

# Totem Macro Asset Management LP

104 East 17<sup>th</sup> Street #1F, New York, NY 10003

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This “**Brochure**” provides information about the qualifications and business practices of Totem Macro Asset Management LP (hereinafter “**Totem Macro**”, “**we**”, “**us**”, “**our**” or the “**Firm**”). If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer (“**CCO**”), John Potter, by email at [john.potter@totemmacro.com](mailto:john.potter@totemmacro.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.

Totem Macro is a Registered Investment Adviser with the SEC. Registration as an investment adviser does not imply that Totem Macro 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 Totem Macro is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2: Material Changes**

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This Brochure is Totem Macro's Form ADV Part 2A as part of its 120-Day Amendment Update. There are no material changes to report. In the future, if the Brochure contains material changes from our last update, we will identify and discuss those changes in this section.

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**Item 4: Advisory Business**

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

Totem Macro provides discretionary investment management services to qualified investors through private pooled investment funds.

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.

Totem Macro manages private, pooled investment vehicles.

The private pooled investment funds are each referred to as a “**Fund**” or “**Client**”, and collectively referred to as the “**Funds**” or the “**Clients**”.

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**.”

Note, all capitalized or defined terms below are described in further detail in the relevant Fund’s Offering Documents.

The Firm expects to enter into side letters or similar agreements with certain investors that may waive or modify the application of or grant special or more favorable rights with respect to the Governing Documents to the extent permitted by applicable law.

We do not currently participate in any Wrap Fee Programs.

As of March 14, 2024, Totem Macro has \$29,900,000\_ in discretionary assets under management.

## Item 5: Fees and Compensation

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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***

Totem Macro is paid an investment management fee ("**Management Fee**") per annum of the net asset value of the Funds.

The Fee will range from 1% to 2%.

The Investment Manager, in its sole discretion, may waive or modify the Management Fee for any Investor.

### ***Other Types of Fees or Expenses***

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

The Firm is responsible for and shall pay, or cause to be paid, all of their own ordinary administrative and overhead expenses, including, without limitation, all costs and expenses related to rent, furniture, fixtures, equipment, office supplies, clerical expenses and all salaries, bonuses and benefits paid to, or on behalf of, personnel of the Firm.

The Funds bear all other expenses, which include, without limitation, the following expenses incurred by or allocable to the Funds: (a) organizational and offering expenses; (b) expenses associated with all investments and transactions considered, evaluated and/or consummated by the Funds, 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, third-party research, data, analytics, modeling, structuring, pricing, execution and other third-party information systems, software and service fees (including, without limitation, the expenses with respect to data feeds, subscriptions, expert networks, political intelligence providers, and reports); (c) research-related computer hardware and software expenses, including, without limitation, Bloomberg terminals; (d) the Funds' pro rata share of the Firm's order management system, portfolio management system and any other software used for accounting and/or monitoring of the portfolio; (e) expenses associated with holding, financing, monitoring, hedging, maintaining and disposing of all investments of the Funds and all transaction and other costs associated therewith; (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; (i) expenses associated with legal and regulatory filings of the Funds (including, without limitation, pursuant to Section 13 and 16 of the Securities and Exchange Act of 1934, as amended (the "**Exchange Act**")) and the Funds' pro rata portion of the expenses associated with preparation of the Firm's Form 13F, Form 13H and Form PF, 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 Funds' operations, investments and transactions, including, without limitation, fees and expenses of the Funds' 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 and all extraordinary expenses; (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 Funds, including, without limitation, interest charges and fees; (n) expenses incurred in the collection of monies owed to the Funds, as applicable; (o) auditing and accounting expenses of the Funds, 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 entity level taxes, fees or other governmental charges on the Funds, including, without limitation, any withholding taxes not due to the status or noncompliance of a particular Investor; (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 Investors; (t) insurance expenses; including, without limitation, directors' and officers' liability insurance, general partner liability insurance, errors and omissions insurance and other policies, if any; (u) costs and expenses (including, without limitation, entity-level 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 Funds; (v) wind-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 in the Funds, unless otherwise charged to or borne by the applicable transferor and/or transferee; (y) expenses incurred in connection with the preparation of any amendment to the Funds' governing documents and/or Offering Documents; (z) expenses incurred in connection with pursuing, defending or participating in any litigation, arbitration, mediation or similar proceeding by the Funds; (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) the Management Fee; and (cc) all other fees, costs, charges and expenses associated with the business, affairs and/or operations of the Funds.

In general, each Investor will bear its proportionate share of the Fund expenses on a pro rata basis with respect to the size of such Investor's capital account(s) or with respect to the relative net asset value of the shares held by such Investor, as applicable.

Notwithstanding the foregoing, the Fund General Partner and/or the Firm, as applicable, may specially allocate the expenses described herein in any other manner, including by allocating certain expenses to certain (but not all) Investors, if the Fund General Partner and/or the Firm, as applicable, reasonably determines, in its discretion, that it is more equitable to do so.

To the extent that expenses to be borne by the Funds are paid by the Firm or its affiliates, the Funds will reimburse the Firm or its affiliates for such expenses. We may waive any such reimbursement with respect to any Fund expenses. Any waiver by us for reimbursement of

any Fund expenses shall not serve as a waiver of reimbursement for any future Fund expenses to be paid by us or our affiliates.

Neither the Firm nor its employees accept compensation, including sales charges or service fees, from any person for the sale of securities or other investment products.

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

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We and our affiliates are entitled to a performance-based compensation. As a result, we and our affiliates do not face certain conflicts of interest that may arise when an investment adviser accepts performance-based fees from some clients, but not from other clients.

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.

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

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Our clients are the Funds, as described in Item 4 above, and 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**

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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 investment objective of the Fund is to seek to achieve attractive risk-adjusted absolute returns.

##### ***Investment Strategy***

The Fund focuses on global "macro" investing in both developed and emerging markets, and there are no material limitations on the strategies, markets, asset classes or types of investment assets in which the Fund may invest and trade.

##### ***Risk Management***

The Investment Manager seeks to identify investment opportunities that have favorable risk/reward characteristics. The Investment Manager monitors the risk parameters and

expected volatility of the Fund's overall portfolio and generally attempts to prevent over-concentration of the portfolio in any particular investment asset, strategy or market. However, the Investment Manager will not follow any formal diversification policies; from time to time the Fund's portfolio may be highly concentrated in a strictly limited number of positions, assets, strategies or markets.

The Investment Manager will not attempt to hedge all market or other risks inherent in the Fund's portfolio. Not only are a number of market risks—for example, political event and natural catastrophe risks—fundamentally incapable of being hedged, but also the cost of hedging is often, in the Investment Manager's view, not justified when compared to other means of controlling risks, such as diversification or establishing positions only in incremental steps and only as (and if) the market bears out the Investment Manager's trading ideas.

The Investment Manager's risk management processes provide no guarantee against losses. There are risks that are not monitored or controlled by the Investment Manager, and certain risks may be greater than anticipated by the Investment Manager, especially in unusual market or other conditions.

