

Vestal Point Capital, LP

**632 Broadway, Suite 602
New York, NY 10012**

March 2024

This “**Brochure**” provides information about the qualifications and business practices of Vestal Point Capital, LP (hereinafter “**Vestal Point**”, “**we**”, “**us**”, “**our**” or the “**Firm**”). If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer (“**CCO**”), Ilko Menkov, by email at ilko.menkov@vestalpoint.com. Information in this Brochure has not been approved or verified by the U.S. Securities and Exchange Commission (the “**SEC**”) or by any state securities authority.

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

Additional information about Vestal Point is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2: Material Changes

This section discusses material changes since the version that was filed by Vestal Point with the SEC in August 2023. Vestal Point has made certain routine updates and clarifying changes to this Brochure, including updating regulatory assets under management as of December 31, 2023.

Clients and prospective clients as well as investors and prospective investors should read this Brochure carefully in its entirety.

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Item 4: Advisory Business

Vestal Point Capital, LP (hereinafter “**Vestal Point**”, “**we**”, “**us**”, “**our**” or the “**Firm**”) is organized as a Delaware limited partnership with a principal place of business New York, New York.

We serve as the investment adviser, with discretionary trading authority, to private, pooled investment vehicles, the securities of which are offered through a private placement memorandum to accredited investors, as defined under the Securities Act of 1933, as amended, and qualified purchasers, as defined under the Investment Company Act of 1940, as amended. We do not tailor our advisory services to the individual needs of any particular investor.

Vestal Point manages the following private, pooled investment vehicles:

- Vestal Point Offshore Fund, Ltd., a Cayman Islands exempted company (the “**Offshore Fund**”);
- Vestal Point Partners, LP, a Delaware limited partnership (the “**Onshore Fund**”); and
- Vestal Point Master Fund, LP, a Cayman Islands exempted limited partnership (the “**Master Fund**”).

The Master Fund, the Onshore Fund and the Offshore Fund are herein each referred to as a “**Fund**”, and collectively referred to as the “**Funds**”. The Onshore Fund’s “**Limited Partners**” and the Offshore Fund’s “**Shareholders**” are hereafter collectively referred to as the “**Investors**” where appropriate. Our investment decisions and advice with respect to the Funds are subject to each Fund’s investment objectives and guidelines, as set forth in its respective “**Offering Documents**.”

Vestal Point also provides investment advisory services to a separately managed account (the “**Account**”, and collectively with the Funds, the “**Clients**”) that is managed according to an investment advisory agreement (the “**Advisory Agreement**” and, collectively with the Offering Documents, the “**Governing Documents**”). Generally, in the normal course of business, the Account and the Funds will be managed pari-passu. However, there may be exceptions that could lead to non-pari-passu investments due to certain risk management parameters such as drawdowns, leverage, cash availability, liquidity, stop losses or profit targets, restricted lists, or periods of grossing up/down of the portfolio due to capital flows. Vestal Point may also accept other clients, including additional private funds, at any time.

We do not currently participate in any Wrap Fee Programs.

As of December 31, 2023, the Firm has regulatory assets under management of \$1,841,931,516, all of which is managed on a discretionary basis.

Item 5: Fees and Compensation

The fees applicable to each of the Funds are set forth in detail in the corresponding Offering Documents. A brief summary of such fees is provided below.

Management Fee

Vestal Point is paid an investment management fee ("**Management Fee**") of 2.0% per annum of the net asset value of the Funds.

The Firm, in its sole discretion, may waive or modify the Management Fee for any Investor in the Fund or Account.

Incentive Fee

Vestal Point is also paid an incentive fee ("**Incentive Fee**") of 20% per annum of the net realized and unrealized appreciation, if any, of each series of shares or capital account during each calendar year, subject to a high watermark. See Item 6 below on further disclosures on performance-based fees.

The Firm, in its sole discretion, may waive or modify the Incentive Fee for any Investor in the Fund or Account.

Other Types of Fees or Expenses

Vestal Point is authorized to incur and pay in the name and on behalf of the Funds all expenses which they deem necessary or advisable.

The Funds bear all of their operating expenses and pro rata share of the operating expenses of the Master Fund and all subsidiaries and special purpose vehicles through which the Master Fund invests or intends to invest (collectively, the "**Fund Expenses**"), including such costs incurred at or prior to the formation of the Funds and prior to the closing of the Funds, which expenses will include, without limitation:

(a) Organizational and Offering Expenses; (b) expenses associated with all investments and transactions considered, evaluated and/or consummated by the Master Fund, or any such subsidiaries and special purpose vehicles, as well as overall consideration and evaluation of such entities' portfolio, including, without limitation, those expenses incurred before the initial closing of the Funds, including, without limitation, expenses associated with sourcing, negotiating, investigating, researching, financing and structuring of investments and potential investments, whether or not consummated, including, without limitation, data and research on-boarding, ingestion, aggregation, and analysis, third-party research, data, analytics, modeling, risk, structuring, pricing, execution and other third-party information, technology, hardware, software or other technology systems, including, without limitation, installation and maintenance, software and service fees (including, without limitation, the expenses with respect to data, data feeds, subscriptions, expert networks, political intelligence providers and reports); (c) the costs of research-related computer hardware and software expenses, including, without limitation, Bloomberg terminals and subscriptions and other market information systems, as well as the costs of research management systems and corporate access tracking systems; (d) the costs of the Firm's portfolio management system and any other software used for accounting and/or monitoring of the portfolio, including, without

