that active portfolio management, understanding macroeconomic trends and hedging are keys to attractive risk-adjusted returns. Jaffa continuously monitors the markets for dislocations resulting from non-economic investor activity resulting in relative value or structure arbitrage opportunities.

An area of focus for Jaffa is to seek to capitalize on trading opportunities in U.S. Agency bond market, selecting proper models and understanding market flow dynamics, "Off-the-run", older issuances of U.S. Treasury bonds that can increase returns, offering identical risk and maturity, although can be less expensive than newly, more recently issued U.S. Treasury bonds. Non-agency securitized products which offer value for longer-term holders with proper models understanding fundamental and structural value of the bonds.

Overall, Jaffa employs a broad and diversified product mix to take maximum advantage of macro and micro market dislocations.

Investing in securities involves risk of loss (including a complete loss) that Clients should be prepared to bear.

### **B. and C. Significant Investment Strategy Risks.**

Investments recommended by Jaffa involve a high degree of risk. The following list of risk factors does not purport to be a complete disclosure of all risks that may be relevant to a decision to make an investment that is recommended by Jaffa. Prospective Clients and Investors of the Fund should carefully consider the following investment risks and considerations in evaluating Jaffa before deciding to enter into an agreement with Jaffa or investing in the Fund. As a result of these considerations, as well as other risks inherent in any investment, there can be no assurance that Jaffa will meet the investment objectives of a Client or otherwise be able to successfully carry out its investment programs, or that a Client will receive a return of capital. There are likely to be additional risk factors in addition to the foregoing list which can be reviewed by each Client in their applicable Governing Documentation with Jaffa.

### ***Reliance on Jaffa***



Much of the success of the Clients and the investments made by Jaffa on behalf of the Clients is dependent upon the abilities and retention of the Chief Investment Officer and research professionals of Jaffa. The Chief Investment Officer of Jaffa has primary responsibility for all investment decisions made by Jaffa with respect to the Clients. If the Chief Investment Officer of Jaffa ceases to be involved, directly or indirectly, in Jaffa and the management of the Clients or the Clients' portfolios, the Clients would likely be adversely affected.

While Jaffa and its affiliates devote as much time to the Clients' affairs as they deem necessary and appropriate, they generally will not be precluded under the various Governing Documents from engaging in outside activities. Jaffa and its affiliates hold interests in other business ventures and activities including, without limitation, other investment entities similar to the Clients and/or other investment advisory entities similar to Jaffa.

### ***Limited Operating History***

Jaffa has limited operating history. Accordingly, Jaffa has a limited operating history from which prospective Clients may evaluate likely performance. Past performance of Jaffa or the Chief Investment Officer, or firms that other employees have been affiliated with does not guarantee future performance.

### ***General Economic and Market Conditions***

Changes in general global, regional and U.S. economic and geopolitical conditions and national and international political circumstances and developments and other circumstances (including wars, epidemics and pandemics, terrorist acts, security operations, bank failures, disruptions in the financial services industry and natural disasters), as well as changes in government policy precipitated by the foregoing, may affect Jaffa's and a Client's activities. For example, the hostilities and disputes between Russia and Ukraine as well as the recent bank failures could destabilize the worldwide economy and equity markets in various respects. Interest rates, general levels of economic activity, the price of securities and participation by other investors in the financial markets may affect the value and number of investments made by a Client or considered for prospective investment. Material changes and fluctuations in the economic environment, particularly of the type experienced since 2008 that caused significant dislocations, illiquidity and volatility in the wider global economy, and the market changes that have resulted and may continue to result from the spread of COVID-19 and the recent adverse developments affecting the U.S. and international financial services industries, may affect the Fund's ability to make investments and the value of investments held by a Client or a Client's ability to dispose of investments. Specifically, in March 2023, both Silicon Valley Bank ("**SVB**") and Signature Bank were closed and swept into receivership with the Federal Deposit Insurance Corporation (the "**FDIC**"). In addition, First Republic Bank's credit rating was downgraded after securing billions in funds from other financial institutions to avoid closure, and Credit Suisse was rescued with a buy-out from UBS. Such failures led to depositors withdrawing their funds from these and other financial institutions, leading to severe market disruption and extreme volatility in the prices of the securities issued by financial institutions. The short-term and the longer-term impact of these events are uncertain, but they could continue to have a material effect on general economic conditions, consumer and business confidence and market liquidity. Any economic downturn resulting from a recurrence of such marketplace events and/or continued volatility in the financial markets could adversely affect the financial resources of entities owned by a Client. Additionally, there has been discussion and dialogue regarding potential significant

changes to U.S. trade policies, legislation, treaties and tariffs trade policies and tariffs affecting Canada, Mexico, China, the European Union and other countries. Tariffs and other trade restrictions imposed by the U.S. government and any further similar changes in U.S. trade policy have triggered some, and could trigger additional, retaliatory actions by affected countries, possibly resulting in “trade wars”. At this time, it is unknown whether and to what extent additional new legislation will be passed into law, pending or new regulatory proposals will be adopted (including with respect to bank reform), international trade agreements will be negotiated, or the effect that any such action would have, either positively or negatively, on a Client or its investments. Investments can be expected to be sensitive to the performance of the overall economy. Moreover, a serious pandemic, recent bank failures, government shutdown, work stoppage, natural disaster, armed conflict, threats of terrorism or terrorist attacks and the impact of military or other action could severely disrupt global, national and/or regional economies. A resulting negative impact on economic fundamentals and consumer and business confidence may negatively impact market value, increase market volatility and reduce liquidity, all or any of which could have an adverse effect on the performance of a Client’s investments, a Client’s returns and the Fund’s ability to make and/or dispose of investments. No assurance can be given as to the effect of these events on a Client or its investment objectives. Global economic and market conditions have been materially adversely affected by the ongoing conflict between Russia and Ukraine as well as recently by turmoil in the banking industry.

### ***Regulatory Developments***

The legal, tax and regulatory environment worldwide for Clients is evolving, and changes in the regulation may have a material adverse effect on the ability of the Clients to pursue their investment program and the value of investments held by the Clients. There has been an increase in scrutiny of the alternative investment industry by governmental agencies and self-regulatory organizations. New laws and regulations or actions taken by regulators that restrict the ability of the Clients to pursue its investment program or conduct business with brokers and other counterparties could have a material adverse effect on the Clients.

### ***Potential for Fraud***

In spite of Jaffa’s efforts to invest in reputable and trustworthy companies, there is a risk that Jaffa may make an investment on behalf of the Clients where the issuers engaged in fraud. Instances of fraud can be particularly difficult to detect and prevent. To the extent that the Clients invest in a company that engages in fraud, the Clients could lose all or a substantial portion of its investment in such company and it could have a material adverse effect on the Clients’ financial condition and results of operations.

### ***Disruption in the Financial Services Industry***

Our ability to make investments, secure funding and engage in other transactions could be adversely affected by the actions and stability of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty and other relationships. As a result, defaults by, or even rumors or questions about, one of more financial service institutions, or the industry generally, have historically led to market-wide liquidity problems. Losses of depositor, creditor and counterparty confidence and could lead to losses or defaults by a Client or other institutions. In response to the bank failures at SVB and Signature Bank and the resulting market reaction, the Secretary of the Treasury, the Federal Reserve and the FDIC

indicated that all depositors of SVB and Signature Bank would have access to all deposits by utilizing the Deposit Insurance Fund, including bridge banks to assume all of the deposit obligations of the failed banks, while leaving unsecured lenders and equity holders of such institutions exposed to such losses. The Federal Reserve also created the Bank Term Funding Program to ensure banks have the ability to meet the needs of their depositors. There is no guarantee that the Department of Treasury, FDIC and the Federal Reserve will provide access to uninsured funds in the future in the event of the closure of other financial institutions (or do so in a timely fashion) and it is uncertain whether these steps by the government will be sufficient to calm the financial markets, reduce the risk of significant depositor withdrawals at other institutions and thereby reduce the risk of additional bank failures.

### ***Terrorist Attacks, War and Natural Disasters***

Terrorist activities, anti-terrorist efforts, armed conflicts involving the United States or its interests abroad, as well as natural disasters may adversely affect the United States, its financial markets and global economies and could prevent Jaffa and the Clients from meeting their respective investment objectives and other obligations. The potential for future terrorist attacks, the national and international response to terrorist attacks, acts of war or hostility and/or natural disasters have created many economic and political uncertainties and may continue to do so in the future, which may adversely affect the United States and world financial markets and the Clients for the short or long-term in ways that cannot presently be predicted.

### ***Investment and Trading Risks Generally***

All investments risk the loss of capital. No guarantee or representation is or will be made that the Clients' program will be successful. The Clients' investment program may involve, without limitation, risks associated with limited diversification, short-selling, equity risks, distressed issuers, interest rates, volatility, tracking risks in hedged positions, security borrowing risks in short sales, credit deterioration or default risks, systems risks and other risks inherent in the Clients' activities. Certain investment techniques of the Clients may, in certain circumstances, substantially increase the impact of adverse market movements to which the Clients may be subject. In addition, the Clients' investments may be materially affected by conditions in the financial markets and overall economic conditions occurring globally and in particular countries or markets where the Clients invest their assets.

Jaffa's methods of minimizing such risks may not accurately predict future risk exposures. Risk management techniques are based in part on the observation of historical market behavior, which may not predict market divergences that are larger than historical indicators. Also, information used to manage risks may not be accurate, complete or current, and such information may be misinterpreted.

### ***Highly Volatile Markets***

The prices of financial instruments in which the Clients may invest can be volatile. Price movements of the financial instruments in which the Clients' assets may be invested will be 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. The Clients will be subject to the risk of failure of any of the exchanges on which their positions trade or of their clearinghouses. In

addition, governments from time to time intervene in certain markets, directly, by regulation and otherwise, particularly in currencies, futures and options. Such intervention is often intended to directly influence prices and may, together with other factors, cause some or all of these markets to move rapidly in the same direction. The effect of such intervention is often heightened by a group of governments acting in concert.

### ***Use of Derivatives***

Jaffa may invest Client assets in derivative instruments, including without limitation, option contracts, swap agreements and forward contracts, and derivative techniques, including without limitation, synthetic short sales, for various hedging and/or speculative purposes. The use of such instruments and techniques may result in leveraging the assets of the Clients, thereby exposing the Clients to significant risks.

Among other things, the prices of derivative instruments can be highly volatile. Price movements of derivative instruments 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 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.

Uncertainties remain as to how the markets for these instruments will perform during periods of unusual price volatility or instability, market illiquidity or credit distress. Market movements are difficult to predict, and financing sources and related interest rates are subject to rapid change. One or more markets may move against the derivatives positions held by a trader, thereby causing substantial losses. Many of these instruments are not traded on exchanges but rather through an informal network of banks and dealers who have no obligation to make markets in them and can apply essentially discretionary margin and credit requirements (and thus in effect force a trader to close out its positions).

### ***Equity Risks***

On behalf of the Clients, Jaffa invests in equity securities. The market price of securities owned by the Clients may go up or down, sometimes rapidly or unpredictably. A risk of investing in equity securities is that an equity security will decline in value due to factors affecting equity securities markets generally or the sectors in which the Clients may hold an investment. The values of equity securities may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. Equities may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Other risks of investing globally in equity securities may include changes in currency exchange rates, exchange control regulations, expropriation of assets or nationalization, imposition of withholding taxes on dividend or interest payments, and difficulty in obtaining and enforcing judgments against non-U.S. entities. In addition, securities which Jaffa believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the time frame that Jaffa anticipates. As a result, the Clients may lose all or substantially all of their investment in any particular instance.

### ***Investments in Loans***

A Client may invest in loans, either through primary issuances or in secondary transactions, including through assignments, participations, and potentially on a synthetic basis. The value of a Client's loans may be detrimentally affected to the extent a borrower defaults on its obligations. There can be no assurance that the value assigned by Jaffa to collateralize an underlying loan can be realized upon liquidation, nor can there be any assurance that any such collateral will retain its value. Furthermore, circumstances could arise (such as in the bankruptcy of a borrower) that could cause a Client's security interest in the loan's collateral to be invalidated.