### ***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 Totem Macro Offshore Fund LLC.

### **Strategy and Investment Risks**

#### **Risks of Investments in Securities Generally**

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

The Fund's methods of minimizing such risks may not accurately predict future risk exposures. Risk management techniques are based in part on the observation of historical market behaviour, which may not predict market divergences that are larger than historical



indicators. Also, information used to manage risks may not be accurate, complete or current, and such information may be misinterpreted.

### **Investing in Emerging and Developing Markets Generally**

The Fund expects that a substantial portion of its investments will be made in emerging and/or developing markets. Among the generic risks of emerging and/or developing markets investing (in addition to issuer-specific risks) are the following: (i) emerging and/or developing markets' securities, futures and other derivatives may be less liquid and more volatile than comparable instruments in more developed markets; (ii) emerging and/or developing markets' securities, futures and other derivatives may be more difficult to value than comparable instruments in more developed markets; (iii) investment in securities in certain emerging and/or developing markets may be restricted or controlled by certain governmental authorities, limiting or precluding the Fund from investing in such securities, or materially increasing the costs of making such investments; (iv) the transaction costs incurred in the emerging and/or developing markets may be materially higher than those in the more efficient, developed markets; and (v) governments may impose currency controls or otherwise act to impede capital flows which could make it difficult or even impossible for the Fund to repatriate capital invested and/or any gains on such investments.

The value of emerging and/or developing market securities may be drastically affected by political developments in the country of issuance. In addition, the existing governments in the relevant countries could take actions that could have a negative impact on the Fund, including nationalization, expropriation, imposition of confiscatory taxation or regulation or imposition of withholding taxes on interest payments. In many cases, governments retain a high degree of direct control over the economy and may take actions having sudden and widespread effects.

Even in stable economic times, emerging and/or developing markets tend to be subject to an unusually high degree of volatility and risk, and in the market disruptions of 2008 became dysfunctional. While these markets recovered significantly in 2009, they continue to be subject to the risks of a high degree of illiquidity, volatility and, at times, unusually wide bid-ask spreads.

The emerging and/or developing markets tend to become highly correlated during market disruptions, and disruptions in one developing country can adversely impact the markets in many other developing countries, not because of any direct economic correlation between the two but because global investors tend to regard the developing countries as a generic group so that if one incurs a major decline it is likely that others will also.

The emerging and/or developing markets are at risk not only with respect to disruptions in those markets themselves, but also to the markets' reaction to disruptions in the G-7 and other "developed" nations.

Any market disruption event—e.g., a sovereign default, political unrest or a major financial institution bankruptcy—could have a particularly adverse effect on the Fund's investments in emerging and/or developing markets. Many of the emerging and/or developing markets' banking systems are highly fragile, and their currencies highly volatile and subject to devaluation—making such markets particularly vulnerable to general market disruption events (even if largely unrelated to such markets themselves).

### **Global Macro Strategies**

The success of the Fund's global macro investment strategy depends upon the Investment Manager's ability to identify and exploit perceived fundamental, economic, financial and political imbalances that may exist in and between global markets across a

variety of financial instruments and asset classes. The identification and exploitation of such imbalances and the prediction of price movements in these instruments involves significant uncertainties due to their reliance on various factors, including political, economic, international and environmental trends and events. There can be no assurance that the Investment Manager will be able to identify investment opportunities or exploit such imbalances. The Fund may incur substantial losses if the investment theses underlying the Fund's positions fail to develop as expected by the Investment Manager.

**Directional Bias**

There are no material limitations on the strategies, instruments, products, assets, securities, markets or countries in which the Fund may invest. The management of the Fund's portfolio is limited only by the discretionary market judgment of the Investment Manager. The Investment Manager's overall trading approach for the Fund is based on both identifying absolute mispricings and taking corresponding directional positions and relative value positions. Directional investing is subject to all the risks inherent in incorrectly predicting future price movements. Often these price movements will be determined by unanticipated factors, and even if the determining factors are correctly identified, the Investment Manager's analysis of those factors may prove inaccurate—in each case, potentially leading to substantial losses.

Predicting future prices is inherently uncertain and the losses incurred, if the market moves against a position, will often not be hedged. The speculative aspect of attempting to predict absolute price movements is generally perceived to exceed that involved in attempting to predict relative price fluctuations.

**Fundamental Analysis**

The Investment Manager's strategy includes fundamental, "bottom-up" analysis of markets as well as individual issuers in such markets. Fundamental analysis — which is based on the theory that market mispricings exist because market prices do not incorporate all knowable economic and other relevant data — is subject to the risk of inaccurate or incomplete market information, as well as the difficulty of predicting future prices based upon analysis of all known information. In addition, market sentiment may cause market prices to be materially discounted from the expected prices indicated by fundamental analysis or when technical factors, such as price momentum encouraged by trend following, dominate the market.

It is impossible to predict the time it will take for market price and intrinsic value to converge (if ever). Even if the Investment Manager's fundamental analysis of the intrinsic value of an investment may be accurate, the Fund may be unable to hold the position until such intrinsic value is reflected in market price.

The Investment Manager's focus on detailed fundamental analysis is a resource-intensive exercise. The Investment Manager's in-depth analysis must be performed by its personnel. The Investment Manager competes in implementing its resource-intensive strategy with other managers with greater resources than those of the Investment Manager.

**Technical Strategies**

The Investment Manager considers technical factors in its strategies and analysis, i.e., the analysis of historical and current market data. Technical strategies are subject to the risk that unexpected fundamental or other factors may dominate the market during certain periods. Furthermore, the premise of technical strategies is that past market conditions are indicative of future market prices. The influx of different market participants, structural

changes in the markets, the introduction of new financial products and other developments could materially adversely affect the profitability of technical strategies.

**Relative Value Strategies**

The Investment Manager may acquire relative value positions if the Investment Manager believes that it has identified mispricings between related assets. Although relative value positions are generally considered to have a lower risk profile than directional trades as the former attempt to exploit price differentials not overall price movements, relative value strategies are by no means without risk. Mispricings, even if correctly identified, may not converge within the time frame within which the Fund is able to maintain its positions. Even pure “riskless” arbitrage—which is rare—can result in significant losses if the arbitrage cannot be sustained (due, for example, to margin calls) until expiration. To the limited extent that the Fund uses relative value strategies, these strategies will be subject to the risks of disruptions in historical price relationships, the restricted availability of credit and the obsolescence or inaccuracy of the Investment Manager’s or third-party valuation models. Market disruptions may also force the Fund to close out one or more positions. Such disruptions have in the past resulted in substantial losses for funds employing relative value strategies.

**Spread Trading Risks**

A part of the Investment Manager’s investment strategy may involve the Fund entering a transaction to realize gains from spread movements between two or more positions. To the extent the price relationships between such positions remain constant, no gain or loss on the positions may occur. In addition, such positions entail substantial risk that the price differential could change unfavourably, causing a loss to the spread position. Particularly in periods of low market volatility, such investment strategies may have materially diminished prospects for profitability.

**Model Risk**

The Investment Manager’s decisions whether to make certain investments are influenced by the Investment Manager’s use of its own quantitative valuation models, including proprietary models as well as valuation models developed by third parties and made available to the Investment Manager. As market dynamics (for example, due to changed market conditions and participants) shift over time, a previously highly successful model often becomes outdated or inaccurate, perhaps without the Investment Manager recognizing that fact before several investments are made on the basis of such models. There can be no assurance that the Investment Manager will be successful in developing and maintaining effective quantitative models to assist in its long-term investing or hedging and the necessity of continually updating these models demonstrates that the past performance of the Fund may not be representative of the Fund’s future performance.