limitation, subscriptions relating to, among other things, trading and order management systems and services; (e) expenses associated with holding, financing, monitoring, hedging, maintaining and disposing of all investments and all transaction and other costs associated therewith, including, without limitation, expenses associated with proxy research and voting services; (f) travel and related expenses associated with investments and potential investments; (g) professional fees associated with investments and potential investments, including, without limitation, consulting, due diligence, accounting, valuation, financial, legal and other advisory fees and expenses; (h) transaction fees, brokerage commissions, custodial fees, clearing and settlement charges and similar fees and expenses associated with the acquisition, disposition and settling of investments and potential investments, including, without limitation, fees, expenses and commissions paid in connection with outsourced trading; (i) expenses associated with legal and regulatory filings of the Master Fund or such subsidiaries and special purpose vehicles in the United States, the Cayman Islands, or in any other jurisdiction, including, without limitation, pursuant to Sections 13 and 16 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), as well as the expenses associated with preparation and filing of the Firm's Form 13F, Form 13H, and Form PF, if applicable, and any other similar filing in any other U.S. or non-U.S. jurisdiction; (j) administrative, custodial, appraisal, valuation, legal, regulatory, compliance, consulting, advisory and similar fees, and expenses associated with the Master Fund's or such subsidiaries' or special purpose vehicles' operations, investments and transactions, including, without limitation, fees and expenses of the Master Fund's administrator; (k) expenses incurred in connection with responding to requests or inquiries from any U.S. federal, state, local or non-U.S. governmental entity or authority, regulatory body or self-regulatory organization with respect to the Funds, or such subsidiaries and special purpose vehicles; (l) broken-deal, failed transaction, break-up and similar fees, costs and expenses (if any); (m) costs and expenses of leverage or any other borrowings of the Master Fund, or such subsidiaries and special purpose vehicles, including, without limitation, interest charges and fees; (n) expenses incurred in the collection of monies owed to the Funds, or such subsidiaries, intermediate funds and special purpose vehicles, as applicable; (o) auditing and accounting expenses, including, without limitation, expenses associated with the preparation of financial statements, tax returns and Schedules K-1, and the fees and expenses of the auditor; (p) any taxes, fees or other governmental charges, including, without limitation, any withholding taxes that are not Investor-Related Taxes (as defined below); (q) costs and expenses associated with investor communications and reports and the delivery thereof to investors; (r) the costs of service providers or software to measure or monitor risk metrics, to aggregate positions and/or to provide reporting with respect to risk metrics and/or positions; (s) costs and expenses associated with meetings of the Limited Partners, including, without limitation, the reasonable costs of the Firm's travel to such meetings; (t) insurance expenses, including, without limitation, general partner liability insurance and other policies, if any, including directors' and officers' liability insurance and errors and omissions insurance; (u) costs and expenses (including, without limitation, taxes, fees or other governmental charges) associated with the formation, organization and operation of any subsidiary, special purpose vehicle, alternative investment vehicle, holding company or similar entity formed with respect to investments, credit facilities or other transactions entered into for the benefit of the Master Fund or such subsidiaries and special purpose vehicles; (v) winding-up, liquidation, termination and dissolution expenses; (w) costs, fees, and expenses related to registration, qualification and/or exemption under any applicable U.S. federal, state, local or non-U.S. laws, rules or regulations, including, without limitation, blue sky fees, Form D, Form 8.3, CFTC filings and notices and other securities and/or investment-related filing expenses; (x) costs related to any transfers of Interests, unless otherwise charged to or borne by the applicable transferor and/or transferee; (y) expenses incurred in connection with the preparation of, and any

amendment to, the Partnership Agreement, the Subscription Agreement, and the private placement memorandum of the Funds, as well as the preparation of, compliance with and amendment to any side letter entered into by the Funds; (z) expenses incurred in connection with pursuing, defending or participating in any litigation, arbitration, mediation or similar proceeding by the Funds or any such subsidiaries and special purpose vehicles; (aa) any extraordinary expenses (including, without limitation, all litigation-related and indemnification and contribution expenses, including, without limitation, the amount of any judgment or settlement paid in connection therewith); (bb) fees of the independent members of any advisory committee or governance board; (cc) the Management Fee and (dd) all other fees, costs, charges and expenses associated with the business, affairs and/or operations of the Funds, or such subsidiaries and special purpose vehicles, including, without limitation, any other cost that may otherwise be paid with soft dollars pursuant to Section 28(e) of the Exchange Act.

Generally, all expenses borne by the Funds, other than the Management Fee, the Incentive Fee and any expenses that the General Partner determines should be allocated to a particular Investor (e.g., Investor-Related Taxes), will be charged on a pro rata basis in accordance with their Investor Percentages. The General Partner may, however, allocate expenses on another basis, including by allocating certain expenses to certain (which may be less than all) Investors, if the General Partner determines that such an allocation is more equitable or otherwise required by applicable law, rule or regulation.

In addition, any Fund Expenses attributable solely to investments in “new issues” will be allocated solely to those Investors who participate in the relevant investments with respect to their relative interest in such investments. Further, the General Partner will have the right to charge any Investor, and not treat as a Fund Expense, any expense attributable to a single Investor or a group of Investors.

From time to time, the Firm may elect to bear certain expenses on behalf of the Funds that are Fund Expenses. The Firm will not have any obligation to bear such expenses and may elect at any time (in whole or in part) to no longer bear such expenses on behalf of the Fund.

To the extent that expenses to be borne by the Funds are paid by the Principal, the General Partner, or the Firm, the Funds will reimburse such party for such expenses.

The Funds do not have a predetermined limit on its ordinary or extraordinary operating expenses. The Funds’ actual annual operating expenses are disclosed in the Funds’ year-end audited financial statements, which are provided to each Limited Partner.

To the extent that Fund Expenses are attributable to multiple Accounts, such amounts will be allocated in accordance with the Firm’s expense allocation policy, pursuant to which the Firm generally will allocate such expenses pro rata based upon the respective net asset values of such applicable clients or respective size of investment by such applicable clients in an underlying investment, as applicable. Notwithstanding the foregoing, the Firm may make non-pro rata allocations as it determines in its good faith discretion.

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

We are entitled to receive a performance-based compensation (see Incentive Fee in Item 5: Fees and Compensation above). Performance-based allocation arrangements may create an

incentive for us to recommend investments which may be riskier or more speculative than those which we would recommend under a different arrangement. In addition, such fee arrangements may also lead to incentives for Vestal Point to favor one Client over another in the allocation of investment opportunities.

We seek to address these conflicts through various measures and procedures reasonably designed to ensure fair and equitable treatment of Clients, including through significant investments by the Founding Partners and other investment professionals of the Firm directly or indirectly in the Funds in an effort to align our interests with the Funds.

Item 7: Types of Clients

Our clients are the Funds and the Account, as described in Item 4 above. The Funds are generally open to, among others, institutions, pension plans, endowments, high net-worth individuals, financially sophisticated individuals, and other sophisticated investors.

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

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

Investment Objective

The objective of the Fund is to consistently generate attractive risk-adjusted returns by investing primarily in the healthcare space, including, but not limited to, biotechnology, pharmaceuticals, medical devices, tools and diagnostics. The Fund invests in long and short positions of equities in these sectors across the full range of market capitalizations. It may maintain a net long or net short exposure on the aggregate portfolio level. The Fund aims to build a portfolio with low net exposure, allowing it to seek to produce attractive risk-adjusted returns regardless of the overall market or sector performance. In implementing its strategy, the Fund may use equities and their derivative instruments. The Firm will seek to generate returns based on fundamental research, which may result in concentrated risk positions and elevated levels of volatility over different position holding periods.

Risk of Loss Factors

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

An investment involves significant risks, and is suitable only for those persons who can bear the economic risk of the loss of their entire investment, who have limited need for liquidity in their investment, and who have met the conditions set forth in the Offering Documents. There can be no assurances that we will achieve our investment objectives. An investment carries with it the inherent risks associated with investments in publicly-traded stocks and bonds, options, and related instruments, including, without limitation, the risks described below. Each prospective investor should carefully review the Offering Documents and the documents referred to herein before deciding to invest with Vestal Point.