These investments are subject to unique risks, including, without limitation: (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) with respect to participations, limitations caused by the lack of privity with the borrower for a Client to directly enforce its rights against the borrower as well as limitations on the rights of a participant to vote on amendments and modifications of the credit documentation.

Also, much of the collateral will be subject to restrictions on transfer intended to satisfy securities regulations, which will limit the number of potential purchasers if a Client intends to liquidate such collateral. The amount realizable with respect to a loan may be detrimentally affected if a guarantor, if any, fails to meet its obligations under a guarantee. Finally, there may be a monetary, as well as a time cost involved in collecting on defaulted loans and, if applicable, taking possession of various types of collateral. In analyzing each loan, assignment or participation, Jaffa compares the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by a Client.

### ***Lender Liability and Equitable Subordination***

In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories (collectively termed "lender liability"). Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in a creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. For example, under common law principles that in some cases form the basis for lender liability claims, if a lender (a) 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, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (d) 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"). A Client does not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the nature of the debt obligations, a Client may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the issuer should be equitably subordinated. A Client's investments could involve investments in which a Client may be subject to lender liability or equitable subordination claims affecting a Client's investments.

### ***First Lien Senior Secured Loans***

The assets of a Client's portfolio will include first lien senior secured debt, including term loans and revolving loans and will potentially pay interest at a fixed or floating rate. A Client in certain cases is likely to acquire interests in first lien loans by way of purchase or assignment in the primary and secondary markets. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a contracting party under the legal documentation with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution. In addition, if a Client acquires loans pursuant to an assignment, it is possible that a Client's claims may be subject to attack (i.e., equitable subordination (as more fully discussed below) or disallowance) on account of the conduct of the transferee. Some of the senior secured loans acquired by a Client potentially will be rated below investment grade or not be rated by a credit rating agency. In terms of liquidity with respect to such investments, there can be no assurance that levels of supply and demand in senior secured loan trading will provide an adequate degree of liquidity for the investments therein. The factors affecting an issuer's first lien loans, and its overall capital structure, are complex.

First lien loans are subject to a variety of risks and can cause unsecured creditors to seek remedies in order to limit the Fund's potential recovery of such investments, including (i) the possible invalidation of a debt or lien as a "fraudulent conveyance", (ii) the recovery as a "preference" of liens perfected or payments made on account of a debt in the 90 days before a bankruptcy filing, (iii) equitable subordination claims by other creditors, (iv) so-called "lender liability" claims by the issuer of the obligations, (v) environmental liabilities that may arise with respect to collateral securing the obligations, (vi) re-characterization claims in which certain creditors may seek to have a Client's debt positions re-characterized as equity and therefore subordinate a Client's claims to such creditors' claims and (vii) designating the vote (i.e., ignoring the customary class vote system) under a chapter 11 plan of reorganization in which lenders are entitled to vote as a class. It is possible that a secondary loan market participant can be denied a recovery from the debtor in a bankruptcy if a prior holder of the loans either received and does not return a preference or fraudulent conveyance or engaged in conduct that would qualify for equitable subordination.

The investments potentially will be subject to early redemption features, refinancing options, prepayment options or similar provisions that, in each case, could result in the issuer repaying the principal on an obligation held by a Client earlier than expected. It is common for first lien debt to be repaid prior to its maturity, thus, the actual duration of such investments is typically shorter than their stated final maturity calculated solely on the basis of the stated life and repayment schedule. Generally voluntary prepayments are permitted, and the timing of prepayments cannot be predicted with any accuracy. The degree to which issuers prepay senior debt, whether as a contractual requirement or at their election, may be affected by general business conditions, market interest rates, the issuer's financial condition and competitive market conditions among lenders.

A Client and/or Jaffa may incur lender liability as a result of its lending activities. In recent years, a number of judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively termed "lender liability". Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower, its other creditors or shareholders or third parties harmed by the borrower. A Client and/or Jaffa may be subject to allegations of lender liability, which could result in significant liability.

### **Short Selling**

Jaffa may engage in short selling. In a short sale, the seller sells a security that it does not own, typically a security borrowed from a broker or dealer. Because the seller remains liable to return the underlying security that it borrowed from the broker or dealer, the seller must purchase the security prior to the date on which delivery to the broker or dealer is required. As a result, the Clients will engage in short sales only where Jaffa believes the value of the security will decline between the date of the sale and the date the Clients are required to return the borrowed security. The making of short sales will expose the Clients to the risk of liability for the market value of the security that is sold, which will be an unlimited risk due to the lack of an upper limit on the price to which a security may rise. In addition, there can be no assurance that securities necessary to cover a short position will be available for purchase or that securities will be available to be borrowed by the Clients at reasonable costs. If a request for return of borrowed securities occurs at a time when other short sellers of the security are receiving similar requests, a “short squeeze” can occur, and the Clients may be compelled to replace borrowed securities previously sold short with purchases on the open market at the most disadvantageous time, possibly at prices significantly in excess of the proceeds received in originally selling the securities short.

### **Exchange Traded Funds.**

Exchange traded funds (“**ETFs**”) represent shares of ownership in either funds or unit investment trusts that hold portfolios of common stocks or bonds, which are designed to generally correspond to the price and yield performance of their underlying indexes, either broad stock market, stock industry sector, international stock or U.S. bond. ETF shareholders are subject to risks similar to those of holders of other diversified portfolios. A primary consideration is that the general level of stock or bond prices may decline, thus affecting the value of an equity or fixed income exchange traded fund, respectively. This is because an equity (or bond) ETF represents an interest in a portfolio of stocks (or bonds). When interest rates rise, bond prices will generally decline, adversely affecting the value of fixed income ETFs. Moreover, the overall depth and liquidity of the secondary market may also fluctuate. An exchange traded sector fund may also be adversely affected by the performance of that specific sector or group of industries on which it is based. International investments may involve risk of capital loss from unfavorable fluctuations in currency values, differences in generally accepted accounting principles, or economic or political instability in other nations. Although ETFs are designed to provide investment results that generally correspond to the price and yield performance of their respective underlying indexes, ETFs may not be able to exactly replicate the performance of the indexes because of their expenses and other factors.

### **Leveraged and Inverse ETV Trading**

A Client may invest in leveraged and inverse ETVs. Leveraged ETVs seek to deliver multiples of the performance of the index or benchmark they track. Inverse ETVs (also called “short” funds) seek to deliver the opposite of the performance of the index or benchmark they track. Like traditional ETVs, some leveraged and inverse ETVs track broad indices, some are sector-specific, and others are linked to commodities, currencies, or some other benchmark. Inverse ETVs often are marketed as a way for investors to profit from, or at least hedge their exposure to, downward moving markets. Leveraged inverse ETVs (also known as “ultra short” funds) seek to achieve a return that is a multiple of the inverse performance of the underlying index. An inverse ETV that tracks a particular index, for example, seeks to deliver the inverse of the performance of that index, while a 2x (two times) leveraged inverse ETV seeks to deliver double the opposite of that

index's performance and a 3x (three times) leveraged inverse ETV seeks to deliver triple the opposite of that index's performance. To accomplish their objectives, leveraged and inverse ETVs pursue a range of investment strategies through the use of swaps, futures contracts, and other derivative instruments. Most leveraged and inverse ETVs "reset" daily, meaning that they are designed to achieve their stated objectives on a daily basis. Their performance over longer periods of time – over weeks or months or years – can differ significantly from the performance (or inverse of the performance) of their underlying index or benchmark during the same period of time. This effect can be magnified in volatile markets.

### **Structured Notes**

The structured note market evolved as a way to give investors exposure to indices and risks which were otherwise not available to them. For example, U.S. fund managers restricted to dollar-denominated instruments issued by an agency of the U.S. government, but who sought exposure to the yen, might have purchased a Sallie Mae structured note, paying, in dollars, a coupon linked by some formula to the dollar/yen exchange rate. The coupon attached to a structured note could depend on a wide variety of indices: U.S. or foreign interest rates, U.S. or foreign swap rates, foreign exchange rates or equity indices. The value of such a structured note is closely linked to the level of the relevant index (or indices). Moreover, the coupon may have an optional or contingent dependence on an index (or indices) increasing the complexity of any related hedge.

### **Mortgage-Related Securities.**

A Client may invest in mortgage-related securities. Generally, mortgage-related securities tend to be sensitive to changes in interest rates. Therefore, during a period of rising interest rates, such mortgage-related securities may exhibit additional volatility. In addition, mortgage-related securities are subject to prepayment risk. When interest rates decline, borrowers may pay off their mortgage sooner than expected. This can reduce the returns of a Client because a Client may have to reinvest that money in lower prevailing interest rates. Special risks may also be associated with investments in fixed or adjustable-rate mortgage pass-through securities, and fixed or adjustable rate CMOs, REMICs and SMBSs. For example, SMBSs are structured with two or more classes of securities that receive different proportions of the interest and principal distributions on a pool of mortgage assets. In some cases, one class will receive all of the interest while the other will receive the entire principal. The yield to maturity of SMBSs may be extremely sensitive to the rate of principal payments on the underlying mortgage loans. A rapid change in the rate of principal payments may have a material adverse effect of the yield to maturity of SMBSs. It is therefore possible that a Client may incur losses on its investments in SMBSs regardless of their ratings by rating agencies such as Standard & Poor's and Moody's.

### **ABS**

A Client may invest in asset-backed securities ("**ABS**"). ABS are debt obligations or debt securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from underlying financial assets, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities. Issuers of ABS are primarily banks and finance companies, captive finance subsidiaries of non-financial corporations or specialized originators such as credit card lenders. An ABS is typically created by the sale of assets or collateral to a conduit, generally a bankruptcy-remote vehicle such as a grantor trust or other special-purpose entity, which becomes the legal issuer of the ABS. Interests issued by the issuer



give the holder thereof the right to certain cash flows arising from the underlying assets, are then sold to investors through an investment bank or other securities underwriter.

The structure of an ABS and the terms of an investor's interest in the collateral can vary widely depending on the type of collateral, the desires of investors and the use of credit enhancements. Although the basic elements of all ABS are similar, individual transactions can differ markedly in both structure and execution. Holders of ABS bear various risks, including credit risks, liquidity risks, interest rate risks, market risks, operations risks, structural risks and legal risks. In addition, concentrations of ABS of a particular type, as well as concentrations of ABS issued or guaranteed by affiliated obligors, serviced by the same servicer or backed by underlying collateral located in a specific geographic region, may subject a Client to additional risk.

Credit risk is an important issue in ABS because of the significant credit risks inherent in the underlying collateral and because issuers are primarily private entities. Credit risk arises from losses due to defaults by the borrowers in the underlying collateral, deterioration of the collateral value or the issuer's or servicer's failure to perform. Market risk arises from the impact of cash flows on the market price for the securities, which for many ABS tends to be predictable, particularly from the more senior securities. The greatest variability in cash flows comes from credit performance, including the presence of wind-down or acceleration features designed to protect the investor if credit losses in the portfolio rise well above expected levels. Interest rate risk arises for the ABS issuer from the relationship between the pricing terms on the underlying collateral and the terms of the rate paid to security holders and from the need to mark to market the excess servicing or spread account proceeds carried on the balance sheet. Liquidity risk can arise from increased perceived credit risk. Liquidity can also become a significant problem if concerns about credit quality, for example, lead investors to avoid the applicable securities. Operational and/or fraud risk arises through the potential for misrepresentation of asset quality or terms by the originating institution, misrepresentation of the nature and current value of the assets by the servicer and inadequate controls over disbursements and receipts by the servicer. Structural risk may arise through investments in ABS with structures (for example, the establishment of various security tranches) that are intended to reallocate the risks entailed in the underlying collateral (particularly credit risk) in ways that give certain investors less credit risk protection (i.e., a lower priority claim on the cash flows from the underlying pool of assets) than others. As a result, such securities have a higher risk of loss as a result of delinquencies or losses on the underlying assets. Investments in ABS also entail legal risks, including the risks that the investors may not have an enforceable agreement against the issuer or a valid security interest in the underlying collateral, as well as the risk that events that materially affect the value of the underlying collateral (for example, a default on an underlying loan or derivative instrument) may not be tied directly to the rights of the ABS holders (for example, by triggering the declaration of a default on the ABS). As a result, the Fund's investments in ABS could decline substantially in value.