**Reliance on Technology and Electronic Trading**

The Fund relies heavily on computer hardware and software, online services and other computer-related or electronic technology and equipment to facilitate the Fund’s investment activities. Specifically, the Fund may trade financial instruments through electronic trading or order routing systems, which differ from traditional open outcry pit trading and manual order routing methods. Such electronic trading exposes the Fund to risks associated with system or component failure, which could render the Fund unable to enter new orders, execute existing orders or modify or cancel previously entered orders. System or component failure may also result in loss of orders or order priority. Should events beyond the Fund’s control cause a disruption in the operation of any technology, equipment or trading system or exchange, the

Fund's investment program may be severely impaired, causing it to experience substantial losses or other adverse effects.

**Risk of Underperformance**

There may be quarters or years where the Fund's investment results "underperform" market averages or other popular investment strategies such as momentum investing, sector rotation and leveraged macro investing. These periods of underperformance may be particularly apparent in speculative bull markets.

**Long-Term Nature and Illiquidity of Investment**

One of the objectives of the Fund is to earn returns by investing in securities perceived by the Investment Manager to be undervalued, where other investors, who may be desperate, constrained, or uninformed, may not have the ability, patience or desire to take a longer-term view on value. Investors who may have short-term cash needs that are inconsistent with the highly illiquid nature of the Interests should not invest in the Fund.

The Investment Manager may not know the expected duration of any particular position at the time of acquisition, and holding periods may vary significantly based on the Investment Manager's subjective judgment of the appropriate point at which to liquidate a position in order to maximize gains or mitigate losses.

**Concentration of Investments**

Although the Investment Manager will have a risk management framework relating to certain portfolio concentrations, the Investment Manager will not be formally restricted as to the percentage of the Fund's assets that may be invested in a single position or exposed to any particular country, asset class, issuer, instrument, market or strategy. The Fund will not be subject to any formal requirements for diversifying its portfolio among geographies, asset classes, issuers, markets or other factors.

The Fund's investment portfolio may become more concentrated than the Investment Manager's risk management framework would otherwise dictate due to market movements, and the Investment Manager may amend its internal risk management framework in its sole discretion and without providing any notice to the Members.

**Uncertainty of Financial Projections**

The Investment Manager may use financial projections to help analyze a potential investment. Projected operating results will often be based on management judgments, with adjustments to such projections made by the Investment Manager in its discretion. In all cases, projections are only estimates of future results that are based upon the Investment Manager's research, modelling and assumptions made at the time that the projections are developed. There can be no assurance that the projected results will be obtained by the relevant issuers, and an issuer's actual results may vary significantly from the projections. General economic conditions, which are not predictable, can also result in material deviations from such financial projections.

**Difficulty in Translating Macro Economic Conclusions into Trading Positions**

Having reached a macroeconomic conclusion regarding the future price level of a given asset, the Investment Manager is then faced with the difficulty of identifying an efficient means of acquiring market exposure so as to profit from this conclusion. For example, if the Investment Manager (hypothetically) concluded that the Italian economy was much stronger than the market seemed to indicate, the question would remain as to how best to express this opinion in a trade—for example, purchasing an Italy-centered exchange traded fund or buying

Italian sovereign debt. Not only can it be difficult to find a workable medium through which to express a macro conclusion, but also factors extraneous to that conclusion may influence the pricing of the chosen medium. For example, even though the economy of Italy may, in fact, be stronger than is reflected in the market, a long position in Italian sovereign debt taken to express this opinion may nevertheless decline in value due to a general rise in interest rates or international political tensions.

The Investment Manager may correctly identify a macro-opportunity, but not successfully capitalize on the opportunity—and, in fact, incur material losses—due to the assets chosen in an attempt to exploit such opportunity.

#### **Availability of Investment Opportunities**

There can be no assurance that the Investment Manager will be able to find suitable opportunities consistent with its investment approach. Market conditions may limit the availability of suitable investment opportunities in the Investment Manager's view. Such limitations may cause delays in deploying the Fund's capital and may negatively impact the Fund's returns.

#### **Short Selling**

The Fund will sell short the securities of companies whose stock prices appear to be excessive in relation to prospective earnings growth or intrinsic value. Short selling involves selling securities which may or may not be owned by the seller and borrowing the same securities for delivery to the purchaser, with an obligation by the seller to replace the borrowed securities at a later date. Short selling allows the investor to profit from a decline in the price of a particular security to the extent that such decline exceeds the transaction costs and the costs of borrowing the securities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Fund of buying those securities to cover the short position. The Fund bears the cost of dividends paid on shares sold short, and the lender of a stock that is sold short may charge an interest rate that exceeds the return made on the proceeds of its short sale of the stock, with a resulting ongoing cost of maintaining the short position.

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

If it is determined by the broader market that the Fund is short a heavily shorted security, the Fund may be susceptible to the risk that groups of investors may coordinate, on social media or otherwise, to drive up the price of the short position for the purpose of seeking to cause the holders of such positions, including the Fund, to close out of such positions. If the Fund were required to buy the shorted security in the market to make delivery under conditions which cause a period of sudden and unexpected significant increase in the value of the investment, the Fund could incur substantial losses.

#### **Investments in Undervalued Assets**

The Fund expects to invest in assets that the Investment Manager believes are undervalued. The identification of investment opportunities in undervalued assets is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued assets 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 Fund's investments may not adequately compensate investors for the business and financial risks assumed.

**Non-Controlling Investments**

If the Fund makes non-controlling investments, the Fund may have a limited ability to protect such investments through the exercise of ownership rights. As a passive investor with respect to any such investment, the Fund is dependent on the quality of the incumbent management. In the case of many of the portfolio companies in which the Fund invests, the Investment Manager would not itself have the expertise or the resources to manage the companies — as opposed to evaluating the management which will do so. There have been a number of well-publicized instances in which management has materially, if not fraudulently, mismanaged companies which otherwise appeared to have superior business models.

**Reliance on Corporate Management, Financial Reporting and Third-Party Information**

The Investment Manager relies on the financial information and data made available by the issuers in which the Fund invests. The Investment Manager may also rely on information obtained from third-party providers of information for its industry level assessment of business and market conditions, factors and trends. The Investment Manager has no ability to independently verify the completeness, genuineness or accuracy of the information disseminated by such issuers and third-party providers. Accordingly, the Investment Manager is dependent upon the integrity of the management of these issuers and the financial reporting process in general, as well as the reliability of other sources of information, and the Investment Manager's analysis and research may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating investment opportunities. In addition, corporate mismanagement, fraud and accounting irregularities relating to the issuers of investments held by the Fund or other errors in the information sources utilized by the Investment Manager may result in significant or even total losses. Equity prices are particularly vulnerable to corporate mismanagement.