Risks Relating to Methods of Analysis

Quantitative Model Risk and Risk Management Danger. There can be no assurance that the models used by the Firm will continue to be viable. The use of a model that is not viable or not completely viable could, at any time, have a material adverse effect on the performance of the Clients. There can be no assurance that the Clients will achieve their investment objectives or that the models (even if completely or partially viable) will continue to further or ultimately be capable of furthering the Clients' investment objectives.

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 subject to misinterpretation. In the complex environment in which the Firm operates, effective risk management depends upon many factors, not all of which may be properly identified, and effective assessment, analysis, process creation, control or treatment of risks could be difficult to implement. For the sake of clarity and without limitation, though losses arising from quantitative model risks could adversely affect the Clients' performance, such losses would likely not constitute reimbursable Trade Errors under Vestal Point's policies or the Investment Management Agreement.

Obsolescence Risk. The Clients are unlikely to be successful unless the assumptions underlying the models are realistic and either remain realistic and relevant in the future or are adjusted to account for changes in the overall market environment. If such assumptions are inaccurate or become inaccurate and are not promptly adjusted, it is likely that profitable trading signals will not be generated. If and to the extent that the models do not reflect certain factors, and the Firm does not successfully address such omission through its testing and evaluation and modify the models accordingly, major losses may result. Vestal Point intends to continue to test, evaluate and add new models, as a result of which the existing models may be modified from time to time. Any modification of the models or strategies will not be subject to any requirement that investors receive notice of the change or that they consent to it. There can be no assurance as to the effects (positive or negative) of any modification on the Clients' performance. For the sake of clarity and without limitation, though losses arising from obsolescence risks could adversely affect the Clients' performance, such losses would likely not constitute reimbursable Trade Errors under the Firm's policies or the Investment Management Agreement.

Risk of Programming and Modeling Errors. The research and modeling process engaged in by Vestal Point and external parties that may provide risk management services, analysis and information is extremely complex and involves financial, economic, econometric and statistical theories, research and modeling; the results of that process must then be translated into computer code. Although the Firm seeks to hire individuals skilled in each of these functions and to provide appropriate levels of oversight, the complexity of the individual tasks,

the difficulty of integrating such tasks, and the limited ability to perform “real world” testing of the end product raise the chances that the finished model may contain an error. For the sake of clarity and without limitation, though losses arising from programming and modeling errors could adversely affect the Clients’ performance, such losses would likely not constitute reimbursable Trade Errors under the Firm’s policies or the Investment Management Agreement.

Involuntary Disclosure Risk. The ability of the Firm to achieve its investment goals for its Clients is dependent in large part on its ability to develop and protect its models and proprietary research. The models and proprietary research and the Models and Data are largely protected by us through the use of policies, procedures, agreements, and similar measures designed to create and enforce robust confidentiality, non-disclosure, and similar safeguards. However, aggressive position-level public disclosure obligations (or disclosure obligations to exchanges or regulators with insufficient privacy safeguards) could lead to opportunities for competitors to reverse-engineer Vestal Point’s models, and thereby impair the relative or absolute performance of the Clients.

Model and Data Risk. The Firm will rely heavily on quantitative and systematic models (both proprietary models developed by us, and those supplied by third parties) and information and data supplied by third parties (“Models and Data”). Models and Data can be used to construct sets of transactions and investments, to value investments or potential investments (whether for trading purposes, or for the purpose of determining the net asset value of the Clients), to provide risk management insights, and to assist in hedging portfolio exposure.

When Models and Data prove to be incorrect, misleading or incomplete, any decisions made in reliance thereon expose the Clients to potential risks. For example, by relying on Models and Data, Vestal Point may be induced to buy certain investments at prices that are too high, to sell certain other investments at prices that are too low, or to miss favorable opportunities altogether. Similarly, any hedging based on faulty Models and Data may prove to be unsuccessful.

All models rely on correct market data inputs. Because the Firm’s models are usually constructed based on, or employ, historical or current market data supplied by third parties, the success of relying on Models and Data may depend heavily on the accuracy and reliability of the supplied data, which can contain errors.

For the sake of clarity and without limitation, though Model and Data risks could adversely affect our performance, losses that arise as a result of the use of Models and Data likely would not constitute reimbursable Trade Errors under the Firm’s policies or the Investment Management Agreement.

Correlation Risk. The Clients may be exposed to correlated risks. These occur when funds and other investors hold similar positions and employ similar strategies, resulting in intensified risks leading to potential cascading loss in times of market stress.

Risks Relating to Private Investment Funds Generally

Risk of Loss. No guarantee or representation is made that the Client’s investment program, including the Client’s investment objective, diversification strategies or risk monitoring goals, will be successful. Investment results may vary substantially over time. No assurance can be made that profits will be achieved or that substantial or complete losses will not be incurred.

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

In recent years, retail investors have benefitted from increased access to the financial markets through smartphone and computer applications. Many of these retail investors have little or no experience investing in financial markets. The simultaneous rise of online social media platforms has created opportunities for these new market participants and established investors to discuss and share information about potential investments, whether or not such discussions or information are accurate or based on verifiable data. These social media interactions could motivate investors with a large amount of capital or large groups of investors with small amounts of capital (but which in the aggregate constitute a large amount of capital) to make investment decisions that may result in significant price fluctuations that appear divorced from common principles of fundamental analysis (e.g., the early 2021 price fluctuations in certain “meme stocks”). This type of risk was widely unforeseen at the time, and the rise of new participants in financial markets, new trading platforms and new methods of sharing information may, and likely will, give rise to similar unpredictable risks in the future. A concurrent sudden and dramatic increase in trading volume of securities and derivatives could lead to a loss of liquidity by certain brokers and clearinghouses, which could have further adverse effects on market participants or the market as a whole. Market volatility of this type is difficult to predict and can lead to significant losses to holders of implicated or related investments, including the Client.

Risks Relating to the Investment Activities of the Clients

Counterparty Risk. The Clients expect to establish relationships to obtain financing, derivative intermediation and prime brokerage services that 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 establish or maintain such relationships. An inability to establish or maintain such relationships could limit the Client’s trading activities, create losses, preclude the Clients from engaging in certain transactions or prevent the Clients from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships could have a significant impact on the Client’s business due to the Client’s reliance on such counterparties.

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

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

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

Further, no restrictions have been imposed by the General Partner or the Firm on the collateral and asset reuse or re-hypothecation arrangements to which the Clients may agree with its brokers and custodians, and the Client's prime broker and trading agreements may contain certain provisions that allow a counterparty to require additional levels of collateral for various reasons. If the Clients are unable to provide additional collateral, the lender could liquidate assets held in the account to satisfy such obligations, which could have extremely adverse consequences.