## **RMBS**

Investments may include Residential Mortgage-Backed Securities ("**RMBS**"). Holders of RMBS, such as a Client, bear various risks, including credit, market, interest rate, operational, structural and legal risks. RMBS represent interests in pools of mortgage loans secured by one to four family residential properties. Such mortgage loans may generally 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 or government-sponsored entities and the securities issued thereby are guaranteed. The

rate of defaults, losses and prepayments on residential mortgage loans will be affected by a number of factors, including general economic conditions, the level of interest rates, the availability of mortgage credit, local conditions in the geographic area where the related mortgaged properties are located, the terms of the 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. Any such defaults and resulting expenses may result in losses to the RMBS which may negatively impact a Client's investment in such RMBS.

Agency RMBS (issued by Fannie Mae, Freddie Mac, or Ginnie Mae with guaranteed timely payment of principal and interest) are usually less exposed to defaults or losses than non-Agency RMBS but are exposed to prepayment risk. The value of these securities can depend very sensitively on prepayment rates. Non-Agency RMBS are exposed to default, loss-given-default, and prepayment risk, with default and loss risk frequently dominating prepayment risk.

RMBS have structural characteristics that distinguish them from other structured credit securities. The rate of interest payable on non-Agency RMBS is often set or effectively capped at the weighted average net coupon of the underlying mortgage loans themselves, often referred to as an "available funds cap." Other factors, such as interest rate derivatives embedded with such RMBS, may also affect the returns on non-Agency RMBS.

Structural features of RMBS may also contribute to the impact of increased delinquencies and defaults and lower recoveries on the underlying mortgage pool. In particular, there may be a decline in the interest rate payable under those RMBS structured to limit interest payable to investors based on a weighted average coupon cap. Mortgage loans bearing interest at a higher rate will have a greater tendency to default than those with lower mortgage rates. Such defaults will reduce the weighted average coupon of the underlying mortgage loans and accordingly the interest rate payable to investors in the related RMBS. In addition, delinquencies, defaults and lower recoveries on underlying mortgage loans will reduce interest and principal actually paid to investors to less than the amounts owed to investors in accordance with the terms of their RMBS. RMBS may not be structured with significant or any overcollateralization, so their performance will be sensitive to delays or reductions in payments, particularly in the case of subordinated tranches of RMBS. To the extent that RMBS transaction documents contain provisions providing for writedowns of principal, interest will cease to accrue on the portion of principal of an RMBS that has been written down. Furthermore, RMBS commonly include performance related triggers, including those related to delinquency and cumulative loss, that define how available mortgage principal and interest is allocated among related bonds. These triggers will determine whether the most senior or subordinate classes will receive cash flow in any particular month. The ability to model and accurately predict the actual trigger status on a monthly basis will have a material impact on the performance of certain of a Client's RMBS assets.

Federal, state and local authorities have enacted legislation, rules and regulations relating to the origination, modification, servicing and treatment of mortgage loans in default or in bankruptcy. In some instances, these initiatives have resulted in delayed or reduced collections from borrowers, limitations on the foreclosure process and generally increased servicing costs. Certain of these laws and regulations could adversely affect RMBS, without any remedy or compensation to the holders of the RMBS. The conservatorships of Fannie Mae and Freddie Mac continue to impact both the real estate market and the value of real estate assets. The outlook for both entities, including their

conservatorship is in question. It is unclear what impacts this will have on the residential real estate market and what if any changes the potential end of the conservatorship would have on RMBS more generally. It is possible that any changes to the status of Fannie Mae and Freddie Mac could adversely affect a Client's investments.

## **CMBS**

Investments will also likely include Commercial Mortgage-Backed Securities ("**CMBS**"). Loans underlying CMBS in which a Client invests are subject to particular risks, including lack of standardized terms, shorter maturities than residential mortgage loans and payment of all, or substantially all, of the principal only at maturity rather than regular amortization of principal. Additional risks may be presented by the type and use of a particular commercial property. Special risks are presented by hospitals, nursing homes, hospitality properties and certain other property types. For example, in the past, hospitals and nursing homes have experienced unanticipated variability in property cash flows related to public policy decisions on medical insurance, while hospitality properties tend to exhibit greater volatility due to changes in economic conditions, based upon their comparatively short leasing horizons. Commercial property values and net operating income are subject to volatility, which may result in net operating income becoming insufficient to cover debt service on the related mortgage loan.

The repayment of loans secured by income producing properties is typically dependent upon the successful operation of the related real estate project and in some instances upon the liquidation value of the underlying real estate. The exercise of remedies (e.g., workouts, loan modifications, and tenant leasing approvals) and successful realization of liquidation proceeds relating to CMBS may be highly dependent on the performance of a third party, which could include the servicer, special servicer or a directing certificate holder. There may be a limited number of special servicers available, particularly those that do not have conflicts of interest. The special servicer will be required to consult with the directing certificate holder with respect to certain actions of the special servicer and in certain circumstances obtain the consent of the directing certificate holder. The directing certificate holder and its affiliates may have interests that are in conflict with those of a Client, especially if the directing certificate holder or any of its affiliates holds certificates or has financial interests in or other financial dealings with a borrower or a parent of a borrower. Each of these relationships may create a conflict of interest.

The value of a Client's CMBS investments will be influenced by the term and structure of the mortgage loans, the rate of delinquencies and defaults experienced thereon, and the severity of loss incurred as a result of such delinquencies and defaults. The ability of a borrower to repay a loan secured by income-producing property typically depends on the successful operation and operating income of such property (i.e., the ability of tenants to make lease payments, the ability of a property to attract and retain tenants, and the ability of the owner to maintain the property, minimize operating expenses, and comply with applicable zoning and laws). Many commercial mortgage loans provide recourse only to specific assets, such as the property, in the event of a default and not against the borrower's other assets or personal guarantees.

In addition, investments in CMBS are subject to the risk that the underlying borrowers will be unable to refinance or otherwise repay the mortgage at maturity, thereby increasing the likelihood of a default on the borrower's obligation. In the event of a default, there may be limits to enforceability or to legal and financial recourse under the terms of the mortgage loan or applicable state law. There may be situations in which the structural loan features prevalent in CMBS

transactions are challenged by a bankruptcy court (e.g., access to lock boxes, cash flow traps and lender reserves). Exercise of foreclosure and other remedies may involve lengthy delays and additional legal and other related expenses on top of potentially declining property values. In certain circumstances, creditors may also become liable upon taking title to an asset for environmental or structural damage existing at the property.

Since CMBS investments represent interests in pools of commercial mortgage loans, a Client's investments will be affected by the term and structure of the assets underlying such CMBS and will be adversely affected by those factors that may have a negative impact on such assets. CMBS investments typically do not provide for overcollateralization, so principal losses on underlying loans may translate directly to realized losses on CMBS investments with the lowest payment priority. In addition, shortfalls in available funds may reduce distributions to the classes of certificates with the lowest payment priorities (e.g., shortfalls resulting from the payment of special servicing fees and other additional compensation that the special servicer is entitled to receive; shortfalls resulting from interest on advances made by the master servicer, the special servicer or the trustee; shortfalls resulting from the application of appraisal reductions to reduce principal and interest advances; shortfalls resulting from extraordinary expenses of the trust; shortfalls resulting from a modification of a mortgage loan's interest rate or principal balance; and shortfalls resulting from other unanticipated or default-related expenses of the trust).

At any one time, a portfolio of CMBS may be backed by commercial mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the commercial mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations.

## **CLOs**

A Client's investments are expected to include collateralized loan obligations ("**CLOs**"). CLOs are generally backed by an asset or a pool of assets (typically senior secured loans, which are not intended to be investment grade, and other credit-related assets) that serve as collateral. A Client and other investors in CLO and structured finance securities ultimately bear the credit risk of the underlying collateral. In some instances, such as in the case of most CLOs, the structured finance securities are issued in multiple tranches, offering investors various maturity and credit risk characteristics, often categorized as senior, mezzanine and subordinated/equity according to their degree of risk. If there are defaults or the relevant collateral otherwise underperforms, scheduled payments to CLO Senior Tranches take precedence over those of CLO Mezzanine Tranches, which take precedence over those to subordinated/equity tranches, such as the CLO Equity Tranches in which a Client may invest. As a result, a Client may be investing in "first-loss" instruments by purchasing CLO Equity Tranches, which will be first to bear exposure to defaults in the underlying loans, and therefore have a lower probability of repayment than other, more senior tranches of the CLOs' securities. In addition, while a Client will generally have the right to receive payments on the CLOs in which it invests, a Client generally will only benefit from the collateral as security and will not have direct rights against the underlying borrowers or otherwise have recourse against the entity that sponsored the CLO.

In light of the above considerations, CLOs may present risks similar to those of the other types of debt obligations and, in fact, such risks may be of greater significance in the case of CLOs

depending on a Client's ranking in the capital structure. For example, investments in structured vehicles, including CLO Equity Tranches issued by CLOs, involve risks, including credit risk and market risk. Changes in interest rates and credit quality may cause significant price fluctuations.

### ***Leveraged Nature of the CLO Investments***

The subordination of a tranche of a CLO (and, in particular, of the junior tranches of CLOs) may make such CLO tranche leveraged with respect to the assets of the CLO that issued it. Therefore, changes in the value of certain CLO tranches would be anticipated to be greater than changes in the value or payment performance of the senior obligations (including without limitation interests in bank loans or bonds acquired by way of a sale or assignment) owned by the CLO, which themselves are subject to credit, liquidity and interest rate risk. Use of leverage is a speculative investment technique and involves certain risks to investors. A CLO's indebtedness under any notes it issues will result in interest expense and other costs incurred in connection with such indebtedness that may not fully be covered by proceeds received from the assets underlying such CLO. Although the use of leverage generally magnifies a CLO's (and, indirectly, a Client's) opportunities for gain, it also magnifies risk of loss. Returns to the Fund on any holding of a CLO will be highly dependent on the amount of such leverage and upon changes in interest rates, delinquencies and losses on the assets underlying such CLO. As a result, the Fund may receive payments from any investment in a CLO that are, in the aggregate, less than the original amount of its investment in such CLO. Certain tranches of a CLO may be subordinate to other tranches issued by the same CLO and to other creditors of such CLO, whether secured or unsecured and whether known or unknown, including, without limitation, any hedging counterparties.

### ***General Market and Credit Risks of Underlying Assets***

Debt portfolios, such as CLOs, are subject to credit and interest rate risks. Credit risk refers to the likelihood that an issuer (or, in the case of a CLO, the obligor with respect to one or more underlying assets) will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of issuers and obligors are the primary factors influencing credit risk. In addition, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of an instrument. Securities and other debt instruments that are rated by rating agencies are often reviewed and may be subject to downgrade. Interest rate risk refers to the risks associated with market changes in interest rates. Interest rate changes may affect the value of a debt instrument indirectly (especially in the case of fixed rate securities) or directly (especially in the case of instruments whose rates are adjustable). In general, rising interest rates will negatively affect the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable-rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors).

Interest rate sensitivity is generally more pronounced and less predictable in instruments such as CLOs with uncertain payment or prepayment schedules. Although CLOs are generally structured to mitigate the risk of interest rate mismatch, there may be some difference between the timing of interest rate resets on the assets and liabilities of a CLO. Such a mismatch in timing could have a negative effect on the amount of funds distributed to CLO investors. In addition, CLOs may not be able to enter into hedge agreements, even if it may otherwise be in the best interests of the CLO to hedge such interest rate risk.