**Distressed Securities**

The Fund may invest in securities, loans and other obligations of domestic and foreign companies that are experiencing significant financial or business difficulties, including companies in weak and/or deteriorating financial condition, experiencing poor operating results, needing substantial capital investment, facing special competitive or product obsolescence problems and/or involved in bankruptcy or other reorganization and liquidation proceedings. Although such investments may result in significant returns to the Fund, they involve substantial risks (including the risk of total loss), which are often heightened by an inability to obtain reliable information about the issuers and their true financial condition. 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 or disenfranchise particular claims. Such companies' securities are generally highly 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. Investments of this type are complex and require significant resources. 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 can be no assurance that the Investment Manager will correctly evaluate the value of a company's assets or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which the Fund invests, the Fund may lose its entire investment, may be required to accept cash or securities with a value less than the Fund's original investment, and/or may be required to accept payment over an extended period of time.

Investment in the equity and debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors and equity holders, the enforceability of such rights, reorganization timing, and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

The market for distressed securities is expected to be less liquid than the market for securities of companies that are not distressed. A substantial length of time may be required to liquidate such securities. Furthermore, at times, a major portion of an issue of distressed securities may be held by relatively few investors, and the market may be limited to a narrow range of potential counterparties, such as institutions and investment banks. Under adverse market or economic conditions or in the event of adverse changes in the financial condition of the issuer, the Fund may find it more difficult to sell such securities when the Investment Manager believes it advisable to do so or may only be able to sell such securities at a loss. The Fund may also find it more difficult to determine the fair market value of distressed securities for purposes of computing the Fund's Net Asset Value. In some cases, the Fund may be prohibited by contract from selling distressed securities for a period of time.

#### **Post-Reorganization Equities**

The Fund may invest in securities issued by companies emerging from bankruptcy or reorganization proceedings, particularly common stock issued to creditors under a plan of reorganization. The Investment Manager believes that the market for these securities is typically inefficient due to a lack of institutional ownership and selling pressure generated by former creditors who have become equity holders through the plan of reorganization, but due to either their investment restrictions or practices are unwilling equity holders. These equity securities often go through a period where they are not listed on major exchanges and trade only through brokers. In addition, many of these companies have complex capital structures. For traditional equity holders, these companies may be difficult to analyze without the resources of credit analysts capable of understanding debt securities and plans of reorganization.

#### **Merger Arbitrage Transactions and Net Asset Value**

Risk arbitrage transactions tend to be discrete events with binary outcomes in which there is potentially a material and abrupt adjustment to Net Asset Value (a "gapping" net asset value) at the point that the consummation/non-consummation result is determined. While the market prices of the Fund's positions will be affected by the perceived change in probability of consummation during the progress of a transaction, until the final resolution of the consummation/non-consummation outcome there is a material potential uncertainty in the Net Asset Values as currently determined. Subscriptions and withdrawals will, however, be processed without factoring in any such "gapping." As a result, continuing, withdrawing and subscribing Members are subject to the risk of economic dilution, *i.e.*, to the risk of a subscription or withdrawal being processed in accordance with a Net Asset Value which is suddenly and materially changed by a non-consummation or consummation event. The risk of such economic dilution will typically increase the nearer an outstanding transaction in which the Fund is invested comes to its "decision date."

**Substantial Positions**

From time to time, the Fund may acquire positions in the securities of particular companies that, by themselves or when combined with positions held by other clients of the Investment Manager comprise a substantial percentage of such companies' outstanding securities. As a result, such persons may be required by U.S. regulatory authorities to complete filings disclosing such aggregate equity ownership, certain of which may be publicly available.

Further, the Fund, the other clients, Totem or its affiliates may be subject to heightened disclosure requirements outside the United States by various non-U.S. regulatory authorities as a result of their aggregate holdings of a security and while compliance may be costly, failure to comply with such requirements may result in significant fees, penalties or sanctions as well.

**Illiquid Securities**

A portion of the Fund's portfolio may consist of securities and other financial instruments which, while publicly traded when the Fund purchased the securities, become illiquid. Consequently, it may be relatively difficult for the Fund to dispose of such investments at favorable prices in connection with withdrawal requests, adverse market developments or other factors. Illiquid securities may also be more difficult to value.

**Private Company Investments**

The Fund may make illiquid investments in the securities of private companies. Investments in private companies involve substantial risks, including, without limitation: (i) adverse or ineffective, as well as inconsistent, alignment of interests among management (including as a result of personal/family rather than business issues); (ii) technological obsolescence; (iii) financial planning misjudgement; (iv) employee or management misconduct; (v) lack of reliable financial information; and (vi) any number of general economic conditions that are beyond the control of both management and the Investment Manager, such as: changing market sentiment; changes in economic conditions, competition and technology; changes in interest rates; changing political conditions or events; and changes in tax laws and governmental regulation. There can be no assurance that a private company's management team will be able to operate the company successfully. Moreover, the success of the Fund's investment in a private company depends on the Investment Manager's ability to liquidate such investment on behalf of the Fund. As there are no liquid markets for the securities of private companies, the Fund will usually need to await some "catalytic event" — e.g., a buy-out or an IPO — to be able to realize any gain on any investment in a private company. Such "catalytic events" not only typically take a long time to occur, but also the nature and duration of such "catalytic events" is highly uncertain and unpredictable. The likelihood of such "catalytic events" occurring will be materially affected by prevailing market conditions. Once the Fund invests in a private company, should market conditions or the state of such private company change adversely or the Investment Manager's view of such investment otherwise deteriorate, the Investment Manager will have little, if any, ability to exit such investment (irrespective of whether such private company continues to have any prospects for profitability).

**Execution of Orders**

The Fund's trading strategy depends on its ability to establish and maintain an overall market position in a combination of financial instruments selected by the Investment Manager. The Fund's trading orders may not be executed in a timely and efficient manner due to various circumstances, including, without limitation, systems failures or human error



attributable to the Fund, its brokers, agents or other service providers. In such event, the Fund might only be able to acquire some, but not all, of the components of such position, or if the overall position were to need adjustment, the Fund might not be able to make such adjustment. As a result, the Fund would not be able to achieve the market position selected by the Investment Manager and might incur a loss in liquidating its position. In addition, the Investment Manager relies heavily on electronic execution systems, and such systems may be subject to failure, causing the interruption of trading orders made by the Fund.

### **Equity Investments**

The Fund's equity investments may involve substantial risks and may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses. Prices for equity securities are affected by numerous, complex, interrelated and difficult-to-quantify factors, including general market conditions and issuer-specific events. The following is a non-exhaustive list of price influences that may affect equity markets broadly or one or more issuers, industries, sectors, geographies or other subset of the equities markets: interest rates; inflation; general economic conditions; geopolitical forces; currency conditions and foreign exchange rates; market sentiment; analyst research and/or media reports; trading patterns and/or market trends; the availability of credit; credit spreads; an issuer's financial condition (including its creditworthiness); corporate announcements and events (for example, earnings, mergers, bankruptcies, insolvencies, proxy contests and similar events); other conditions affecting an issuer's business, such as competition, product offerings (for example, obsolescence, safety, patents and other factors affecting products), lawsuits and/or fraud; price-earnings ratios or other metrics; weather or climate forces; regulatory conditions or potential regulatory changes; and the public's and market participants' perception of the foregoing and other factors. There can be no assurances that the Investment Manager will be successful in correctly identifying the factors affecting the price of the Fund's existing or prospective investments, that the Investment Manager will correctly predict the impact of such factors on the prices of such investments or the timing thereof or that the Fund will be able to buy and sell such investments at advantageous times and prices.