In addition, the Clients may use counterparties located in jurisdictions outside the United States. Such local counterparties usually are subject to laws and regulations in non-U.S. jurisdictions that are designed to protect customers in the event of their insolvency. However, the practical effect of these laws and their application to the Client's assets are subject to substantial limitations and uncertainties. Because of the range of possible factual scenarios involving the insolvency of a counterparty and the potentially large number of entities and jurisdictions that may be involved, it is impossible to generalize about the effect of such an insolvency on the Clients and its assets. Investors should assume that the insolvency of any such counterparty would result in significant delays in recovering the Client's securities from or the payment of claims therefor by such counterparty and a loss to the Clients, which could be material.

Banking Relationships. The Firm and the Funds will hold cash and other assets in accounts with one or more banks, custodians or depository or credit institutions (collectively, "Banking Institutions"), which may include both U.S. and non-U.S. Banking Institutions from time to time. The Funds may also enter into credit facilities and have other relationships with Banking Institutions as contemplated elsewhere in this Memorandum. The distress, impairment, or failure of, or a lack of investor or customer confidence in, any of such Banking Institutions may limit the ability of the Firm or the Funds to access, transfer or otherwise deal with its assets, draw upon a credit facility, or rely upon any of such other relationships, in a timely manner or at all, and may result in other market volatility and disruption, including by affecting other Banking Institutions. All of the foregoing could have a negative impact on the Funds. For example, in such a scenario, the Funds could be forced to delay or forgo an investment or a distribution, including in connection with a withdrawal, or generate cash to fund such investment or distribution from other sources (including by disposing of other investments or making other borrowings) in a manner that it would not have otherwise considered desirable. Furthermore, in the event of the failure of a Banking Institution, access to a depository account

with that institution could be restricted and U.S. Federal Deposit Insurance Corporation ("FDIC") protection may not be available for balances in excess of amounts insured by the FDIC (and similar considerations may apply to Banking Institutions in other jurisdictions not subject to FDIC protection). In such a case, the Firm or the Funds may not recover all or a portion of such excess uninsured amounts and could instead have an unsecured or other type of impaired claim against the Banking Institution (alongside other unsecured or impaired creditors). The Firm does not expect to be in a position to reliably identify in advance all potential solvency or stress concerns with respect to its or the Fund's banking relationships, and there can be no assurance that the Firm or the Fund will be able to easily establish alternative relationships with and transfer assets to other Banking Institutions in the event a Banking Institution comes under stress or fails.

Outsourced Trading. One or more broker-dealers may be engaged by the Firm on behalf of the Clients to execute and/or direct a portion of the Client's trades on an outsourced basis. Consequently, Fund Expenses could be higher as a result of paying such third party than if the Firm traded directly with such brokers.

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

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

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

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

In addition, if the Clients, acting alone or as part of a group, acquires beneficial ownership of more than 10% of a certain class of securities of a public company or places a director on the board of directors of such a company, under Section 16 of the Exchange Act, the Clients may

be subject to certain additional reporting requirements and may be required to disgorge certain short-swing profits arising from purchases and sales of such Securities. Furthermore, in such circumstances, the Clients will be prohibited from entering into a short position in such issuer's securities, and therefore limited in its ability to hedge such investments. Similar restrictions and requirements may apply in non-U.S. jurisdictions.

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

Risks Relating to Investment Strategies

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

Event-Driven. The success of any "event-driven" strategies that the Clients employ will depend upon the Firm's ability to make predictions about the likelihood that an event will occur and the impact such event will have on the value of a company's securities. If the event fails to occur or does not have the foreseen effect, losses can result. For example, the adoption of new business strategies or completion of asset dispositions or debt reduction programs by a company may not be valued as highly by the market as the Firm had anticipated, resulting in losses. In addition, a company may announce a plan of restructuring which promises to enhance value, but fail to implement it, which can result in losses to investors. In liquidations and other forms of corporate reorganization, the risk exists that the reorganization either will be unsuccessful, will be delayed or will result in a distribution of cash or a new Security, the value of which will be less than the purchase price to the Clients of the Security in respect of which such distribution was made. The consummation of mergers and tender and exchange offers can also be prevented or delayed by a variety of factors.

Short Selling. The success of the Client's short selling investment strategy depends upon the Firm's ability to identify and sell short securities that are overvalued. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying Security could theoretically increase without limit, thus increasing the cost to the Clients of buying those

securities to cover the short position. There can be no assurance that the Clients will be able to maintain the ability to borrow securities sold short. In such cases, the Clients can be “bought in” (i.e., forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further if the demand to buy such securities outpaces the available supply, thereby exacerbating the loss.

For instance, a so-called “short squeeze” can occur when the price of securities in which the Clients has an open short position rise sharply in a short time frame. The rapid rise may be a result of (i) multiple short sellers seeking to cover their short positions in the same time frame by purchasing the Security, resulting in a rapid price increase; (ii) market participants collectively purchasing a significant amount of shares, thereby causing a substantial increase in the price of such securities and/or (iii) one or more lenders of a Security that was used to facilitate a short position suddenly demanding the return of the Security that has been loaned. A “short squeeze” may result in the Clients having to prematurely close out a short positions at unattractively high prices, resulting in a substantial loss. Further, the risk of a “short squeeze” likely will increase if other short sellers, market participants and/or lenders become aware of the Client’s short positions, including, without limitation, as a result of legally required reporting with respect to the Client’s ownership of options to purchase the underlying Security being shorted.

Short strategies can also be implemented synthetically through various instruments and be used with respect to indices or in the OTC market and with respect to futures and other instruments. In some cases of synthetic short sales, there is no floating supply of an underlying instrument with which to cover or close out a short position and the Clients may be entirely dependent on the willingness of OTC market makers to quote prices at which the synthetic short position may be unwound. There can be no assurance that such market makers will be willing to make such quotes. Short strategies can also be implemented on a leveraged basis. Further, even though the Clients secure a “good borrow” of the Security sold short at the time of execution, the lending institution may recall the lent Security at any time, thereby forcing the Clients to purchase the Security at the then-prevailing market price, which may be higher than the price at which such Security was originally sold short by the Clients.

In addition to the risks of securities loan recalls or “short squeezes,” the Clients may be required to provide additional margin to its counterparties, including its prime brokers, on short notice if the price of a Security underlying a short position suddenly rises. If the Clients is unable to deliver the additional margin required, the Clients may need to prematurely close out the short position at unattractive prices, thereby resulting in a substantial loss. In addition, depending on the timing and magnitude of a price increase in respect of an open short position, the Clients may be required to liquidate long positions in order to meet margin requirements, thereby further increasing the losses (or decreases the gains) of the Clients.

