

**ITEM 1
COVER PAGE**

PART 2A OF FORM ADV

FIRM BROCHURE

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THIS BROCHURE PROVIDES INFORMATION ABOUT THE QUALIFICATIONS AND BUSINESS PRACTICES OF WATERMARK GROUP, INC. (“WATERMARK”). THE 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.

WATERMARK IS A REGISTERED INVESTMENT ADVISER WITH THE SEC. REGISTRATION OF AN INVESTMENT ADVISER DOES NOT IMPLY ANY LEVEL OF SKILL OR TRAINING.

IF YOU HAVE ANY QUESTIONS ABOUT THE CONTENT OF THIS BROCHURE, PLEASE CONTACT WATERMARK AT (609) 683-8200. ADDITIONAL INFORMATION ABOUT WATERMARK IS AVAILABLE ON THE SEC’S WEBSITE AT www.adviserinfo.sec.gov.

ITEM 2
MATERIAL CHANGES

This document serves as Watermark Group Inc.'s ("Watermark") brochure and is dated as of March 20, 2024. It amends the Watermark brochure dated as of March 24, 2023. The following specific material changes have been made since the date of the previous Watermark brochure:

- Parsec Institutional Fund II, Ltd. ceased operations as of August 31, 2022 and was liquidated on May 12, 2023.
- Parsec Institutional Fund, Ltd. ("PIF") ceased offering shares denominated in Australian dollars as of January 1, 2024. As a result, the Memorandum and Articles of Association of PIF were amended in January 2024 to reflect the retirement of the Australian dollar Series B shares and the redesignation of the fund's Japanese yen shares from the Series C and Series D shares to the Series B and Series C shares, respectively.

Please note that the above summary addresses only those changes that Watermark has determined to be material, and therefore, does not reflect all of the changes that have been made to this brochure since the last annual update. This brochure has also been updated for various non-material changes to provide clarification and additional information.

We encourage all recipients of this brochure to read it carefully in its entirety.

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ITEM 4
ADVISORY BUSINESS

A. General Description of Advisory Firm

Watermark Group, Inc. (“Watermark”) is a Delaware corporation that, together with its predecessors, has provided investment and trading advisory services since 1988. Watermark is managed by its board of directors (the “Watermark Board of Directors”). Andrew Okun, Dougin Walker, William Nicolls, John Niforatos and David Rowntree (the “Principals”) have been elected as directors of the Watermark Board of Directors.

B. Description of Advisory Services

Currently, Watermark provides investment and trading advisory services to Parsec Trading Corp. (the “Master Fund”) and its Feeder Funds (as hereinafter defined). All investment advisory services provided by Watermark are provided on a discretionary basis.

i. The Master Fund

The Master Fund is a British Virgin Islands (“BVI”) company and was organized on July 25, 1990 and commenced operations on August 23, 1990. The Master Fund is exempted from registration under the Investment Company Act of 1940, as amended (the “Investment Company Act”) in reliance on Section 3(c)(7) thereof.

The board of directors of the Master Fund has appointed Watermark, pursuant to an investment management agreement, dated as of January 1, 2024, to perform various investment management services, as well as administrative, back-office, trade execution and operational services for the Master Fund, consistent with the investment objective, approach and restrictions described in the investment management agreement.

ii. The Feeder Funds

The Master Fund has two feeder funds: Parsec Institutional Fund, Ltd. and Parsec Onshore Partners, L.P. (collectively, the “Feeder Funds”).

Parsec Institutional Fund (“PIF”)

PIF is a BVI company. It was organized on March 11, 2016 and commenced operations on April 30, 2016. PIF invests all of its assets (other than amounts held pending investment or distribution) in the Master Fund and is exempted from registration under the Investment Company Act in reliance on Section 3(c)(7) thereof. Shares of PIF are offered on a private placement basis to persons who are not “U.S. persons,” as defined in Regulation S of the Securities Act of 1933, as amended (the “Securities Act”), and to U.S. tax-exempt investors that are (i) “accredited investors,” as defined in Regulation D under the Securities Act, (ii) “qualified purchasers,” as defined under the Investment Company Act, and (iii) “qualified eligible persons,” as defined under CFTC Rule 4.7.

PIF offers two classes of shares. Class I shares and class II shares are denominated in U.S. dollars and Japanese yen. The U.S. dollar denominated class I and class II shares are offered with voting rights and the Japanese yen denominated class I shares and class II shares are offered with and without voting

rights. The class I shares and class II shares differ in their subscription and redemption terms. The minimum investment amount for each of class I shares and class II shares is \$5,000,000 (or the Japanese yen equivalent thereof). The board of directors of PIF, in its sole discretion, may accept subscriptions of lesser amounts or establish different minimums. An investment in PIF is also subject to certain other conditions, which are set forth in PIF's confidential private placement memorandum, dated January 2024.

The board of directors of PIF has appointed Watermark, pursuant to an investment management agreement, dated as of January 1, 2024, to perform various investment management services, as well as administrative, back-office and operational services for PIF.

Parsec Onshore Partners, L.P. ("POP")

POP is a Delaware limited partnership. It was organized on September 18, 2017 and commenced operations on January 1, 2018. POP invests all of its assets (other than amounts held pending investment or distribution) in the Master Fund and is exempted from registration under the Investment Company Act in reliance on Section 3(c)(7) thereof. Limited partnership interests in POP are offered on a private placement basis to taxable U.S. investors and certain tax-exempt U.S. investors that are (i) "accredited investors," as defined in Regulation D under the Securities Act, (ii) "qualified purchasers," as defined under the Investment Company Act, and (iii) "qualified eligible persons," as defined under CFTC Rule 4.7.