There are no absolute restrictions in regard to the size or operating experience of the companies in which the Fund may invest (and relatively small companies may lack management depth or the ability to generate internally, or obtain externally, the funds necessary for growth, and companies with new products or services could sustain significant losses if projected markets do not materialize). Equity investments are subordinate to the claims of an issuer's creditors and, to the extent such securities are common securities, preferred stockholders. Dividends customarily paid to equity holders can be suspended or cancelled at any time. In addition, in many countries investing in common stocks is subject to heightened regulatory and self-regulatory scrutiny as compared to investing in debt or other financial instruments. For the foregoing reasons, investments in equity securities can be highly speculative and carry a substantial risk of loss of principal.

### **Small- and Medium-Capitalization Companies**

The Fund may invest in the securities of companies with small to medium-sized market capitalizations. While in the Investment Manager's opinion the securities of a small- or mid-cap issuer may offer the potential for greater capital appreciation than investments in securities of large-cap issuers, securities of small- and mid-cap issuers may also present greater risks. For example, some small- and mid-cap issuers often have limited product lines, markets or financial resources. They may be subject to high volatility in revenues, expenses and earnings. They may be dependent for management on one or a few key persons and can be more susceptible to losses and risks of bankruptcy or insolvency. Their securities may be

thinly traded (and therefore have to be sold at a discount from current market prices or sold in small lots over an extended period of time), may be followed by fewer investment research analysts and may be subject to wider and more frequent price swings and thus may create a greater chance of loss than when investing in securities of larger cap issuers. In addition, there may be less publicly available information regarding small- and mid-cap issuers, and such issuers may not be well known to the investment public and may have only limited institutional ownership. The market prices of securities of small- and mid-cap issuers generally are more sensitive to changes in earnings expectations, to corporate developments and to market rumors than are the market prices of large-cap issuers. Transaction costs in securities of small- and mid-cap issuers may be higher than in those of large-cap issuers.

Taking short positions in small- and medium-capitalization companies can be significantly more difficult than in large-capitalization companies due to the significantly smaller “float” of stock available to borrow in order to execute a short sale.

### **Preferred Stocks**

Preferred stock generally has a preference as to dividends and upon liquidation over an issuer’s common stock but ranks junior to debt securities in an issuer’s capital structure. Preferred stock generally pays dividends 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 also may be subject to optional or mandatory redemption provisions.

### **Fixed Income Instruments**

The value of fixed income instruments in which the Fund may invest will change in response to fluctuations in interest rates. In addition, the value of certain fixed income instruments can fluctuate in response to perceptions of creditworthiness, political stability or soundness of economic policies. Valuations of certain fixed income instruments may fluctuate in response to changes in the issuer risk, counterparty credit risk or broader changes to the economic environment that may affect future cash flows. The Fund may invest in U.S. and non-U.S. issuers of fixed income securities. In addition to investment grade debt securities, the Fund may invest in low investment grade or non-investment grade debt securities, which are typically subject to greater market fluctuations and risks of loss of income and principal than lower yielding, investment grade securities and are often influenced by many of the same unpredictable factors that affect equity prices.

The Fund’s investments in fixed-income securities are subject to interest rate risk. Generally, the value of fixed income securities will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed income securities tends to increase. This risk will be greater for long-term securities than for short-term securities.

### **High-Yield Securities**

The Fund may invest in high yield securities. 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. 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 are often highly leveraged and may not have available to them more traditional methods of financing. Major economic recessions could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default of such securities.

As with other investments, there may not be a liquid market for certain high-yield securities, which could result in the Fund being unable to sell such securities for an extended period of time, if at all. In addition, as with other types of investments, the market for high-yield securities has historically been subject to disruptions that have caused substantial volatility in the prices of such securities. Consolidation in the financial services industry has resulted in there being fewer market makers for high-yield securities, which may result in further risk of illiquidity and volatility with respect to high-yield securities, and this trend may continue in the future.

### **Convertible Securities**

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

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

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

### **Leverage**

The Fund may use or incur leverage in any form, on a secured or unsecured basis, for any purpose. There are no formal limitations on the amount or type of leverage the Fund may employ. This could result in the Fund controlling substantially more assets than it has equity. The Fund will generally incur interest expenses on the borrowings used to leverage its positions. The use of leverage will increase the Fund’s returns as long as it earns a greater

return on investments purchased with its debt than its cost of borrowing. However, the use of leverage will expose the Fund to additional risks, including: (i) greater losses from investments than would otherwise have been the case had it not borrowed to make investments; (ii) margin calls or interim margin requirements, which may force premature liquidations of investment positions; and (iii) losses when investments fail to earn a return that equals or exceeds the cost of borrowing. In the event of a sudden, precipitous drop in value of the Fund's assets, it might not be able to liquidate assets quickly enough to repay its borrowings, further magnifying its losses.

The Fund's ability to employ leverage depends to a significant degree on the financial strength of lending counterparties. Financial institutions that have been reliable sources of financing in the past may experience financial distress or may become over-exposed to certain sectors. These or other factors may cause these institutions to exit the market, reduce the availability of financing, or increase the amount of margin required to obtain financing.

In an unsettled credit environment, the Investment Manager may find it difficult or impossible to obtain leverage for the Fund, which may impair the Investment Manager's ability to fully implement the Fund's strategy. The Fund's profitability may be adversely affected if the Fund becomes unable to obtain cost-effective financing. They can be no assurance that the Fund will be able to access adequate amounts of credit to pursue its investment program.

As a general matter, the banks and dealers that provide financing to the Fund can apply essentially discretionary margin, haircut, financing, security and collateral valuation policies. Changes by banks and dealers in such policies, or the imposition of other credit limitations or restrictions, whether due to market circumstances or governmental, regulatory or judicial action, may result in large margin calls, loss of financing, forced liquidation of positions at disadvantageous prices, termination of margin financing, swap and repurchase agreements and cross-defaults to agreements with other banks and dealers. The adverse effects of such events may be exacerbated if such limitations or restrictions are imposed suddenly and/or by multiple market participants at or about the same time. The imposition of such limitations or restrictions, or the termination of leverage on short notice for other reasons, could compel the Fund to liquidate all or a portion of its portfolio at disadvantageous prices, which could have a material adverse effect on the Fund.

The purchase of options, futures, forward contracts, repurchase agreements, reverse repurchase agreements and equity swaps generally involve little or no margin deposit and, therefore, will provide substantial leverage. Accordingly, relatively small price movements in these financial instruments may result in immediate and substantial losses to the Fund.

### **Derivative Instruments**

The Fund may use derivative financial instruments, including, without limitation, warrants, swaps, and options, for both hedging and speculative purposes. The use of derivative instruments involves a variety of material risks, including the high degree of leverage often embedded in such instruments and the possibility of counterparty non-performance as well as of material and prolonged deviations between the actual and the theoretical value of a derivative (*i.e.*, due to nonconformance to anticipated or historical correlation patterns). In addition, the markets for certain derivatives are frequently characterized by limited liquidity, which can make it difficult as well as costly to the Fund to close out positions in order either to realize gains or to limit losses.