In addition, stock loan fees charged to the Clients for borrowing securities may be substantial, and will decrease any gains (or increase losses) associated with the short position. Certain jurisdictions have enacted restrictions on short selling (including wholesale bans, at times) as well as public disclosure requirements. If additional short selling restrictions and disclosure requirements are enacted, the prices of the instruments in which the Clients invests may be materially affected and the ability of the Firm to take advantage of opportunities for short selling may be significantly reduced.

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

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

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

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

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

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

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

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

Lack of Control. The Clients may invest in debt instruments and equity securities of companies that it does not control, which the Clients may acquire through market transactions or through purchases of Securities directly from the issuer or other shareholders. Such securities will be subject to the risk that the issuer may make business, financial or management decisions with which the Clients does not agree or that the majority stakeholders or the management of the issuer may take risks or otherwise act in a manner that does not serve the Client's interests. In addition, the Clients may share control over certain investments with co-investors, which may make it more difficult for the Clients to implement its investment approach or exit the investment when it otherwise would. The occurrence of any of the foregoing could have a material adverse effect on the Fund and the Limited Partners' investments therein.

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

Risks Relating to Specific Sectors and Types of Companies

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

Risks of Investing in the Healthcare Sector. While investments in companies in the healthcare sector offer the opportunity for significant capital gains, such investments involve a high degree of business, financial, technological and regulatory risk, which can result in substantial losses. These risks include, but are not limited to, the following:

- certain companies in the Client's portfolio may have limited operating histories;
- certain of these companies may not have sufficient management or marketing personnel with appropriate scientific or medical training, which may slow or impede the companies' growth;
- obtaining approval for new products from governmental agencies can often be a lengthy and expensive process, the outcome of which can be uncertain;
- certain of these companies may become involved in lawsuits related to their patents or products;
- products produced by certain of these companies may become obsolete;
- government policies and regulations applicable to certain of these companies may change in ways that adversely affect them;
- investor sentiments and preferences with regard to healthcare sector investments (some of which are generally perceived as risky) may change, which may have an adverse effect on the price of underlying securities; and
- U.S. stock markets may become more volatile, which may affect the prices of healthcare company securities and, in turn, may cause the performance of the Clients to experience substantial volatility.

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

Life Sciences (Including Biotechnology, Biopharmaceuticals and Genomics) Sector. In addition to the risks of investing in the healthcare sector generally, investments in the securities of companies in the life sciences (including biotechnology, biopharmaceuticals and genomics) sector means that the Client's performance will be affected by additional risks particular to or having a disproportionate impact on this sector. For example, certain companies in which the Clients may invest may experience adverse impacts from: unanticipated delays in research and development efforts; previous preclinical testing or clinical trial results that ultimately are not indicative of future clinical trial results; errors in the conduct of clinical trials; adverse safety findings regarding products; clinical trial results that do not support submission of a marketing approval application for drug product candidates; intellectual property considerations; reliance on third-party manufacturers, collaborators, and clinical research organizations who may fail to perform according to agreed specifications; inability to control the development of out-licensed drug compounds or drug candidates; inability of collaborators to develop and commercialize product candidates; inability to maintain or obtain adequate product liability and other insurance coverage; adverse impact of technological advances and competition; inability to compete against third parties with greater resources; changes in pricing and reimbursements in the markets in which they compete; excessive leverage; limitations on their ability to incur additional indebtedness and incur liens on their assets restricting their ability to obtain additional capital when needed; cost of goods sold remaining high enough that it is difficult to achieve profitability; third-party

payors for drugs or diagnostics rescinding or modifying their contracts or reimbursement policies or delaying payments; inability to expand as expected outside the United States; failure to receive reimbursement for a drug or diagnostic under changing Medicare rules; failure of physicians to prescribe a drug or diagnostic to the extent anticipated; inability to obtain inputs necessary to the manufacture of a drug or diagnostic at the anticipated cost; failure of information technology and telecommunications systems that are critical to their business; failure to appropriately handle or dispose of biological and hazardous materials; misplaced reliance on third-party distributors; difficulties in integrating legacy companies from a merger or acquisition; inability to recruit talented personnel, including scientists; and changes in government policies or regulatory requirements of various federal and state agencies.

Companies marketing pharmaceuticals and/or diagnostics are subject to competitive forces that may make it difficult to raise prices and, in fact, may result in price discounting. The profitability of some companies in the pharmaceuticals and/or diagnostics industries may be dependent on a relatively limited number of products. Products can become obsolete due to industry innovation, changes in technologies or other market developments and many new products in the pharmaceuticals and diagnostics industries are subject to government approvals, regulation and reimbursement rates. Pharmaceutical and diagnostics companies may also be dependent on one or more wholesalers or distributors for product distribution. If a significant wholesaler or distributor should encounter financial or other difficulties, a pharmaceutical or diagnostics company might be unable to collect all or any of the amounts that the wholesaler or distributor owes such company. In addition, consolidation and integration of pharmacy chains and distribution may increase competitive and pricing pressures on pharmaceutical and diagnostics companies.

Intellectual Property Considerations. The Clients may invest in the securities of companies that will need to obtain patents for their products, both in the United States and in other countries. The patent protection of the intellectual property of biotechnology and other healthcare companies in many countries is highly uncertain and involves complex legal, scientific and factual issues. Companies in which the Clients invest may face costs associated with prosecuting, maintaining, defending and enforcing patent claims and other intellectual property rights, be unable to obtain patent protection for discoveries or to in-license potential drug compounds or drug candidates or other technology. The policy regarding allowable claim matter of biotechnology or healthcare-related technology patents varies from jurisdiction to jurisdiction.

Nascent Technologies. The Clients may invest in the securities and instruments of companies seeking to develop, prove, improve upon or utilize nascent or as-yet-unproven technologies. Such companies may have not reached a level of maturity that allows for a predictable level of reliability. Thus, while all investments entail a risk of loss of capital, investments in such securities and instruments should be considered substantially more speculative and significantly more likely to result in a loss of capital than many other investments. A risk in transacting in the securities and instruments of such companies is the prospect of rapid fluctuations in market price, due to a number of factors, including those discussed above. Further, notwithstanding the Firm's view of the potential for companies in the genomics sector, a genomics-led transformation of the healthcare industry may be many years away, and companies working with genomics technologies may not become profitable or as profitable as the Firm expects for many years.

Risks Relating to Specific Investments

Equity Securities Generally. The value of equity securities of public and private, listed and unlisted companies and equity derivatives generally varies with the performance of the issuer and movements in the equity markets. As a result, the Clients may suffer losses if they invest in equity instruments of issuers whose performance diverges from the Firm's expectations or if equity markets generally move in a single direction and the Client has not hedged against such a general move. The Clients also may be exposed to risks that issuers will not fulfill contractual obligations such as, in the case of convertible securities or private placements, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale.