Rising interest rates can lead to increased default rates in CLOs and for floating rate securities as payment obligations increase. Unlike fixed rate securities, floating rate securities generally will not increase in value if interest rates decline. Changes in interest rates also will affect the amount of interest income the Fund earns on its CLO and floating rate investments. In addition, an increase in defaults on underlying loans could result in certain trigger events being hit, which could have the effect of diverting cashflows on a CLO away from equity or other subordinate tranches towards more senior tranches, which would have a negative impact on the returns to holders of such subordinate tranches.

### **“New Issues”**

While not presently contemplated, a Client may trade and invest in “new issues” (defined as any initial public offering of an equity security). Trading and investing in new issues involves greater risk than securities trading in general. The prices of new issues may not increase as expected and, in fact, may decline more rapidly. While most people assume that new issues will trade at a premium to their issue price until they are liquidated, there is no guarantee that this will occur. Such securities have no public market prior to their initial offering or creation and there is no assurance that (i) an active public market in such securities will develop or continue after commencement of trading or (ii) that the initial public offering price or initial trading level of such securities will be indicative of the market price for such securities on a “fully-distributed” basis. In order for a Client to trade “new issues,” each investor must represent and warrant that it either is or is not a “Restricted Person” within the meaning of FINRA Rule 5130, and a Client will be relying on such representations and warranties in engaging in its business activities. Clients who are “Restricted Persons” may not participate in some or all of the gains, losses or expenses of a Client related to new issues in compliance with FINRA rules.

### **Options**

A Client may trade and invest in options. An option is a right, purchased for a certain price, to either buy or sell the underlying instrument or product during or at the end of a certain period of time for a fixed price. The risks in trading options are different from the risks in trading the underlying instruments or products, and trading in options can provide a greater potential for profit or loss than an equivalent investment in the underlying asset. For example, if a Client buys an option (either to sell or buy an underlying instrument or product), it will be required to pay a “premium” representing the market value of the option. The value of an option may decline because of a decline in the value of the underlying asset relative to the strike price, the passage of time, changes in the market’s perception as to the future price behavior of the underlying asset or any combination thereof. Unless the price of the underlying instrument or product changes and it becomes profitable to exercise or offset the option before it expires, a Client may lose the entire amount of the premium. Conversely, if a Client sells an option (either to sell or buy an underlying instrument or product), it will be credited with the premium but will have to deposit margin with a Client’s brokers due to its contingent liability to deliver or accept the underlying instrument or product in the event the option is exercised. Sellers of options are subject to unlimited risk of loss, as the seller will be obligated to deliver or take delivery of an asset at a predetermined price which may, upon exercise of the option, be significantly different from the then-market value. The ability to trade in or exercise options may be restricted in the event that trading in the underlying instrument or product becomes restricted.

### ***Loans of Portfolio Securities***

A Client may lend its portfolio securities. By doing so, a Client will attempt to increase income through the receipt of interest on the loan. While a securities loan is outstanding, a Client 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. To the extent that the value of the securities the Fund lent increases, the Fund could experience a loss if such securities are not recovered.

### ***Swap Agreements***

Jaffa may use swap agreements. The use of swaps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary investment transactions. Interest rate swaps, for example, do not typically involve the delivery of Financial Instruments, other underlying assets or principal. Accordingly, the market risk of loss with respect to an interest rate swap is often limited to the amount of interest payments that the Investment Manager is contractually obligated to make on a net basis. If the other party to an interest rate swap defaults, a Client's risk of credit loss may be the amount of interest payments that it is contractually entitled to receive on a net basis. However, where swap agreements require one party's payments to be "up-front" and timed differently than the other party's payments (such as is often the case with currency swaps), the entire principal value of the swap may be subject to the risk that the other party to the swap will default on its contractual delivery obligations. If there is a default by the counterparty, a Client may have contractual remedies pursuant to the agreements related to the transaction. The investment performance of a Client, however, may be adversely affected by the use of swaps if Jaffa's forecasts of market values, interest rates or currency exchange rates are inaccurate.

### ***Repurchase and Reverse Repurchase Agreements***

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

### ***Other Derivative Instruments***

A Client may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of a Client and legally permissible. Special risks may apply to instruments that are invested in by the Fund in the future that cannot be determined at this time or until such instruments are developed or invested in by a Client. 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.

### ***Convertible Securities***

A Client may invest in convertible securities. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula.

The value of a convertible security is a function of its “investment value” (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its “conversion value” (the security’s worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security’s investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium will decrease as the convertible security approaches maturity.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security’s governing instrument. If a convertible security held by a Client is called for redemption, a 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 a Client’s ability to achieve its investment objective.

### ***Non-U.S. Investments***

A Client may invest in financial instruments of non-U.S. corporations and governments. Investing in the financial instruments of companies (and, from time to time, governments) outside of the United States involves certain considerations not usually associated with investing in financial instruments of U.S. companies or the U.S. Government, including political and economic considerations, such as greater risks of expropriation, nationalization, confiscatory taxation, imposition of withholding or other taxes on interest, dividends, capital gains or other income, limitations on the removal of assets and general social, political and economic instability; the relatively small size of the securities



markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; the evolving and unsophisticated laws and regulations applicable to the securities and financial services industries of certain countries; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict a Client's investment opportunities. In addition, accounting and financial reporting standards that prevail outside of the U.S. generally are not as high as U.S. standards and, consequently, less information is typically available concerning companies located outside of the U.S. than for those located in the U.S. As a result, a 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 a Client's rights in such markets. For example, financial instruments traded on non-U.S. exchanges and the non-U.S. persons that trade these instruments are not subject to the jurisdiction of the SEC or the CFTC or the securities and commodities laws and regulations of the U.S. Accordingly, the protections accorded to a Client under such laws and regulations are unavailable for transactions on foreign exchanges and with foreign counterparties.

### ***Futures***

Due to low margin deposits, futures trading is inherently highly leveraged. As a result, a relatively small price movement in a futures contract may result in immediate and substantial losses to the trader. For example, if at the time of purchase 10% of the price of a futures contract is deposited as margin, a 10% decrease in the price of the contract would, if the contract is then closed out, result in a total loss of the margin deposit before any deduction for brokerage commissions. A decrease of more than 10% would result in a loss of more than the total margin deposit.

Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent Jaffa from promptly liquidating unfavorable positions and thus subject a Client to substantial losses. In addition, Jaffa may not be able to execute futures contract trades at favorable prices if little trading in the contracts involved is taking place. It also is possible that an exchange or the CFTC 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.

Certain commodity exchanges have also established limits, referred to as "position limits," on the maximum net long or net short positions which any person may hold or control in particular commodity futures contracts. Jaffa may have to modify its investment and trading decisions, and might have to liquidate positions, in order to avoid exceeding such limits. If this should occur, it could adversely affect the profitability of a Client.

### ***Litigation***

The investment activities of Jaffa may subject the Clients and Jaffa to the risks of becoming involved in litigation with third parties. The expense of defending against claims against the Clients by third parties and the payment of any amounts pursuant to settlements or judgments would be borne by the Clients, reduce distributions and could require Clients and/or Fund Investors to return distributed capital and earnings. Jaffa will generally be indemnified by the Clients in connection with any such litigation, subject to certain conditions.

### ***Trading Decisions***

Trading decisions made by Jaffa will be based on fundamental and other analysis. Any factor that would lessen the prospect of major trends occurring in the future (such as increased governmental control of, or participation in, the financial markets) may reduce the prospect that a particular trading method or strategy will be profitable in the future. In the past, there have been periods without discernible trends and, presumably, such periods will continue to occur in the future. Moreover, any factor that would make it more difficult to execute trades at desired prices in accordance with the signals of the trading method or strategy (such as a significant lessening of liquidity in a particular market) would also be detrimental to profitability. Further, many advisers' trading methods utilize similar analyses in making trading decisions. Therefore, bunching of buy and sell orders can occur, which makes it more difficult for a position to be taken or liquidated. No assurance can be given that the Clients' strategies will be successful under all or any market conditions.

### ***Less Liquid Instruments***

On behalf of the Clients, Jaffa may invest in securities which may be thinly traded. In addition, the Clients may from time to time hold large positions with respect to a specific type of instrument, which may reduce the Clients' liquidity. Jaffa may be unable to timely dispose of certain assets for the Clients, which would adversely affect the Clients' ability to rebalance its portfolio or to meet withdrawal requests. In addition, such circumstances may force Jaffa to dispose of assets on behalf of the Clients at reduced prices, thereby adversely affecting the Clients' performance. If there are other market participants seeking to dispose of similar assets at the same time, Jaffa may be unable to sell such assets on behalf of the Clients or prevent losses relating to such assets. Furthermore, if the Clients incur substantial trading losses, the need for liquidity could rise sharply while its access to liquidity could be impaired. In conjunction with a market downturn, the Clients' counterparties could incur losses of their own, thereby weakening their financial condition and increasing the Clients' credit risk to them.

On behalf of the Clients, Jaffa may also invest in securities that are subject to legal or other restrictions on transfer. The Clients may be contractually prohibited from disposing of such investments for a specified period of time. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. The market prices, if any, for such investments tend to be volatile and may not be readily ascertainable, and Jaffa may not be able to sell them on behalf of the Clients, when Jaffa desires to do so or to realize what it perceives to be their fair value in the event of a sale.

### ***Hedging Transactions***

On behalf of the Clients, Jaffa may utilize financial instruments, both for investment purposes and for risk management purposes, in order to: (i) protect against possible changes in the market value of the Clients' investment portfolios resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect the Clients' unrealized gains in the value of the Clients' investment portfolio; (iii) facilitate the sale of any such investments; (iv) preserve returns, spreads

or gains on any investment in the Clients' portfolios; (v) hedge against a directional trade; (vi) protect against any increase in the price of any securities the Clients anticipate purchasing at a later date; or (vii) for any other reason that Jaffa deems appropriate.

The success of Jaffa's hedging strategies for the Clients, will depend, in part, upon Jaffa's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the portfolio investments being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the hedging strategy will also be subject to Jaffa's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While Jaffa may enter into hedging transactions on behalf of the Clients to seek to reduce risk, such transactions may result in a poorer overall performance for the Clients than if Jaffa had not engaged in such hedging transactions. For a variety of reasons, Jaffa may not seek to establish a perfect correlation between the hedging instruments utilized and the portfolio holdings being hedged.

Such an imperfect correlation may prevent the Clients from achieving the intended hedge or expose the Clients to risk of loss. Jaffa will not be required to hedge any particular risk on behalf of the Clients in connection with a particular transaction or its portfolios generally. Moreover, it should be noted that the Clients' portfolios will always be exposed to certain risks that may not be hedged. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the Clients' portfolio holdings by Jaffa.

### ***Cash and Cash Equivalent Investments***

On behalf of the Clients, Jaffa invests a portion of the Clients' assets in cash or cash equivalent items for investment purposes, pending other investments, as collateral or as provision of margin for derivative instruments. These cash items generally are of high quality at the time of investment and may include a number of money market instruments such as negotiable or non-negotiable securities issued by or short-term deposits with the U.S. and non-U.S. governments and agencies or instrumentalities thereof, bankers' acceptances, high quality commercial paper, repurchase agreements, bank certificates of deposit, and short-term debt securities of U.S. or non-U.S. issuers deemed to be creditworthy by Jaffa. While these investments generally involve relatively low risk levels, they may produce lower than expected returns, and could result in losses.

### ***Default and Credit Risks***

A Client may invest in debt obligations of both government and corporate issuers. These financial instruments involve the risk that the obligor either cannot or will not fulfill its obligations under the terms of the financial instrument. A Client also will assume credit risk to its brokers, custodians and other counterparties in connection with brokerage arrangements, derivatives and other contractual relationships. In evaluating credit risk, a Client may be dependent upon information provided by the obligor, which may be materially inaccurate or fraudulent. Any actual default, or any circumstance that increases the possibility of such a default, could have a material adverse effect on a Client.