Many of the derivatives which the Fund may trade are principal-to-principal or OTC contracts between the Fund and third parties entered into privately, rather than on an exchange. As a result, the Fund is not afforded the regulatory and financial protections of an

exchange or its clearinghouse (or of the government regulator that oversees such exchange and clearinghouse). In privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices.

Many derivatives are valued on the basis of dealers' pricing of these instruments. However, the price at which dealers value a particular derivative and the price which the same dealers would actually be willing to pay for such derivative should the Fund wish or be forced to sell such position may be materially different. Such differences can result in an overstatement of the Fund's Net Asset Value and may materially adversely affect the Fund in situations in which the Fund is required to sell derivative instruments.

### **Over-the-Counter Trading**

The Fund may purchase or sell instruments not traded on an exchange. Over-the-counter instruments, unlike exchange traded instruments, are two-party contracts with price and other terms negotiated by the buyer and seller. The risk of non-performance by the obligor on such an instrument is greater and the ease with which the Fund can dispose of or enter into closing transactions with respect to such an instrument may be less than in the case of an exchange-traded instrument. In addition, significant disparities may exist between "bid" and "asked" prices for such instruments. Over-the-counter instruments are also not subject to the same type of government regulation as exchange-traded instruments, and many of the protections afforded to participants in a regulated environment may not be available in connection with such transactions.

### **Repurchase Agreements**

The Fund may enter into repurchase and reverse repurchase agreements. When the Fund enters into a repurchase agreement, it "sells" securities to a broker-dealer or financial institution and agrees to repurchase such securities on a mutually agreed date for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. In a reverse repurchase transaction, the Fund "buys" 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 Fund, plus interest at a negotiated rate. The use (if any) of repurchase and reverse repurchase agreements by the Fund involves certain risks. For example, if the seller of securities to the Fund under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, the Fund 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 Fund's ability to dispose of the underlying securities may be restricted. It is possible, in a bankruptcy or liquidation scenario, that the Fund 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 Fund may suffer a loss to the extent that it is forced to liquidate its position in the market and the 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.

### **Swaps and Similar Derivatives**

The Fund from time to time will enter into various swap agreements ("**Swaps**") as part of its investment program. A Swap is an agreement between two parties to exchange cash flows (and sometimes principal amounts) measured by different interest rates, commodity prices, exchange rates, indices or prices, with payments generally calculated by reference to a principal ("notional") amount or quantity. Some Swaps and similar derivative contracts are

not traded on exchanges; rather, banks and dealers act as principals in these markets. Other Swaps the Fund may trade are currently required to be traded on regulated exchanges or execution facilities. Furthermore, certain Swaps traded by the Fund may be subject to Dodd-Frank's mandatory clearing requirement and thus required to be submitted to regulated clearinghouses for clearing or may be voluntarily submitted to such a clearinghouse. However, certain Swaps traded by the Fund may not be submitted to regulated clearinghouses. As a result, the Fund is subject to the risk of the inability or refusal to perform with respect to such uncleared Swaps on the part of the counterparties with which the Fund trades. Swaps may be subject to various other types of risk, including market risk, liquidity risk, counterparty credit risk, legal risk and operations risk. In addition, Swaps can involve considerable economic leverage and may, in some cases, involve significant risk of loss. Depending on their structure, Swaps may increase or decrease exposure to the corporate credit market, equity securities, long-term or short-term interest rates, foreign currency values, corporate borrowing rates or other factors. Swaps can take many different forms and are known by a variety of names. The Fund is not limited to any particular form of Swap if its use is consistent with the Fund's investment objectives and policies, and the Investment Manager anticipates that the Fund will invest in interest rate swaps, credit default swaps, total return swaps, variance swaps and other types of Swaps.

Depending on how they are used, Swaps may increase or decrease the overall volatility of a portfolio. The most significant factor in the performance of Swaps is the change in the specific interest rate, currency, equity index or other factors that determine the amounts of payments due to and from the Fund. If a Swap calls for payments by the Fund, the Fund must be prepared to make such payments when due. In addition, if a counterparty's creditworthiness declines, the value of a Swap with such counterparty can be expected to decline, potentially resulting in losses by the Fund.

#### **Credit Default Swaps**

The Fund may purchase and sell credit derivatives contracts — primarily credit default swaps — for hedging, investment and other purposes. The Fund may also buy or sell credit default swaps on a basket of reference entities.

As a buyer of credit default swaps, the Fund is subject to certain risks in addition to those described under "Derivative Instruments," above. For example, in circumstances in which the Fund has a delivery obligation but does not own the debt securities that are deliverable under a credit default swap, the Fund is exposed to the risk that deliverable securities will not be available in the market or will be available only at unfavorable prices. In certain instances of issuer defaults or restructurings, it has been unclear under the standard industry documentation for credit default swaps whether or not a "credit event" triggering the seller's payment obligation has occurred. In either of these cases, the Fund would not be able to realize the full value of the credit default swap upon a default by the reference entity.

As a seller of credit default swaps, the Fund incurs leveraged exposure to the credit of the reference entity and is subject to many of the same risks it would incur if it were holding debt securities issued by the reference entity. However, the Fund does not have any legal recourse against the reference entity and does not benefit from any collateral securing the reference entity's debt obligations. In addition, the credit default swap buyer may have broad discretion to select which of the reference entity's debt obligations to deliver to the Fund following a credit event and will likely choose the obligations with the lowest market value in order to maximize the payment obligations of the Fund.

#### **Equity Swaps**

The Fund may make use of equity swaps. An equity swap is a customized derivative instrument that entitles the counterparty to certain payments on the gain or loss on the value of an underlying equity security. Equity swaps are subject to various types of risk, including market risk, liquidity risk, counterparty credit risk, legal risk and operations risk.

### **Options**

The Fund may trade options for both hedging and speculation purposes. Purchasing put and call options, as well as writing such options, are highly specialized activities and entail greater than ordinary investment risks. The writing or purchasing of an option runs the risk of losing the entire investment in such option or of causing significant losses to the Fund in a relatively short period of time.

Because option premiums paid or received by the Fund will be small in relation to the market value of the investments underlying the options, buying and selling put and call options can result in large amounts of embedded leverage. As a result, the leverage offered by trading in options could cause the Fund's asset value to be subject to more frequent and wider fluctuations than would be the case if the Fund did not invest in options.

The seller (writer) of a call option which is covered (*e.g.*, the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security less the premium received, and gives up the opportunity for gain on the underlying security above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The securities necessary to satisfy the exercise of an uncovered call option may be unavailable for purchase, except at much higher prices, thereby reducing or eliminating the value of the premium. Purchasing securities to cover the exercise of an uncovered call option can cause the price of the securities to increase, thereby exacerbating the loss. The buyer of a call option assumes the risk of losing its entire premium investment in the call option.

The seller (writer) of a put option which is covered (*e.g.*, the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sales price (in establishing the short position) of the underlying security plus the premium received, and gives up the opportunity for gain on the underlying security if the market price falls below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire premium investment in the put option.

### **Futures**

The Fund will trade futures for both hedging and speculation purposes. Market volatility is not a component of futures pricing, although market movements, of course, determine the profitability or losses on open futures positions. Futures are often inherently highly leveraged (often with margin deposits as low as 2% to 15% of contract value) and can become illiquid due to exchange-imposed price fluctuation limits.