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

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

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

Market Making by Dealers. The value of the Client's fixed-income investments will be affected by general fixed-income market conditions, such as the volatility and liquidity of the fixed-income market, which are affected by the ability of dealers to "make a market" in fixed-income investments. In recent years, the market for bonds has significantly increased while

dealer inventories have significantly decreased, relative to market size. This reduction in dealer inventories may be attributable to regulatory changes, such as capital requirements, and is expected to continue. As dealers' inventories decrease, so does their ability to make a market (and, therefore, create liquidity) in the fixed income market. Especially during periods of rising interest rates, this could result in greater volatility and illiquidity in the fixed-income market, which could impair the Client's profitability or result in losses.

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

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

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

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

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

High-Yield. Bonds or other fixed-income securities that are "higher yielding" (including non-investment grade) debt securities are generally not exchange-traded and, as a result, these securities trade in the OTC marketplace, which is less transparent and has wider bid/ask

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

The Clients may invest in obligations of issuers that are generally trading at significantly higher yields than had been historically typical of the applicable issuer's obligations. Such investments may include debt obligations that have a heightened probability of being in covenant or payment default in the future or that are currently in default and are generally considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments. Typically, such workout or bankruptcy proceedings result only in partial recovery of cash payments or an exchange of the defaulted Security for other debt or equity securities of the issuer or its affiliates, which may in turn be illiquid or speculative.

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

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

Stressed Debt. Stressed issuers are issuers that are not yet deemed distressed or bankrupt and whose debt securities are trading at a discount to par, but not yet at distressed levels. An example would be an issuer that is in technical default of its credit agreement, or undergoing strategic or operational changes, which results in market pricing uncertainty. The market

prices of stressed and distressed instruments are highly volatile, and the spread between the bid and the ask prices of such instruments is often unusually wide.

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

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

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

Investments Within the Same Capital Structure. The Firm and the Accounts may from time to time invest in different parts of the capital structure of an issuer than the Clients, which could give rise to potential conflicts of interest. For example, the Clients may invest in the debt of an issuer that an Other Account holds the equity. An investment in the different tranches of an issuer’s capital structure may create incentives for the Firm to cause the Clients to invest in more senior positions of the relevant issuer, as such investments will benefit other clients of the Firm. Further, if any such issuer becomes insolvent or suffers financial distress, decisions about what action should be taken in a troubled situation may need to be made, including without limitation, (i) whether or not to enforce claims or other remedies, (ii) whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring, (iii) how to vote on a creditors committee or restructuring committee and (iv) how to exercise shareholders’ voting rights with respect to such issuer. There may be a conflict between the interests of the Clients and the Other Accounts insofar as such issuer may be unable to satisfy the claims of all classes of its creditors and Security holders. There may also be a conflict between the interests of the Clients and the Other Accounts with respect to negotiating investment terms on behalf of each such entity and/or in connection with any major exit transaction or other major corporate event. The Firm will seek to resolve such conflicts of interest in a manner which is fair and equitable to the Fund and the Other Accounts involved. However, under these circumstances, it may not be feasible to reconcile such conflicting interests in a way that adequately protects any particular party’s interests.

Derivative Instruments. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, credit risk, legal risk and operations risk. The regulatory and tax environment for derivative instruments in which the

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

Derivative Reporting. Most swap transactions have become subject to anonymous “real time reporting” requirements, meaning that information relating to transactions entered into by the Clients will become visible to the market in ways that may impair the Client’s ability to enter into additional transactions at comparable prices or could enable competitors to “front run” or replicate the Client’s strategies.

Central Clearing. In order to mitigate counterparty risk and systemic risk in general, various U.S. and international regulatory initiatives, including EMIR, are underway to require certain derivatives to be cleared through central clearinghouses. In the United States, clearing mandates affect certain interest rate and credit default swaps. The CFTC and the SEC may introduce clearing requirements for additional classes of derivatives in the future. EMIR also requires OTC derivatives contracts meeting specific criteria to be cleared through central counterparties.

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

Another risk is that the Clients may be subject to more onerous and more frequent (daily or even intraday) margin calls from both the Client’s FCM and the clearinghouse. Virtually all margin models utilized by the clearinghouses are dynamic, meaning that unlike traditional bilateral swap contracts, in which the amount of initial margin posted on the contract is typically static throughout the life of the contract, the amount of the initial margin that is required to be posted in respect of a cleared contract will fluctuate, sometimes significantly, throughout the life of the contract. The dynamic nature of the margin models utilized by the clearinghouses and the fact that the margin models might be changed at any time may subject the Clients to an unexpected increase in collateral obligations by clearinghouses during a volatile market environment, which could have a detrimental effect on the Clients. Clearinghouses also limit collateral that they will accept to cash, U.S. treasuries and, in some cases, other highly rated sovereign and private debt instruments, which may require the Clients to borrow eligible securities from a dealer to meet margin calls and raise the costs of cleared trades to the Clients. In addition, clearinghouses may not allow the Clients to portfolio-margin its positions, which may increase the Client’s costs.

Although standardized clearing for derivatives is intended to reduce counterparty risk (for instance, it may reduce the counterparty risk to the dealers to which the Clients would have been exposed under OTC derivatives), it does not eliminate risk. Derivatives clearing may also lead to concentration of counterparty risk, namely in the clearinghouse and the Client’s FCM, subjecting the Clients to the risk that the assets of the FCM are insufficient to satisfy all of the FCM’s payment obligations, leading to a payment default. The failure of a clearinghouse or FCM could have a significant impact on the financial system. Even if a clearinghouse does not

fail, large losses could force significant capital calls on FCMs during a financial crisis, which could lead FCMs to default and thus worsen the crisis.

Swap Execution Facilities. In addition to the central clearing requirement, certain swap transactions are required to trade on regulated electronic platforms such as swap execution facilities (“SEFs”), which require the Clients to subject itself to regulation by these venues and subject the Clients to the jurisdiction of the CFTC. CFTC rules governing the operation of SEFs continue to evolve

The EU regulatory framework governing derivatives is set not only by EMIR but also by MiFID II. Among other things, MiFID II requires transactions in derivatives to be executed on regulated trading venues.

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

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

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

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

knock-out or other barrier events) and timing requirements, including the “style” of the option.