### ***Money Market Instruments***

A Client may invest in short-term Financial Instruments which include money market instruments. Money market instruments generally are considered to be low risk, and, because by

definition they are short-term securities, highly liquid. Nonetheless, these Financial Instruments are subject to risk, including default risk, depreciation risk and liquidity risk. For example, commercial paper is not backed by collateral. Issuers of commercial paper are required to have high credit ratings and defaults have been rare, but they have nonetheless occurred. Money market funds are not insured or guaranteed by the Federal Deposit Insurance Corporation and may not be guaranteed by the Exchange Stabilization Fund. As a result, they are subject to a risk of loss.

### ***Other Financial Instruments***

Jaffa may employ strategies or invest in instruments for which no specific “risk factors” are provided herein. Nevertheless, such strategies and instruments should be considered to be speculative, volatile, and, in general, no less risky than other strategies and instruments more fully described herein.

### ***Risk Management***

The risk management techniques which may be utilized by a Client cannot provide any assurance that a Client will not be exposed to risks of significant trading losses. The prices of instruments used for hedging purposes, if any, may not correlate with price movements of the underlying Financial Instruments being hedged. Although Jaffa generally will attempt to identify, monitor and manage significant risks, these efforts will not take all risks into account and there can be no assurance that these efforts will be effective. Many risk management techniques are based on observed historical market behavior, but future market behavior may be entirely different. Any inadequacy or failure in Jaffa’s risk management efforts could result in material losses for a Client.

### ***Leverage and Liquidity Risks***

The Clients generally will have the power to borrow (or otherwise incur leverage) and may do so when deemed appropriate by Jaffa. Jaffa may borrow on behalf of the Clients from brokers, banks and other lenders to finance its investing and trading operations, which borrowings may be secured by assets of the Clients. The use of such leverage can, in certain circumstances, maximize the losses to which the Clients, investment portfolios may be subject. Any event that adversely affects the value of an investment would be magnified to the extent that a particular asset or the Clients as a whole is leveraged. The cumulative effect of the use of leverage by the Clients in a market that moves adversely to the Clients’ investments could result in a substantial loss to the Clients, which would be greater than if the Clients were not leveraged. Leverage may be achieved through, among other methods, direct borrowing and purchases of securities on margin and the use of options and other derivatives.

The use of margin, derivatives and short-term borrowings may result in substantial interest and financing costs to the Clients and may create other or additional risks. Specifically, the Clients may use a significant portion of their capital for margin and collateral deposits. If the value of the Clients’ securities or derivatives positions falls below the margin or collateral levels required by a prime broker, custodian or other counterparty, additional margin or collateral deposits would be required. If the Clients are unable to satisfy any margin or collateral call by a prime broker, custodian or other counterparty, then such custodian or other counterparty could terminate transactions, liquidate the Clients’ position in some or all of the financial instruments that are in the Clients’ margin or collateral accounts at the custodian or other counterparty and otherwise cause the Clients to incur significant losses. The failure to satisfy a margin or collateral call, or

the occurrence of other material defaults under margin or other financing agreements, may trigger cross-defaults under the Clients' agreements with other brokers, custodians, lenders or counterparties, multiplying the adverse impact to the Clients. In addition, because the use of leverage will allow the Clients to control positions worth significantly more than its investments in those positions, the amount that the Clients may lose in the event of adverse price movements may be high in relation to the amount of its investments.

In the event of a sudden drop in the value of the Clients' assets, Jaffa may not be able to liquidate assets on behalf of the Clients quickly enough to satisfy its margin or collateral requirements or other contractual obligations. In that event, the Clients may become subject to claims of financial intermediaries that extended margin loans or other types of credit. Such claims could exceed the value of the assets of the Clients. The banks, dealers and other custodians and counterparties that provide financing to the Clients can apply essentially discretionary margin, haircut, financing and collateral valuation policies. Changes by banks, dealers and other custodians or counterparties in any of the foregoing may result in large margin or collateral calls, loss of financing and forced liquidations of positions at disadvantageous prices. There can be no assurance that the Clients will be able to secure or maintain adequate financing, without which the Clients may not continue to be viable.

The purchase of options, futures, forward contracts, repurchase agreements, reverse repurchase agreements and equity swaps generally involve little or no margin deposit and, therefore, will provide substantial leverage. Accordingly, relatively small price movements in these financial instruments may result in immediate and substantial losses to the Clients. In addition, the Clients will have unlimited discretion to use derivative instruments, which generally provide the economic equivalent of leverage by magnifying the potential gain or loss from an investment.

### **Reinsurance Risks**

***(These risks may be applicable to only certain Clients (i.e., the Fund) unless SMA Accounts are also invested similarly. Each Client should discuss its investment management objective and strategy with Jaffa to determine if these risks are applicable to that Client. Additionally, references below to underlying entities, captive underlying entities or underlying investment vehicles references underlying entities in which the Fund will likely invest (and which it is possible an SMA Account may also invest, if applicable) and those entities may be formed as series vehicles of which it is likely that Jaffa will be appointed as investment manager to trade those underlying assets of the applicable series or entities (as the case may be).***

### **Concentration Risks**

A Client may only be invested in a limited number of or only one series which may result in high risk concentration if Jaffa enters into reinsurance contracts that are riskier than anticipated and/or if Jaffa does not effectively trade the cash reserves in a way that generates excess returns above any amounts required to be paid out in claims as it relates to any reinsurance contracts.

### **Reinsurance Losses**

Reinsurers commit to covering the losses resulting from the reinsurance contracts held by primary insurers. However, primary insurers typically remain fully liable to pay policyholder

obligations regardless of whether reinsurers meet their contractual obligations. To meet future obligations, reinsurance firms typically use the same insurance techniques and models for risk management as primary insurers and typically follow the same insurance accounting principles. On some occasions, a reinsurer may pass its own risks to capital markets (through securitization, for example) or to another reinsurer. The success of risk transfer is only as good as the investments being made in this instance.

### ***Jaffa Control***

Jaffa will also serve as the manager or investment manager or sub-adviser (as the case may be) to the underlying vehicles (or an affiliate will serve as manager). Thus, in this instance, a Client will be wholly dependent on Jaffa (and/or an affiliate) to properly manage the underlying vehicles both from an investment and operational perspective. Additionally, a Client will be depending on Jaffa at the underlying vehicle level (other than separately managed accounts which will be traded directly) to pick the appropriate insurance portfolios to be underwritten. It may be difficult to determine which contracts are less risky and which are riskier, and Jaffa may not be able to make a good faith assessment based on the information available at the time any such reinsurance contracts are underwritten. Jaffa will act diligently and reasonably to make a good faith assessment of these risks in an effort to reduce and/or mitigate any such risks to the extent possible.

### ***Insurance Risk***

The level or timing of actual insurance claims is likely to differ from expected insurance claims.

### ***Insurance Policy Cash Flow Risk***

The amount or timing of cash flows under an insurance policy or contract may differ from expectations or assumptions for reasons other than a change in investment rates of return or a change in asset cash flows which could result in an insurance company or reinsurance company having less or no cash on hand to pay out claims.

### ***Exposure Concentration Risk***

A portfolio or segment of risk exposures underwritten may be concentrated with regard to certain characteristics (geography, industry, etc.) and consequently more likely to generate claims simultaneously which could reduce cash at such entity level.

### ***Tail Risk***

Reinsurers often assume significant exposure to very large but infrequent claims.

### ***Insurance Counterparty Credit Risks***

Counterparties (policyholders, ceding insurance companies, retrocession assuming reinsurers, etc.) may fail to fulfill financial obligations which could have a negative effect on a Client's investments.

### ***Regulatory Risks***

Insurance regulators may act in such a way to limit or prohibit, impose significant compliance burdens on, and/or otherwise impose additional costs and/or delays on an insurer's operations and/or release of capital and/or profits.

### ***Catastrophe Risk***

Relatively infrequent events or phenomena may produce unusually large aggregate claims and increase insurance counterparty credit risk.

### ***Natural Catastrophe Risk***

Natural events (hurricanes, earthquakes, etc.) can create insurance correlated risks, generating insurance claims and increase insurance counterparty credit risk.

### ***Man Made Catastrophe Risk***

Man-made events can create correlated insurance risk (e.g. asbestos, environmental, chronic traumatic encephalopathy), generating insurance claims and increase insurance counterparty credit risk.

### ***Macroeconomic Risk***

Changes in the general economy (inflation, interest rates, economic growth, unemployment, etc.) can lead to unanticipated changes in claim costs, operational costs and/or premium revenues.

### ***Social Inflation Risk***

Changes in social environments and judicial treatment can increase incidence rates and compensation expectations. Examples include (but are not limited to) heightened expectation of payment, heightened awareness leading to increased claim frequency, increased litigation costs, among others.

### ***Reserve Risk***

Events that have already occurred have claim estimates established with corresponding assets set in reserve in support of those claims. Known past events can emerge differently than anticipated resulting in higher claim liabilities. Likewise, unknown past events can emerge generating additional claim liabilities.

### ***Underwriting Risk***

Claim estimates for underwritten risk exposures can be misestimated. Likewise, distribution partners can advertently or inadvertently deviate from the communicated underwriting plan, unwittingly exposing Jaffa to unintended risk. Insurance regulators can force insurers and reinsurers to support those risks regardless of initial contract wording.

### ***Mischaracterization/Misclassification Risk***

Risk exposures being underwritten may be inaccurately characterized with regard to measurable

or observable factors or characteristics. This may also result in the misassignment of risk exposures to one of the risk classes of a risk classification system.

#### ***Adverse Selection/Antiselection Risk.***

Risk exposures actually underwritten may inadvertently systematically have a higher level of expected claims than the broader population of risks targeted for underwriting by Jaffa or its affiliates at any underlying vehicle level.

#### ***Model Risk***

Adverse consequences may result from reliance on a model that does not adequately represent that which is being modeled, or the risk of misuse or misinterpretation.

#### ***Parameter Risk***

Parameters used in the methods or models may not be representative of future outcomes.

#### ***Process Risk***

Projections of future contingencies are inherently variable, even when the parameters are known with certainty.

#### ***Data Quality Risk***

Data, particularly when provided by external sources, may contain material inaccuracies and/or omissions.

#### ***Judicial Risk***

Evolving laws, regulations, and legal interpretations can result in unanticipated limits or prohibitions on, significant compliance burdens on, and/or other additional costs and/or delays on an insurer's operations and/or release of capital and/or profits.

#### ***Insurance Fraud***

False and/or misrepresented claims may be made that an insurer cannot practically detect and/or legally defend against, and consequently must pay. Insurance exposures may be intentionally misrepresented, resulting in inadequate collection of premium and/or failure to reject risk exposures that would otherwise violate underwriting guidelines.

#### ***Emerging Risks***

New or evolving risks may be difficult to manage since their likelihood, impact, timing or interdependency with other risks are highly uncertain.

#### ***Liquidity Risks***

Reinsurance claims are often paid over a long period of time. (Re)insurers have to pay



policyholders claims following an insured event, but there can be quite some time between a loss event and the payment being made to policyholders due to the time it takes for policyholders to report and insurers to assess claims. Considering the typical contractual arrangements between reinsurers and primary insurers, the default of a reinsurer should not have a significant liquidity impact on primary insurers, because primary insurers and reinsurers usually settle their accounts quarterly or annually. Reinsurers have to post collateral in some non-European jurisdictions, depending on their own credit rating. The use of collateral could then imply that liquidity is more of an issue for reinsurers than it is for primary insurers in these jurisdictions, since a downgrade could trigger calls for additional collateral from counterparties thus exacerbating the reasons that led to the downgrade in the first place. The inclusion of collateral in a reinsurance contract is not always allowed. Like primary insurers, reinsurers may run liquidity risk because they mismatch assets and liabilities or engage in non-traditional non-insurance (NTNI) activities.