### **Forward Contracts**

The Fund will trade forward contracts. None of the CFTC, NFA, futures exchanges or banking authorities currently regulate forward trading (although that situation is gradually changing due to the Dodd-Frank). Because a principal portion of the Fund's currency trading will take place in the forward markets, prospective investors must recognize that much of the Fund's activity will take place in unregulated markets rather than on futures exchanges subject

to the jurisdiction of the CFTC, the NFA or other regulatory or self-regulatory bodies. Fund assets on deposit with the currency forward counterparties with which the Fund will trade are not protected by the same segregation requirements imposed on CFTC regulated commodity brokers in respect of customer funds deposited with them. The insolvency or bankruptcy of a currency forward counterparty could subject the Fund to the loss of its entire deposit with such counterparty. The forward markets are well established. However, it is impossible to predict how, given certain unusual market scenarios, the unregulated nature of these markets might affect the Fund.

### **Sovereign Debt**

The Fund will invest in debt securities issued by the U.S. government, or guaranteed by the U.S. government or any agency thereof. The Fund will also invest in non-U.S. government debt securities, which include debt obligations issued or guaranteed by national, state or provincial governments, political subdivisions or quasi-governmental or supranational entities.

Non-U.S. government debt securities may involve a high degree of risk, and governmental entities may default on or restructure their obligations. Certain sovereign debt may have non-investment grade ratings or be in distress or even default.

Governments intervene from time to time in the markets by changing the interest rates payable on their sovereign debt.

### **European Equities**

The Fund will invest in developed European equities. The ongoing European sovereign debt crisis could result in unexpected “shocks” to the European financial markets (perhaps based on largely unpredictable action by European governments, the European Central Bank or other institutions) which could cause substantial losses to the Fund’s European holdings (as well as other components of its portfolio).

### **Non-U.S. Securities and Currencies**

The Fund will may invest a portion of its assets in securities of non-U.S. issuers and securities denominated in non-U.S. currencies and related derivative and currency contracts. Investing in non-U.S. securities and/or currencies presents a greater degree of risk than investing in U.S. securities due to possible exchange rate fluctuations, possible exchange controls, less publicly-available information, lower accounting standards, more volatile markets, less securities regulation, less favorable tax provisions (including possible withholding taxes or confiscatory taxation) and the potential for expropriation or nationalization.

Investments in non-U.S. securities may be affected by political, social and economic uncertainty affecting a country or region. The legal and regulatory environment may also be different between countries, particularly as to bankruptcy and reorganization. There may be less publicly available information about certain non-U.S. companies than would be the case for comparable companies in the United States and certain non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those applicable to United States companies. Securities markets outside the United States, while growing in volume, have for the most part substantially less volume than U.S. markets, and many securities traded on these non-U.S. markets are less liquid and their prices more volatile than securities of comparable United



States companies. In addition, settlement of trades in some non-U.S. markets is much slower and more subject to failure than in U.S. markets. These risks may be greater for companies in emerging markets.

### **Investments in Emerging Markets**

Investing in emerging markets involves additional risks and special considerations not typically associated with investing in other more established economies or markets. Such risks may include: (i) increased risk of nationalization or expropriation of assets or confiscatory taxation; (ii) greater social, economic and political uncertainty, including war; (iii) higher dependence on exports and the corresponding importance of international trade; (iv) greater volatility, less liquidity and smaller capitalization of markets; (v) greater volatility in currency exchange rates; (vi) greater risk of inflation; (vii) greater controls on foreign investment and limitations on realization of investments, repatriation of invested capital and on the ability to exchange local currencies for U.S. dollars; (viii) increased likelihood of governmental involvement in and control over the economy; (ix) governmental decisions to cease support of economic reform programs or to impose centrally planned economies; (x) less extensive regulation of the markets; (xi) longer settlement periods for transactions and less reliable clearance and custody arrangements; and (xii) certain considerations regarding the maintenance of the Fund's securities with non-U.S. brokers and depositories.

Repatriation of investment income, assets and the proceeds of sales by foreign investors may require governmental registration and/or approval in some emerging market countries. The Fund could be adversely affected by delays in or a refusal to grant any required governmental registration or approval for such repatriation or by withholding taxes imposed by emerging market countries on interest or dividends paid on securities held by the Fund or gains from the disposition of such securities.

In emerging markets, there is often less government supervision and regulation of business and industry practices, exchanges, OTC markets, brokers, dealers, counterparties and issuers than in other more established markets. Any regulatory supervision which is in place may be subject to manipulation or control. Some emerging market countries do not have mature legal systems comparable to those of more developed countries. Moreover, the process of legal and regulatory reform may not be proceeding at the same pace as market developments, which could result in investment risk. Legislation to safeguard the rights of private ownership may not yet be in place in certain areas, and there may be the risk of conflict among local, regional and national requirements. In certain cases, the laws and regulations governing trading in financial instruments may not exist or may be subject to inconsistent or arbitrary appreciation or interpretation. Both the independence of judicial systems and their immunity from economic, political or nationalistic influences remain largely untested in many countries.

### **Trading on Non-U.S. Exchanges**

The Fund may purchase and sell securities, futures, options, commodities, currencies and fixed income and other instruments on exchanges located outside the United States, where the regulations of the SEC and the CFTC do not apply. Trading on a non-U.S. exchange may involve certain risks not applicable to trading on U.S. exchanges, such as risks of fluctuations in the exchange rate between the currency of the locale of the non-U.S. exchange and U.S. dollars, exchange controls, expropriation, burdensome or confiscatory taxation, moratoriums, or political or diplomatic events. In the case of trading on non-U.S. exchanges, the Fund is subject to the risk of the inability of or refusal by its counterparties to perform

with respect to their contracts with the Fund. The Fund also may not have the same access to certain trades as do various other participants in non-U.S. markets.

### **Evolving Investment Strategies and Approaches**

The Investment Manager may over time develop additional investment strategies and approaches to be used on behalf of the Fund and will likely adapt and refine existing strategies and approaches employed on behalf of the Fund. Such changes may arise from changing market dynamics or as a result of the Investment Manager's ongoing research and development process, among other things. The Investment Manager may take an opportunistic approach to applying new investment strategies and approaches to the Fund's investment program, without notice to or approval from the Members, and may have limited or no experience in applying such investment strategies and approaches. Such changes may lead to the Fund implementing strategies that involve different asset classes, geographies, exposure targets or underlying investment theses. There can be no assurance that the Investment Manager will be successful in implementing any such strategies or approaches on behalf of the Fund, and such strategies or approaches may lead to losses for the Fund.

In addition, the time and resources devoted to the implementation of new strategies and approaches may diminish the effectiveness of the Investment Manager's implementation of the Investment Manager's established strategies and approaches.

The Fund may employ strategies and approaches subject to risks not described herein. Nevertheless, such strategies should be considered to be speculative and, in general, no less risky than other strategies more fully described herein.