Uncovered option writing (i.e., selling an option when the seller does not own a like quantity of an offsetting position in the underlier) exposes the seller to potentially significant loss. The potential loss of uncovered call writing is unlimited. The seller of an uncovered call may incur large losses if the reference price or value of the underlier increases above the exercise price by more than the amount of any premiums earned. As with writing uncovered calls, the risk of writing uncovered put options is substantial. The seller of an uncovered put option bears a risk of loss if the reference price or value of the underlier declines below the exercise price by more than the amount of any premiums earned. Such loss could be substantial if there is a significant decline in the value of the underlier.

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

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

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

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

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

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

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

Contracts for Differences. Contracts for differences (“CFDs”) are privately negotiated contracts between two parties, buyer and seller, stipulating that the seller will pay to or receive from the buyer the difference between the nominal value of the underlying instrument at the opening of the contract and that instrument’s value at the end of the contract. The underlying instrument may be a single Security, stock basket or index. A CFD can be set up to take either a short or long position on the underlying instrument. The buyer and

seller are both required to post margin, which is adjusted daily. The buyer will also pay to the seller a financing rate on the notional amount of the capital employed by the seller less the margin deposit. As is the case with trading any financial instrument, there is the risk of loss associated with trading a CFD. There may be liquidity risk if the underlying instrument is illiquid because the liquidity of a CFD is based on the liquidity of the underlying instrument. A further risk is that adverse movements in the underlying Security will require the posting of additional margin. CFDs also carry counterparty risk, i.e., the risk that the counterparty to the CFD transaction may be unable or unwilling to make payments or to otherwise honor its financial obligations under the terms of the contract. If the counterparty were to do so, the value of the contract may be reduced. Entry into a CFD transaction may, in certain circumstances, require the payment of an initial margin and adverse market movements against the underlying stock may require additional margin payments. CFDs may be considered illiquid. To the extent that there is an imperfect correlation between the return on the Client's obligation to its counterparty under the CFDs and the return on related assets in its portfolio, the CFD transaction may increase the Client's financial risk.

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

Exotic Options. Exotic options are typically, but not always, traded over the counter. OTC contracts may not trade in a liquid market and pricing may be opaque. The illiquidity of these markets can be exacerbated in times of market stress. The Clients may incur substantial costs entering into and exiting positions that could have a material impact on performance. Exotic options may be subject to a higher degree of pricing risk; as demonstrated by instances in which different counterparties in the market employ different valuation and pricing methodologies to the same exotic option. Because exotic options can often be highly customized, there is lower visibility with respect to the pricing and valuation of these instruments. Exotic options may be subject to high levels of price volatility. For example, in the case of barrier options, as the price of the asset underlying the option trades closer to a barrier level, the delta of the option (i.e., the ratio of the change in the price of the underlying asset to the corresponding change in the price of the option) and the gamma of the option (i.e., the rate of change of the delta with respect to the underlying asset's price) may become very high. Exotic options may be subject to higher levels of model risk than commonly traded options because standard models are not able to adequately capture or predict the risks associated with the exotic options. Exotic options may be "path dependent." This means that their terminal value (at exercise or expiration) depends upon the value of the underlying asset, not only at the time of exercise or expiration, but also at prior points in time. In this sense, the option's terminal value depends upon the "path" taken by the underlying asset over the life of the option. For example, a barrier option's value at expiration depends upon both the value of the underlying asset at expiration and whether the past value of the underlying asset ever satisfied a barrier condition. In contrast, a vanilla option (e.g., a call option) is not path dependent. Its value at exercise or expiration depends on the value of the underlying asset only at that point in time. The additional features incorporated by exotic options require additional judgments regarding the likelihood of certain conditions being satisfied, any one of which can result in loss if made incorrectly. An OTC option may be closed out only with the counterparty, although either party may engage in an offsetting transaction that puts that party in the same economic position as if it had closed out the option with the counterparty;

however, the exposure to counterparty risk may differ. OTC options generally involve greater credit and counterparty risk than exchange-traded options.

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

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new Security the value of which will be less than the purchase price to the Clients of the Security in respect of which such distribution was made.

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

Illiquid Securities. Certain Securities may be illiquid because, for example, they are subject to legal or other restrictions on transfer or there is no liquid market for such securities. Valuation of such securities may be difficult or uncertain because there may be limited information available about the issuers of such securities. The market prices, if any, for such securities tend to be volatile and may not be readily ascertainable, and the Clients may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the OTC markets. The Clients may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. As a result, the Clients may be required to hold such securities despite adverse price movements. Even those markets which the Firm expects to be liquid can experience periods, possibly extended periods, of illiquidity. Occasions have arisen in the past where previously liquid investments have rapidly become illiquid. Further, because the Fund does not provide for the side-pocketing of illiquid investments, Limited Partners who withdraw later in time or who never withdraw may bear the risk of a more significant participation percentage in illiquid investments than those Limited Partners who have previously withdrawn.

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

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

will exist at the time of disposition of the securities, and the lack of such a market could hurt the market value of the Client's investments.

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

Repurchase and Reverse Repurchase Agreements. In a reverse repurchase transaction, the Clients "buy" securities issued from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid by the Clients, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by the Clients involve certain risks. For example, if the seller of securities to the Clients under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, the Clients will seek to dispose of such securities, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, the Client's ability to dispose of the underlying securities may be restricted. It is possible, in a bankruptcy or liquidation scenario, that the Clients 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, the Clients 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.

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

Special Purpose Acquisition Companies. A special purpose acquisition company (a "SPAC") is a publicly traded company formed for the purpose of raising capital through an initial public offering to fund the acquisition, through a merger, capital stock exchange, asset acquisition or other similar business combination, of one or more undervalued operating businesses. Following the acquisition of a target company, a SPAC typically would exercise control over the management of such target company in an effort to increase the value of such target company. Capital raised through the initial public offering of securities of a SPAC is typically placed into a trust until the target company is acquired or a predetermined period of time elapses. Investors in a SPAC would receive a return on their investment in the event that a target company is acquired and such target company's value increased. In the event that a

SPAC is unable to locate and acquire target companies by the deadline, the SPAC would be forced to liquidate its assets, which may result in losses due to the expenses and liabilities of the SPAC. Investors in a SPAC are subject to the risk that, among other things, (i) such SPAC may not be able to locate or acquire target companies by the deadline, (ii) assets in the trust may be subject to third-party claims against such SPAC, which may reduce the per share liquidation price received by the investors in the SPAC, (iii) such SPAC may be exempt from the rules promulgated by the SEC to protect investors in “blank check” companies, such as Rule 419 promulgated under the Securities Act, so that investors in such SPAC may not be afforded the benefits or protections of those rules, (iv) such SPAC may only be able to complete one business combination, which may cause it to be solely dependent on a single business, (v) the value of any target company may decrease following its acquisition by such SPAC, (vi) the value of the funds invested and held in the trust decline, (vii) the inability to redeem due to the failure to hold the securities in the SPAC on the record date or the failure to vote against the acquisition and (viii) if the SPAC is unable to consummate a business combination, public stockholders will be forced to wait until the deadline before liquidating distributions are made. In addition, most SPACs are illiquid and have a concentrated shareholder base that tends to be comprised of hedge funds (at least at inception). The Clients may invest in a SPAC that, at the time of investment, has not selected or approached any prospective target businesses with respect to a business combination. In such circumstances, there may be limited basis for the Clients to evaluate the possible merits or risks of such SPAC’s investment in any particular target business. To the extent that a SPAC completes a business combination, it may be affected by numerous risks inherent in the business operations of the acquired company or companies. For these and additional reasons, investments in SPACs are speculative and involve a high degree of risk.