### ***Intra-Industry Interconnectedness***

As a result of the transfer of insurance risks to reinsurers, there is a degree of interconnectedness between these institutions. One question is the extent to which the failure of a firm in the reinsurance market might destabilize the insurance market more widely. Reinsurers generally dampen the impact of the insured events a cedant might be exposed to and further enable cedants to increase their underwriting portfolio. Out of this function, the collapse or distress of a single reinsurer may cause the following problems for primary insurers: failure of the reinsurer to pay its share of the claims; loss of reinsurance capacity accompanied by an increase in reinsurance premium affecting the business model of primary insurers; loss of possible investments of primary insurers in reinsurers; as second-round effect: loss of possible investments of other companies (financial or non-financial) in reinsurers, possibly affecting primary insurers invested in those companies; and loss of confidence in the (re)insurance sector or herding reactions/behavior of so far healthy insurance undertakings. The ceding party always retains its contractual obligation to the customers so primary insurers keep “skin in the game”. This implies that they have to carefully manage their credit risk exposure. As such, insurers might be incentivized to seek reinsurance from a firm with better credit ratings and a higher expectation that it would fulfil its obligations. Since the already large and diversified reinsurers are more likely to benefit from good credit ratings, a too narrow focus of insurers on a handful of already large reinsurers could, all else equal, potentially increase concentration in the market with potential consequences for the insurance market if one large reinsurer were to fail.

### ***Interconnectedness with the Rest of the Market***

Just like primary insurers, reinsurers are linked with the rest of the financial system through their investments, derivatives positions and other financial transactions. In addition, Alternative Risk Transfer (**ART**) is a linkage with the financial system that is specific to reinsurance. ART allows (re)insurers to move risks to investors. Historically, the main vehicle has been an SPV that merges catastrophe insurance risk (such as US earthquake risk) with credit risk by issuing a bond where the repayment of the principal depends on the event reinsured (should the catastrophe takes place, the (re)insurer is exempted from repaying the principal). While these products have been available for more than 20 years, their substantial growth over the past several years has raised questions as to their impact on the traditional reinsurance market. The most prevalent types of ART are catastrophe bonds and collateralized reinsurance. The first is a traded security (insurance-linked security or “**ILS**”), while the second is a private deal struck between the insurer and the investor. ILSs are generally thought to have little to no correlation with the wider financial

markets, as their value is linked to non-financial risks such as natural disasters, longevity risk and life insurance mortality. In the current low-yield environment, ILSs offer an attractive yield uplift. As a result, the market for ILSs has grown rapidly and yields have fallen. This in turn impacts the price of risks in the reinsurance market. While investors have bought more than USD 55 billion worth of ART, a sevenfold increase in ten years, this accounts for little more than a tenth of total reinsurance capital. With securitization of risks the absence of credit extension minimizes the systemic effects – i.e., as the obligations of the primary insurer are non-transferable, then analogies between securitization of risks and the subprime market are unlikely. However, it is important to note that ART transfers insurance risks to non-insurance firms (i.e., capital markets); this increases the exposure between sectors, hence enhancing interconnectedness and susceptibility to common shocks. Also, risk pricing may be distorted by investors searching for yield or suddenly retreating from the market. The former could lead to overinflated asset prices, whereas the latter might promote an amplification of the cycle of reinsurance premium.

### ***Insurance-linked Securities/Warrants Risk (ILS/ILW)***

ILS and Warrants (“**ILS/ILW**”) have become a popular way of investing in the insurance industry and are an important source of non-traditional capital for insurers and reinsurers. They also provide competition to traditional reinsurance. ILS/ILW is a term that embraces catastrophe bonds, collateralized non-traditional reinsurance, the transfer of risk through swaps and derivatives, and industry loss warranties.

A Client will invest in ILS/ILW instruments. There is a risk with these types of investments that underlying bondholders’ security accordingly lies in the collateral held to support the obligations. There is risk for the bondholders if the collateral structure fails (for example, if the security consists in an undertaking by a trustee to hold assets as security, but the trustee pays away the assets or fails to hold assets of a sufficient quality or quantity; the bondholders’ remedies will depend on the financial standing of the trustee and the strength of its undertakings). A further risk is that the assets held as collateral when called upon no longer have the value which they had when the trust was established, and steps have not been taken to replenish them. This was a significant problem in 2008/9 when highly rated assets became illiquid.

It should also be considered that collateral exists for the benefit not only of the bondholders but also of the sponsor. The sponsor will want to ensure that the collateral is readily available to it if it believes that its entitlement to draw down has been triggered, even if the bondholders do not agree.

### ***Risks Arising From High Market Concentration***

The largest EU reinsurers have a significant footprint across the globe. European countries account for a good portion of the risks written by reinsurers across the world, suggesting a very prominent international presence. While this is beneficial in terms of diversification, it could also mean that a negative shock affecting the reinsurance business in a non-European country could affect the financial position of the EU reinsurance group, including the business models of arms operating in European countries. This risk should, however, be mitigated by the Solvency II concentration risk requirement in the EU. Apart from the EU, many reinsurance firms are domiciled in so-called offshore jurisdictions, most notably Bermuda. This raises concerns about common exposure of EU insurers to this jurisdiction.

### ***Procyclical Investment Behavior***

Reinsurers, similar to primary insurers, especially those reinsuring life risks, can be seen as significant long-term investors in the market and can behave in a procyclical manner. In addition, non-life insurers can be forced to sell assets by large amounts when confronted with large claims, typically for catastrophe risk insurance. The impact, however, may not be large given the size of the reinsurance industry relative to financial markets and given the global reach of most reinsurers. Their global assets can make them less home-biased than primary insurers and therefore less dominant in specific funding markets.

### ***Captive Reinsurance***

For the US, the Federal Reserve raises the concern that life insurance companies in the US can avoid the applicable capital requirements by setting up a captive reinsurer in specific US states with lower capital requirements. The size of this market is smaller in the US than in the EU for third-party reinsurance. The Federal Reserve is alarmed by the fact that the risks in these captive reinsurers are not transparent to supervisors and the SPVs involved might be underfunded. The SPVs often use conditional letters of credit by the parent company as collateral. It is possible that an additional layer of risk is added by the securitization of such “excessive” capital requirements in a special kind of insurance-linked note called “redundant reserves notes”. A securitization structure has the potential to reduce transparency for the ultimate investors and reach a larger part of the capital markets.

***Affiliated Investment Manager Control.*** Jaffa will also serve as the manager or investment manager or sub-adviser (as the case may be) to an underlying entity Jaffa (or an affiliate will serve in such capacity). Thus, a Client is wholly dependent on (or an affiliate) to properly manage an underlying entity both from an investment and operational perspective. Additionally, a Client will be depending on Jaffa or an affiliate at any underlying entity level (other than segregated separately managed accounts which will be traded directly) to pick the appropriate insurance portfolios to be underwritten. It may be difficult to determine which contracts are less risky and which are riskier, and Jaffa may not be able to make a good faith assessment based on the information available at the time any such reinsurance contracts are underwritten. Jaffa will act diligently and reasonably to make a good faith assessment of these risks in an effort to reduce and/or mitigate any such risks to the extent possible.

***Series Entity.*** Any captive underlying entity that has been established will likely be designated series of limited liability company interests and will likely be established under Tennessee law. Pursuant to Tennessee law, the assets of one series will not be available to meet the liabilities of another series. However, any captive underlying entity is a single legal entity which may operate or have assets held on its behalf or be subject to claims in other jurisdictions which may not necessarily recognize such segregation. Series are not separate legal entities. There is no guarantee that the courts of any jurisdiction outside of Tennessee will respect the limitations on liability associated with series of limited liability company interests. This same risk applies to any third-party entity if established as a series entity under the laws of any state that so permits.

### ***MGAs***

Investing or acting through an MGA could result in more risky investments as MGAs work for commissions, and there could be potential for bias when it comes to selecting a policy.

## **Operational and Other Risks**

### ***Performance-Based Fees***

The existence of a performance-based fee (such as the Incentive Fee described in Item 6) paid to Jaffa or an affiliate may create an incentive for Jaffa to make more speculative investments on behalf of the Clients than the Firm would otherwise make in the absence of such performance-based arrangement.

### ***Counterparty Risks***

The Clients should expect to establish relationships to obtain financing, engage in derivative transactions and obtain prime brokerage and other services and enter into various transactions with third parties, all of which will permit the Clients to trade in any variety of markets or asset classes over time; however, there can be no assurance that the Clients will be able to maintain such relationships or establish such relationships in the future. An inability to establish or maintain such relationships would limit the Clients' trading activities and could create losses, preclude Jaffa, on behalf of the Clients, from engaging in certain transactions, derivative intermediation financing and prime brokerage services and prevent the Clients from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative and prime brokerage services provided by any such relationships or a significant change in terms relating to financing rates or leverage by such counterparties could have a significant and/or negative impact on the Clients' business, including requiring the liquidation of positions on unfavorable terms, due to the Clients' reliance on such counterparties.

Although unlikely, some of the markets in which Jaffa may effect its transactions on behalf of the Clients may be "over-the-counter" or "inter-dealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes the Clients to the risk that a counterparty will not settle a transaction due to a credit or liquidity problem, thus causing the Fund to suffer a loss. In addition, in the case of a default, the Fund could become subject to adverse market movements while replacement transactions are executed. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement or where the Clients have concentrated their transactions with a single counterparty or small group of counterparties.

Furthermore, there is a risk that any of the Clients' counterparties could become insolvent and/or the subject of insolvency proceedings. If one or more of the Clients' counterparties were to become insolvent or the subject of insolvency proceedings, there exists the risk that the recovery of the Clients' securities and other assets from the Clients' prime brokers or broker-dealers 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.

The Clients are not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Moreover, Jaffa's internal process for evaluating the creditworthiness of its counterparties may prove insufficient. The ability of the Clients to transact business with any one or more counterparties, the lack of complete and "foolproof" evaluation of the financial capabilities of the Clients' counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by

the Clients.

### **Cybersecurity Risk**

As part of its business, Jaffa stores and transmits large amounts of electronic information, including information relating to the Client Accounts, including but not limited to personally identifiable information. Similarly, service providers may process, store and transmit such information. Jaffa has procedures and systems in place 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 Jaffa may be susceptible to compromise, leading to a breach of Jaffa's networks. Jaffa's systems or facilities may be susceptible to employee error or malfeasance, government surveillance or other security threats. Online services provided by Jaffa to the Clients, if any, may also be susceptible to compromise. Breach of Jaffa's information systems may cause information relating to the transactions of Jaffa's Clients (including personally identifiable information) to be lost or improperly accessed, used or disclosed.

### **Epidemics, Pandemics, Outbreaks of Disease and Public Health Issues**

Jaffa's business activities as well as the activities of a Client and its investments could be materially adversely affected by outbreaks of disease, pandemics, epidemics and public health issues in Asia, Europe, North America, the Middle East and/or globally, such as coronavirus disease 2019 (COVID-19) and the ongoing COVID-19 pandemic (caused by the SARS-CoV-2 virus), Severe Acute Respiratory Syndrome (or SARS), diseases caused by other new or novel coronaviruses, flu and diseases caused by other types or subtypes of influenza viruses, Ebola virus disease, and other epidemics, pandemics, outbreaks of disease or public health issues (including the emergence of new viruses). In particular, coronavirus disease 2019 (or COVID-19), an infectious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2), was first identified in December 2019 in Wuhan, China and has since spread globally, resulting in an ongoing global pandemic. The COVID-19 pandemic has severely affected (and is likely to continue to severely and materially impact and affect) the global economy, global equity markets and supply chains (including as a result of quarantines, shelter in place orders and other government-directed or mandated or suggested measures or actions to stop or slow the spread of SARS-CoV-2 virus and the spread of COVID-19). Although the short-term and long-term effects of COVID-19 (and the actions and measures taken or mandated by governments around the world to halt or slow the spread of the novel coronavirus and the disease caused thereby) cannot be predicted, previous occurrences of other epidemics, pandemics and outbreaks of disease, such as the 2009 swine flu pandemic or 1918 influenza pandemic, had material adverse effects on the economies, equity markets and operations of those countries and jurisdictions in which they were most prevalent. A recurrence of an outbreak of any kind of epidemic, communicable or infectious disease, virus or major public health issue could cause a slowdown in the levels of economic activity generally (or push the world or local economies into or further into recession), which would be reasonably likely to adversely affect the business, financial condition and operations of a Client and its investments. Should these or other major public health issues, including pandemics, arise or spread farther (or continue to worsen), a Client could be adversely affected by more stringent travel restrictions (such as mandatory

quarantines and social distancing and other similar or new measures undertaken by governments), additional limitations on a Client's operations or business and governmental actions limiting the movement of people and goods between regions and other activities or operations.