### **Risk Management Systems**

The Fund's risk management approach may not fully mitigate the Fund's risk exposure in all economic or market environments, or against all types of risk, including risks that the Investment Manager might fail to identify or anticipate. Any failures in the Investment Manager's risk management approach to accurately quantify such risk exposure could limit the Investment Manager's ability to manage risks in the Fund or to seek positive, risk-adjusted returns. In addition, any risk management failures could cause Fund losses to be significantly greater than the historical measures predict.

### **OTC Derivatives Markets**

Dodd-Frank, enacted in July 2010, includes provisions that comprehensively regulate the OTC derivatives markets, subject to rulemaking and oversight by the CFTC and SEC.

Dodd-Frank mandates that a substantial portion of OTC derivatives be executed in regulated markets and be submitted for clearing to regulated clearinghouses ("**Central Clearing**"). The CFTC has implemented Central Clearing rules for certain OTC derivatives and the SEC may implement such rules in the future. OTC trades submitted for clearing are subject to minimum initial and variation margin requirements set by the relevant clearinghouse, as well as margin requirements mandated by the CFTC, the SEC and/or federal prudential regulators. Additionally, when trading cleared derivatives, the Fund will not face a clearinghouse directly but rather will do so through a member of the clearinghouse. Clearing members typically demand the unilateral ability to increase the Fund's margin requirements for cleared trades beyond any regulatory and clearinghouse minimums. Clearing members also are required to post margin to the applicable clearinghouses, instead of using such margin in their operations, as was widely permitted before Dodd-Frank. This has increased the clearing members' costs, which increased costs are generally passed through to other market participants, including the Fund.

In addition to Central Clearing requirements, the CFTC imposes, and the SEC in the future may impose, margin requirements on non-cleared OTC derivatives, which apply to the holding of customer collateral by OTC derivatives dealers. These requirements may increase the amount of collateral the Fund is required to provide, and the costs associated with providing it.

The CFTC also requires, and the SEC in the future may require, certain derivative transactions that were previously executed on a bilateral basis in the OTC markets be executed through a regulated exchange or execution facility. Such requirements may make it more difficult and costly for investment funds, including the Fund, to enter into highly tailored or customized transactions. They may also render certain strategies in which the Fund might otherwise engage impossible or so costly that they will no longer be economical to implement. If the Fund decides to execute derivatives transactions through such exchanges or execution facilities — and especially if it decides to become a direct member of one or more of these exchanges or execution facilities — the Fund would be subject to the rules of the exchange or execution facility, which would bring additional risks and liabilities, and potential requirements under applicable regulations and under rules of the relevant exchange or execution facility.

OTC derivative dealers are required to register with the CFTC and/or the SEC. Registered swap and security-based swap dealers are subject to minimum capital and margin requirements, business conduct standards, disclosure requirements, reporting and recordkeeping requirements, transparency requirements, position limits, limitations on conflicts of interest, and other regulatory burdens. These requirements further increase the overall costs for OTC derivative dealers, which costs may be passed along to market participants.

Additional regulation of the OTC derivatives markets, whether as a result of expanded CFTC and/or SEC mandated clearing and execution requirements, increased initial margin requirements or overlapping regulatory requirements imposed by non-U.S. regulators, may make OTC derivatives more costly, may limit the availability of certain derivatives transactions or may otherwise adversely affect the value or performance of certain derivatives.

#### **Material Non-Public Information**

From time to time, the Investment Manager may come into possession of what it reasonably believes may be determined to be material non-public information concerning the issuer of the Fund's investment or any of such issuer's affiliates. Under applicable securities laws, this may limit the Investment Manager's flexibility to buy or sell such investment for the Fund and other clients of the Investment Manager. Such limitations on the Investment Manager's ability to invest could have an adverse effect on the Fund. Although the Investment Manager has adopted procedures to monitor the receipt of material non-public information, there is no guarantee that the Investment Manager will know whether an employee of the Investment Manager is in possession of material non-public information or will be able to prevent such information from being used for the benefit or detriment of the Fund.

#### **Other Instruments**

Over time, the strategies implemented for the Fund may expand to include material components not currently included in the Fund's portfolio. Such components may involve trading in a wide range of investments, which has its own particular risks. Prospective Members should not assume that the Fund will invest almost entirely in exchange-traded equities indefinitely.

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**Item 9: Disciplinary Information**

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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.

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

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Totem Macro LLC ("the **Affiliate**"), is an affiliate of the Firm. The Affiliate produces standard, non-discretionary market research reports relating to its high level macro-economic insights, which are not tailored to subscribers of the Affiliate services. Such market research does not include single trade recommendations. However, such research will include the Affiliate's view of the overall macro-economic environment (which the Firm, as its controlled affiliate, shares). The Affiliate makes such research reports available electronically to its subscribers, which may include [individual or institutional investors, fiduciaries acting on behalf of other investors, financial advisers and/or investment advisers]. Investors in the Fund may opt into receiving such research reports without paying any additional compensation to the Firm. If an investor fully withdraws from the Fund, it will only be eligible to receive such market research by paying a separate subscription fee to the Affiliate. Subscribers of such research may initiate market transactions taking into account the Affiliate's market research before or at the same time that the Firm is trading for the Fund and the Master Fund, which may result in the Fund (or conversely, such market research subscribers) receiving prices that are less favorable. In hindsight, circumstances could be construed that such market research conferred a benefit upon the market research subscribers to the detriment of the Fund, or vice versa. The Firm and the Affiliate have developed policies and procedures to address the conflicts of interest implicated by producing such market research. Expenses incurred in connection with the Firm's research activities will be shared between the Fund vehicles, on the one hand, and market research subscribers on the other hand.

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.

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

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***Code of Ethics***

Totem Macro 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 Securities Trading***

Employees are required to direct their brokers to send duplicate copies of personal discretionary brokerage account statements to the CCO. These records are used to monitor compliance with Totem's "**Personal Trading Policy**." Employees are 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) trading "**Reportable Securities**" (as defined in the Code of Ethics, and which includes a wide variety of investments such as stocks, bonds, fixed income, options, warrants, futures, and derivatives); (ii) engaging in any outside business activities; or (iii) making any private investments.

We will provide a copy of our Code of Ethics to our Investors, or any prospective investor, upon request.

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

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Totem Macro is authorized to determine the broker-dealer 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 Funds 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-dealers' 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, 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 Fund’s trading activities, would be used to purchase brokerage and research services or products that would otherwise have been Fund expense. We intend to keep any such arrangements within the parameters of the safe harbor of Section 28(e) of the Exchange Act.

Neither Totem Macro 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.

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**Item 13: Review of Accounts**

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Our Portfolio Manager and investment professionals continuously monitor and analyze the transactions, positions, and investment levels of the Fund to ensure that they conform with the investment objectives and guidelines that are stated in the Fund’s Offering Documents. 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 perform various periodic reviews of each client’s portfolio. Such reviews are conducted by our officers.

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 may also distribute quarterly unaudited net asset value statements, quarter-end performance reports, and a quarterly investor letter to all Investors.

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**Item 14: Client Referrals and Other Compensation**

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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.

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**Item 15: Custody**

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We will be 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 Totem Macro.

We will 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.

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**Item 16: Investment Discretion**

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We will have full discretionary investment authority with respect to the Funds, 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.

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**Item 17: Voting Client Securities**

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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.

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**Item 18: Financial Information**

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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.