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

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

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

When-Issued and Forward Commitment Securities. The purchase of securities on a “when-issued” basis involves a commitment by the Clients to purchase or sell securities at a future date (typically one or two months later). No income accrues on securities that have been purchased on a when-issued basis prior to delivery to the Clients. When-issued securities may be sold prior to the settlement date. If the Clients dispose of the right to acquire a when-issued Security prior to its acquisition, it may incur a gain or loss. In addition, there is a risk that

securities purchased on a when-issued basis may not be delivered to the Clients. In such cases, the Clients may incur a loss.

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

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

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

Item 9: Disciplinary Information

To the best of our knowledge, there are no legal or disciplinary events that are material to an Investor's or prospective investor's evaluation of our advisory business or the integrity of our management.

Item 10: Other Financial Industry Activities and Affiliations

Neither we nor our management persons are registered as broker-dealers, and neither of us has any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer, respectively.

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

Code of Ethics

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

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

- Employees must at all times place the interests of the Funds and Investors first;
- Employees must ensure that all personal securities transactions are conducted consistent with the Code of Ethics’ Employee Personal Investment Policy (described below); and
- Employees should not take inappropriate advantage of their position at the Firm.

Personal Trading

Employees are not permitted to maintain personal brokerage accounts for the purpose of trading single named securities in the health care sector (“**Reportable Securities**”) except for the purpose of holding or liquidating any such holdings after the commencement of employment. Employees are permitted to liquidate positions held at the time of employment in Reportable Securities (a “**Liquidating Trade**”) subject to pre-clearance by the CCO. Employees are prohibited from participating in Initial Public Offerings (“**IPOs**”) or Initial Coin Offerings (“**ICOs**”). Employees are also prohibited from personally, or on behalf of a Client, purchasing or selling securities that appear on the Firm’s Restricted List.

Employees must obtain pre-approval from the CCO before: (i) engaging in any outside business activities; or (ii) making any private investments.

We will provide a copy of our Code of Ethics to our Investors, or any prospective investor, upon request, to be viewed on the premises.

Item 12: Brokerage Practices

Vestal Point is authorized to determine the broker-dealers to be used for executing securities transaction for the Funds. In selecting broker-dealers to execute transactions, we do not need to solicit competitive bids and do not have an obligation to seek the lowest available commission cost. It is not our practice to negotiate “execution only” commission rates; therefore, the Clients may be deemed to be paying for research, brokerage or other services provided by the broker which are included in the commission rate.

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

Best Execution

In selecting an appropriate broker-dealer to effect a client trade, we seek to obtain “**Best Execution**,” meaning generally the execution of a securities transaction for a client in such a manner that a client’s total costs or proceeds in the transaction are most favorable under the circumstances. Accordingly, in seeking Best Execution, we will take into consideration the price of a security offered by the broker-dealer, as well as a broker-dealer’s full range and quality of their services including, among other things, their facilities, reliability and financial responsibility, execution capability, commission rates, responsiveness to us, brokerage and research services provided to us (for example, research ideas, analysis, conferences, management meetings and investment strategies), special execution and block positioning capabilities, clearance, and settlement and custodial services.

Soft Dollars

The Firm may use “**Soft Dollars**.” In such cases, Soft Dollar credits, generated by the Clients’ trading activities, would be used to purchase brokerage and research services or products that would otherwise have been Client expense. We intend to keep any such arrangements within the parameters of the safe harbor of Section 28(e) of the Exchange Act.

Neither Vestal Point nor any related person receives client referrals from any broker-dealer or third party. However, subject to best execution, we may consider, among other things, capital introduction and marketing assistance with respect to Investors in the Funds in selecting or recommending broker-dealers for the Funds.

The provision by a broker of research and other services and property to us creates an incentive for us to select such broker since we would not have to pay for such research and other services and property as opposed to solely seeking the most favorable execution for a client. Any research, services or property provided by a broker may benefit any client and such benefits may not be proportionate to commission dollars related to the provision of such research, services or property.

Item 13: Review of Accounts

Our Portfolio Manager and investment professionals continuously monitor and analyze the transactions, positions, and investment levels of the Fund and Account to ensure that they conform with the investment objectives and guidelines that are stated in the Fund’s Offering Documents and the Account’s Investment Management Agreement. In these reviews, the Firm pays particular attention to any changes in the investment’s fundamentals, overall risk management and changes in the markets that may affect price levels.

Account Reporting

We will distribute an audited financial report with respect to the previous fiscal year to all Investors within 120 days of fiscal year end. We distribute monthly unaudited net asset value statements and performance reports.

Item 14: Client Referrals and Other Compensation

We do not receive economic benefits from non-clients for providing investment advice and other advisory services. Neither we nor any of our related persons, directly or indirectly, compensate any person who is not a supervised person for client referrals.

Item 15: Custody

We are deemed to have custody of Client funds and securities because we have the authority to obtain Client funds or securities, for example, by deducting advisory fees from a Client's account or otherwise withdrawing funds from a Client's account. Account statements related to the Clients are sent by qualified custodians to Vestal Point.

We comply with Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”) (i.e., the “custody rule”) by meeting the conditions of the pooled vehicle annual audit approach. Upon completion of the relevant Fund’s annual audit by an independent auditor that is registered with, and subject to inspection by, the Public Company Accounting Oversight Board (PCAOB), we will distribute the Fund’s audited financials to Investors within 120 days of such Fund’s fiscal year end.

Item 16: Investment Discretion

We have full discretionary investment authority with respect to the Clients, including authority to make decisions with respect to which securities to be bought and sold, as well as the amount and price of those securities.

Item 17: Voting Client Securities

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

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

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

Generally, clients may not direct our vote in a particular solicitation.

Clients may obtain a copy of our Proxy voting policies and our Proxy voting record upon request.

Item 18: Financial Information

We are not required to include a balance sheet for our most recent fiscal year, are not aware of any financial condition reasonably likely to impair our ability to meet contractual commitments to Clients, and have not been the subject of a bankruptcy petition at any time during the past ten years.