### ***Force Majeure Risk***

Force majeure is the term generally used to refer to an event beyond the control of the party claiming that the event has occurred, including acts of God, fire, flood, weather, earthquakes, war, terrorism, labor strikes, outbreaks of disease and potentially other events or occurrences. Force majeure events in the United States and elsewhere in the world may adversely affect the ability of Jaffa, its affiliates or agents or the parties with whom they do business to perform their respective obligations, under a contract or otherwise. In addition, dealing with any force majeure event will divert the Investment time and effort, and the cost of repairing or replacing damaged assets could be considerable. Repeated or prolonged service interruptions may result in permanent loss of customers, substantial litigation, or penalties for regulatory or contractual non-compliance. In some cases, project agreements can be terminated if the force majeure event is so catastrophic as to render it incapable of remedy within a reasonable, pre-agreed time period. Force majeure events that are impossible or costly to cure may also have a permanent adverse effect on a Client or its investments, and a Client's Russia and Ukraine, and the sanctions imposed or announced by the United States and various other countries in response to such hostilities, could adversely affect the worldwide economy and the investment activities of a Client.

### ***Alternative Investment Funds – Private Funds***

Alternative investments, such as the Fund, generally seek to provide returns with a low correlation to returns of standard asset classes. Each private fund is subject to specific and often enhanced risks, depending on the nature of the private fund. Prospective investors to a private fund should carefully review the prospectus disclosures and offering documents of these private funds, which contain important information about the specific risks of the product.

An alternative investment fund or private fund is an investment vehicle that pools capital from a number of investors and invests in securities and other instruments. In many cases, an alternative investment fund is an investment vehicle that is typically not registered under federal or state securities laws. So that alternative investment funds do not have to register under these laws, issuers make the private funds available only to certain sophisticated or accredited investors and cannot be offered or sold to the general public. Many but not all alternative investment funds use leverage as part of their investment strategies. Some alternative investment funds management fees typically include a base management fee along with a performance component. In many cases, the private fund's managers (the portfolio managers) may become "partners" with their investors by making personal investments of their own assets in the private fund. Many alternative investment funds offer their securities by providing an offering memorandum or private placement memorandum. The offering memorandum covers important information for investors and investors should review this document carefully and should consider conducting additional due diligence before investing in the alternative investment fund. Risks of alternative investment funds include the following:

- Alternative investment funds do not sell publicly and are therefore illiquid. An investor may not be able to exit an alternative investment fund or sell its interests in the private fund before the fund closes.

- Alternative investment funds are subject to various other risks, including risks associated with the types of securities in which the private fund invests.

Certain illiquid investments may not be able to be sold at prices that reflect the assessed value.

### ***Lack of Private Fund Investor Participation in Management***

Investors in private funds will not have an opportunity to evaluate or approve specific investments, or any particular type or category of investment, prior to a private fund's investing. Decisions with respect to a private fund's management will be made exclusively by the investment adviser or portfolio manager to the fund, who will have wide latitude within the broad investment guidelines in determining the types of assets it may decide are proper investments for the private fund. Portfolio managers to a private fund have the exclusive right to manage the investment program for their respective private fund(s). Investors in private funds have no right or power to take part in the management of a private fund, other than by voting on certain matters as provided in the particular private fund's offering documents. Accordingly, no person should subscribe for interests to a private fund unless such person is willing to entrust all aspects of the private fund's management to the portfolio manager of such private fund(s).

### ***No Market for Fund Interests***

Interests in the private funds are generally not transferable and will be transferable only with the prior written consent of the portfolio manager or investment adviser to the particular private fund. There is not and will not be a public market for private fund interests. Investors therefore will generally be unable to liquidate their investment in a private fund during the term of the private fund. Private funds have a long-term horizon. Even upon liquidation, a private fund investor may receive restricted securities that may not be resold without registration under, or exemption from, applicable securities laws.

### ***Private Funds May Make Non-Cash Distributions***

Although unlikely, it is possible that a private fund may make distributions of illiquid securities to investors, including other non-cash properties. Investors would face the same illiquidity for any portfolio company securities distributed in kind as faced by a private fund but without the right to control the portfolio company, which make their interests less desirable to potential acquirers. An investor that receives assets other than cash from a private fund may incur substantial costs and delays in exchanging those assets to cash and may realize a lower value than identified for those securities or other assets upon distribution by a private fund.

***The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in any or all of the strategies. Prospective Clients should read this entire Form ADV and all accompanying materials provided by Jaffa and consult with their own advisers before deciding whether to invest in the strategies. In addition, as investments mature and the strategies develop and change over time, an investment may be subject to additional and different risk factors. Jaffa will promptly amend this brochure if and when any information regarding its investment risks and strategies becomes materially inaccurate.***

## ITEM 9 – **DISCIPLINARY INFORMATION**

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Neither Jaffa nor any employees have been sanctioned or disciplined by any federal securities or commodities regulatory agency, self-regulatory organization or state for any violation of their statutes, regulations or rules nor have they ever been involved in any civil or criminal action relating to any violation of the federal or state securities or commodities laws.

## ITEM 10 – **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

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A. Neither Jaffa nor any of its management persons is registered or has an application pending to register as a broker-dealer or a registered representative of a broker-dealer.

B. Neither Jaffa nor any of its management persons is registered or has an application pending to register as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

C. The General Partner, a related person of Jaffa, serves as the Fund's general partner. This relationship creates an incentive for the General Partner to make investment allocations that are riskier or more speculative than would be the case if the General Partner did not receive performance-based compensation from the Fund for serving as the general partner.

Jaffa is affiliated with Jaffa Global LLC, which provides insurance consulting services to non-affiliated clients.

The Fund is ultimately invested in an underlying vehicle that makes loans to a separate entity in exchange for interest payments (the “**Borrower**”). The Borrower is owned, in part, by Mark Zarkhin, although it is not controlled by him. While Mark's ownership in the Borrower is currently below 20%, this relationship presents a potential conflict of interest as Mark has an interest in loaning capital to the Borrower and it is possible Jaffa's judgment may be impaired by objective factors (i.e., financial condition of the Borrower, etc.) to otherwise be considered when determining whether the Fund should (ultimately through the applicable underlying vehicle) make such a loan. Notwithstanding the foregoing, the Investment Manager is aware of its fiduciary duties to the Fund and always acts in the best interest of the Fund.

D. Jaffa does not utilize or select third-party investment advisers. All assets are managed by Jaffa.

## ITEM 11 – **CODE OF ETHICS, PARTICIPATION/INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

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A. Jaffa has adopted a Code of Ethics pursuant to Rule 204A-1 of the Advisers Act (the “**Code**”) that establishes certain standards of conduct and rules for its employees and/or access persons (as applicable). A summary of the Code is provided below. All access persons of Jaffa must acknowledge annually that they understand and agree to the terms of the Code.

The Code incorporates the following general principles that all employees are expected to uphold at all times:



- Employees must place the interest of clients first;
- Employees must conduct all personal securities transactions in a manner consistent with the Code and seek to avoid both actual conflicts of interest and the appearance thereof, and;
- Employees may not take inappropriate advantage of their own positions with Jaffa for their own personal benefit.

Jaffa will provide a copy of the Code of Ethics to an Investor or prospective investor or a Client upon request.

### **Personal Trading**

The Code provides that access persons (e.g., employees) are only permitted to purchase or sell individual publicly-traded securities for their own accounts or accounts that the access person controls or which the access person may be deemed to have beneficial ownership (such as an account of a spouse or minor child) with preapproval from the CCO. Jaffa believes that this mitigates the most likely conflict of interest that may arise from personal trading activity.

Access persons are permitted to buy and sell private securities (such as investments in hedge fund, private equity funds and private companies) with prior approval. Access persons are also permitted to invest in mutual funds, ETFs and U.S. and non-U.S. government issued obligations without prior approval. In addition, Jaffa may permit access persons to maintain accounts that are managed on a discretionary basis by a third party if the access person has no direct or indirect influence or control over the investments for the account.

### **Gifts and Entertainment, Political Activities and Outside Activities**

The Code provides that gifts and entertainment must be reasonable in light of industry practices and should never be given or received if the purpose is to influence the recipient. Jaffa requires access persons to report or receive approval for the receipt or giving of gifts and entertainment under certain circumstances.

The Code also generally requires access persons to obtain prior approval before the access person, a spouse or certain other immediate family members makes a political contribution or engages in certain campaign-related fundraising activities. This policy is intended to prevent scenarios whereby an access person may contribute or engage in an activity for the selection of Jaffa as an investment adviser for a governmental equity.

Finally, the Code provides that, without prior approval, access persons are generally not permitted to engage in certain types of outside business activities. This policy is intended to prevent material conflicts of interest that could arise from an access person's personal activities.

B. and C. and D. Jaffa, its principals and employees do not purchase or sell any securities for their own accounts to or from the Client Accounts or any future Funds. Furthermore, if in the future Jaffa advises multiple Client Accounts, Jaffa may deem it appropriate to effect rebalancing or internal cross transactions, subject to the Client Accounts' investment guidelines and restrictions. In such cases, Jaffa may determine that it would be in the best interests of one or more Client Accounts to transfer a security from one account to another (each such transfer, a

“**Cross Trade**”) for a variety of reasons, including tax purposes, liquidity purposes, to rebalance the portfolios of the

accounts, or to reduce transaction costs that may arise in an open market transaction. If Jaffa decides to engage in a Cross Trade, Jaffa will determine that the trade is in the best interests of both of the accounts involved and take steps to ensure that the transaction is consistent with the duty to obtain best execution for each of those accounts.

Although unlikely, in the event Jaffa is to execute a Cross Trade, Jaffa generally intends to execute Cross Trades with the assistance of a broker-dealer that executes and books the transaction at the close of the market on the day of the transaction. Alternatively, a cross transaction between two Clients may occur as an “internal cross”, where Jaffa instructs the custodian for the accounts to book the transaction at the price determined in accordance with Jaffa’s internal policies. If Jaffa effects an internal cross, Jaffa will not receive any fee in connection with the completion of the transaction.

From time-to-time, representatives of Jaffa could buy or sell securities for themselves that are held in Client portfolios (and vice versa). This practice could create a situation where such representatives are in a position to materially benefit from the sale or purchase of those securities and thus creates a potential conflict of interest. As detailed in Item 11.A. above, Jaffa has policies in place designed to minimize the possibility that such transactions could adversely affect Clients and mitigate potential conflicts of interest. Jaffa will always document any transactions that could be construed as conflicts of interest and has policies against engaging in trading that operates to the Client’s disadvantage when similar securities are being bought or sold.

***The following conflicts are Fund specific unless Clients are also investing similarly which will be detailed in the applicable Governing Documents (see risk factors for explanations regarding use of the terms underlying vehicle, third party entity and underlying entity):***

### **Underlying Vehicle Conflicts**

Jaffa (and/or one or more affiliates) will have full control over (which includes trading and related decisions of) any captive underlying entity as well as the trading and decisions of any third-party entity. As a result, there is no separation or “checks and balances” over an underlying vehicle and the Fund will be fully dependent on Jaffa (and/or one or more affiliates) to make decisions over these vehicles. This could result in a conflict to the extent a particular contract or action is better for Jaffa (or its affiliate) at the underlying vehicle level rather than for the Fund itself. Notwithstanding the foregoing, Jaffa will act in the best interest of the Fund at all times.

Jaffa will also serve as the manager or investment manager or sub-adviser (as the case may be) to any underlying vehicles (or an affiliate will serve as manager). Thus, the Fund will be wholly dependent on Jaffa (and/or an affiliate) to properly manage any underlying vehicles both from an investment and operational perspective. Additionally, the Fund will be depending on Jaffa at any underlying vehicle level (other than separately managed accounts which will be traded directly (or via wholly owned subsidiaries)) to pick the appropriate insurance portfolios to be underwritten. It may be difficult to determine which contracts are less risky and which are riskier, and Jaffa may not be able to make a good faith assessment based on the information available at the time any such reinsurance contracts are underwritten. Jaffa will act diligently and reasonably to make a good faith assessment of these risks in an effort to reduce and/or mitigate any such risks to the extent possible.

## **Underlying Vehicle Valuation**

Jaffa and the General Partner will rely on the valuations provided by the underlying vehicles in order to value the Fund's assets. This presents an inherent conflict of interest as the underlying vehicles are valued by Jaffa or an affiliate at that level. As Jaffa and the General Partner are entitled to take Management Fees and Incentive Fees (if any) at the Fund level, it will be incentivized to value the underlying vehicles higher. Additionally, while the assets traded at the underlying entity level are generally anticipated to be liquid, the underlying vehicle itself will be illiquid (i.e., not freely tradeable) and no market is expected to exist as it relates to the underlying vehicles. This also presents a risk and conflict of interest as there may be a mismatch between the value of the underlying vehicles themselves versus the assets traded at each underlying vehicle level. Notwithstanding the foregoing, Jaffa will always act in the best interest of the Fund consistent with its fiduciary obligations.

## **Underlying Investment**

The Fund is ultimately invested in an underlying vehicle that makes loans to a separate entity in exchange for interest payments (the "**Borrower**"). The Borrower is owned, in part, by Mark Zarkhin, although it is not controlled by him. While Mark's ownership in the Borrower is currently below 20%, this relationship presents a potential conflict of interest as Mark has an interest in loaning capital to the Borrower and it is possible Jaffa's judgment may be impaired by objective factors (i.e., financial condition of the Borrower, etc.) to otherwise be considered when determining whether the Fund should (ultimately through the applicable underlying vehicle) make such a loan. Notwithstanding the foregoing, Jaffa is aware of its fiduciary duties to the Fund and always acts in the best interest of the Fund.

## **General Considerations**

### **Privacy Policy**

Jaffa is committed to maintaining the confidentiality, integrity and security of its Clients' and Investors' personal information. It is Jaffa's policy to collect only information necessary or relevant to its management business and use only legitimate means to collect such information. Jaffa does not disclose any non-public, personal information about its Clients to anyone except for servicing and processing transactions and as required by law. Jaffa restricts access to non-public, personal information about its Clients to those employees with a legitimate business need for the information. Jaffa maintains security practices, physical, electronic and procedural safeguards to guard each Client's non-public, personal information. Upon request, Jaffa will provide a copy of its written privacy policies and procedures.

## **ITEM 12 – BROKERAGE PRACTICES**

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A. Jaffa is authorized to determine the broker or dealer to be used for each securities transaction for the Clients. In selecting brokers or dealers to execute transactions, Jaffa need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not Jaffa's practice to negotiate "execution only" commission rates, thus the Clients may be deemed to be paying for research, brokerage or other services provided by the broker which are included in the commission rate. However, all transactions will be made on

a “best execution” basis.

Although Jaffa will make a good faith determination that the amount of commissions paid is reasonable in light of the products or services provided by a broker, commission rates are generally negotiable and thus, selecting brokers on the basis of considerations that are not limited to the applicable commission rates may result in higher transaction costs than would otherwise be obtainable. The receipt of such products or services and the determination of the appropriate allocation in the case of "mixed use" products or services create a potential conflict of interest between Jaffa and its Clients.

In selecting brokers and negotiating commission rates, Jaffa may take into account the financial stability and reputation of brokerage firms, creditworthiness, efficiency of execution and error resolution, the actual executed price and the commission, custodial and other services provided for the enhancement of the Adviser's portfolio management capabilities, the size and type of the transaction, the difficulty of execution and the ability to handle difficult trades, the operational facilities of the brokers and/or dealers involved (including back-office efficiency) and the research, brokerage or other services provided by such brokers.

### ***Soft Dollar Usage***

Jaffa does not currently have any soft dollar arrangements with broker-dealers.

### **Trade Errors**

Trade errors involving transactions in any account directly or indirectly held by a Client or any derivatives contract or other similar agreement of a Client Account and/or any trading vehicle (each, a “**Trade Error**”) may occur. Trade Errors include the placement of orders (either purchases or sales) in excess of, or less than, the amount of securities the account intended to trade; the sale of a security when it should have been purchased; the purchase of a security when it should have been sold; the purchase or sale of the wrong security; and the purchase or sale of a security for the wrong account and the post-settlement discovery of such purchase or sale. Trades implemented as a result of faulty data, systems, coding, modeling or analysis, trades that are properly executed but result in losses, errors committed by other persons (including brokers and custodians), or that are otherwise caused by human error other than those specifically described above, are not considered Trade Errors. The loss of an investment opportunity is not considered a Trade Error. Such errors may result in losses or gains. Jaffa will use reasonable efforts to detect such errors prior to settlement and promptly correct them. To the extent that an error is caused by a counterparty, such as a broker-dealer, Jaffa will use reasonable efforts to recover any losses associated with such error from the counterparty.

Pursuant to the relevant Governing Documents between Jaffa and a Client, neither Jaffa nor its affiliates and personnel, will generally not be liable to the Client for any act or omission, absent bad faith, gross negligence, willful misconduct or actual fraud of such person. As a result of these provisions, the Clients (and not Jaffa) will benefit from any gains resulting from Trade Errors and other errors and will be responsible for any losses (including additional trading costs) resulting from Trade Errors and other errors, absent bad faith, gross negligence, willful misconduct or actual fraud of the relevant person. Jaffa will not offset any such gains and losses resulting from Trade Errors and other errors unless the underlying transactions constitute a single transaction or closely related series of transactions. Jaffa will reimburse Clients for losses for which Jaffa is responsible under the exculpation provisions. Given the potentially large volume of transactions

executed by Jaffa on behalf of the Clients, Clients should assume that Trade Errors and other errors will occur and that, to the extent permitted by applicable law and under the relevant Governing Documents, the Clients may be responsible for any resulting losses, even if such losses result from the negligence (but not gross negligence) of Jaffa's personnel.

#### **B. Trade Aggregation and Allocation Policies and Procedures**

It is Jaffa's policy to allocate investment opportunities to the relevant Client Accounts participating in a trade on a fair and equitable basis, to the extent practical and in accordance with the Clients' applicable investment strategies, over a period of time. Investment opportunities are generally allocated among those accounts for which participation in the respective opportunity is considered appropriate, taking into account, among other considerations: whether the risk-return profile of the proposed investment is consistent with an account's objectives, the potential for the proposed investment to create an imbalance in an account's portfolio, the liquidity requirements of an account, requests by a Client to use a particular broker(s), potentially adverse tax consequences, regulatory restrictions that would or could limit an account's ability to participate in a proposed investment, and the need to re-size risk in a Client Account's portfolio.

Jaffa has no obligation to purchase or sell a security for, enter into a transaction on behalf of, or provide an investment opportunity to, a Client Account solely because Jaffa purchases or sells the same security for, enters into a transaction on behalf of, or provides an opportunity to, another Client Account if, in Jaffa's reasonable opinion, such security, transaction or investment opportunity does not appear to be suitable, practicable or desirable for other Client Account(s).

In particular, when Jaffa is ramping up its investment or trading strategies for a particular Client(s), such Client(s) it may receive larger allocations of certain securities than the other Client Accounts in order to obtain its desired risk and portfolio size. Conversely, when other Client Accounts ramp up their investment and trading strategies, other Clients may receive reduced or no allocations of certain securities.

#### **Brokerage for Client Referrals and Directed Brokerage**

Jaffa does not compensate brokers for client referrals, nor does Jaffa consider this fact in selecting brokers.

Jaffa does not recommend, request, require or permit a client to direct it to execute transactions through a specific broker.

### **ITEM 13 – REVIEW OF ACCOUNTS**

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A. Client positions are regularly reviewed by the Chief Investment Officer and the CCO to ensure conformity with relevant investment objectives and guidelines, in accordance with each Client's Governing Documents. Furthermore, Jaffa reviews Client transactions, positions and cash balances on a daily basis.

B. Client Account reviews may also be triggered by a Client's change of goals or objectives, asset valuations or in the event of a rebalancing of a Client's investment policy allocation. Jaffa will be available to discuss the performance of the Client Account and changes in the Client Account's situation which may have an impact on the management of and recommendation

made to the Client Account.

C. Jaffa provides periodic reporting to Clients as well as quarterly valuation statements. Jaffa also provides audited financial statements to Investors in the Fund within 120 days after the fiscal year end of the Fund.

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#### ITEM 14 – **CLIENT REFERRALS AND OTHER COMPENSATION**

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A. Jaffa does not currently utilize any third-party placement agent to introduce prospective Clients to the Firm or Investors to a Fund.

B. Neither Jaffa nor any related person directly or indirectly compensates any person for Client referrals.

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#### ITEM 15 – **CUSTODY**

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Jaffa is not deemed to have Custody of any SMA Client Account, and therefore not subject to the Custody Rule for SMA Clients.

To the extent that it is required to do so, Jaffa will comply with the applicable requirements of Rule 206(4)-2 of the Advisers Act (the “**Custody Rule**”) with regard to Jaffa’s custody of the assets of any pooled investment vehicle that it may advise in the future.

Jaffa GP, LLC is deemed to have custody of the Fund because it serves as general partner for the Fund. Jaffa will provide all Investors with audited financial statements for the Fund within 120 days of the Fund’s fiscal year end. In addition, the audited financial statements are prepared by an independent accounting firm that is registered with and subject to review by the Public Company Accounting Oversight Board (PCAOB), in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Investors should carefully review the audited financial statements of the Fund.

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#### ITEM 16 – **INVESTMENT DISCRETION**

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Jaffa obtains discretionary authority from a Client at the outset of an advisory relationship. The terms of these investments, as well as the investment strategy and guidelines around the use of this discretion, are described in detail in the Governing Documents for each Client.

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#### ITEM 17 – **VOTING CLIENT SECURITIES**

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Jaffa does not have discretion to vote proxies for Client Accounts.

[Consider this] With respect to the Fund, Jaffa has authority to vote all proxies. Clients and Investors are generally not able to direct the Fund’s vote with respect to any proxy solicitation. In general, given (i) Jaffa’s investment strategy (i.e., long stock positions are generally components of a set of related positions meant to create long or short exposure to the volatility of the underlying securities and are therefore hedged vs short exposure through convertible bonds or equity derivatives, meaning that Jaffa’s Client’s interests are not necessarily aligned with other long

holders of the stock) and (ii) portfolio turnover in accounts managed by Jaffa, it is generally the case that the time, effort, expense or difficulty of exercise required to determine how to vote a proxy and actually vote such proxy will outweigh any possible benefit to Jaffa's Clients. The general policy of Jaffa with respect to proxies is to abstain from voting with the following exceptions: (A) situations where a proxy vote is required in accordance with its fiduciary obligations (e.g., in order to exercise or preserve rights such as appraisal rights or the right to redeem a SPAC with respect to the issuer) or (B) any other situation where Jaffa determines it is in the best interest of its Clients to vote a proxy. With respect to corporate actions, Jaffa evaluates and determines whether or not to vote with respect to such corporate actions. If a proxy proposal presents a conflict of interest between Jaffa and a Client, Jaffa will disclose the conflict of interest to the Client prior to the proxy vote and, if participating in the vote, will determine what its fiduciary obligation to such Client and to other Clients requires with respect to such vote.

Clients can obtain a complete copy of the proxy voting policies and procedures by contacting Jaffa in writing and requesting such information and can also request information concerning the manner in which proxy votes have been cast with respect to portfolio securities held by the relevant Client during the prior annual period.

#### **ITEM 18 – FINANCIAL INFORMATION**

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Jaffa has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to Clients and has not been the subject of a bankruptcy proceeding.