POP offers three classes of limited partnership interests. All classes of interests are denominated in U.S. dollars. Class I interests and class II interests are offered with voting rights and differ only in their subscription and withdrawal terms. The minimum investment amount for each of class I interests and class II interests is \$5,000,000. Watermark's shareholders (subject to certain limitations and conditions) have reinvested and will reinvest a portion of the incentive fee, if any, earned by Watermark in POP's Class M interests. The Class M interests are non-voting, are not charged any fees, and withdrawals and subscriptions occur on a fixed schedule. Watermark, in its capacity as the general partner of POP, and in consultation with the Master Fund's board of directors, may accept subscriptions of lesser amounts or establish different minimums. An investment in POP is also subject to certain other conditions, which are set forth in POP's confidential private placement memorandum, dated January 2024.

Watermark is the general partner of POP. In accordance with the terms of an investment management agreement, dated as of January 1, 2024, Watermark has been appointed as POP's investment adviser to perform various investment management services, as well as administrative, back-office and operational services for POP.

C. Customized Client Services

Watermark customizes its advisory services to the needs of its clients. Watermark currently offers customized services to the Master Fund and the Feeder Funds, which are prescribed by the guidelines and restrictions set forth in their respective investment management agreements.

D. Wrap Fee Programs

Watermark does not participate in wrap fee programs.

E. Assets Under Management

As of January 31, 2024, the regulatory assets under Watermark's management on a discretionary basis were \$ 2,801,011,735. Watermark does not manage any assets on a non-discretionary basis.

ITEM 5
FEES AND COMPENSATION

A. Advisory Fees and Compensation

The fees applicable to the Feeder Funds are set forth in detail in each Feeder Fund's respective confidential private placement memorandum. A summary of such fees is provided below and is qualified in its entirety by the actual terms and conditions set forth in each Feeder Fund's respective offering document.

i. Incentive Fee

At the end of each fiscal year, the Master Fund will pay to Watermark an amount equal to 20% multiplied by the value (after the deduction of the management fee) in excess of a high-water mark, as adjusted by a hurdle rate, of each sub-series of Master Fund shares corresponding to: (i) each sub-series of PIF class I shares and class II shares; and (ii) each capital account established for POP class I limited partners and class II limited partners. For PIF shares denominated in a currency other than U.S. dollars, the incentive fee will be calculated based on the U.S. dollar value of the applicable Master Fund shares.

Class M limited partnership interests are not charged an incentive fee.

In the sole discretion of Watermark, the incentive fee, if any, may be waived, reduced or calculated differently with respect to a sub-series of Master Fund shares corresponding to a sub-series of Feeder Fund shares or limited partnership interests. Investors related to Watermark, together with a retired founder of the firm, are not charged an incentive fee.

A more detailed description of the incentive fee payable to Watermark is set forth in each Feeder Fund's confidential private placement memorandum.

ii. Management Fee

For class I and class II shares and limited partnership interests, the Master Fund will pay Watermark a monthly fee equal to 1% per annum of the value, calculated as of the first day of the then current month, of the Master Fund shares corresponding to the applicable series or sub-series of Feeder Fund shares and to each limited partnership capital account, in each case, before taking into account the estimated accrued incentive fee, if any. For PIF shares denominated in a currency other than U.S. dollars, the management fee will be calculated based on the U.S. dollar value of the applicable Master Fund Shares.

Class M limited partnership interests are not charged a management fee.

In the sole discretion of Watermark, the management fee may be waived, reduced or calculated differently with respect to a sub-series of Master Fund shares corresponding to a sub-series of Feeder

Fund shares or limited partnership interests. Investors related to Watermark, together with a retired founder of the firm, are not charged a management fee.

A more detailed description of the management fee is set forth in each Feeder Fund's confidential private placement memorandum.

B. Payment of Fees

The Master Fund will pay the incentive fee, if any, relating to class I and class II shares and limited partnership interests at the end of each fiscal year. The incentive fee will also be paid with respect to amounts redeemed or withdrawn and to amounts transferred (provided that such transfer results in a change in the beneficial ownership of the shares or limited partnership interests transferred). Watermark's shareholders (subject to certain limitations and conditions) have reinvested and will reinvest a portion of the incentive fee, if any, earned by Watermark in POP's Class M interests.

The Master Fund will pay the management fee relating to class I and class II shares and limited partnership interests promptly after the last day of each month.

C. Other Fees and Expenses

Each Feeder Fund will bear its own expenses and its share of the Master Fund's expenses, including the following: (i) the management fee; (ii) the incentive fee; (iii) expenses related to the research and the consummation of the Master Fund's trades, including the following: brokerage and futures commission merchant fees, commissions and expenses; clearing and settlement charges; custodial fees and expenses; bank service fees; interest expenses and fees related to financings or refinancings; (iv) organizational expenses; and (v) operational expenses, including the following: fees and expenses of third-party risk management products, models and services; third-party administrative fees and expenses; fees and expenses of third-party professionals, including valuation service providers, attorneys, tax advisers and accountants; the costs of any litigation or investigation involving activities of the applicable Feeder Fund or the Master Fund; third-party audit and tax preparation expenses; insurance expenses; fees and expenses (including director registration fees) of a Feeder Fund's board of directors (if applicable) and the Master Fund board of directors; expenses incurred in connection with negotiating and complying with provisions of any side letter agreement; fees and expenses related to compliance with the rules of any self-regulatory organization or applicable law in connection with the activities of the applicable Feeder Fund or the Master Fund, including any governmental, regulatory, licensing, filing or registration fees or taxes; expenses incurred in connection with the offering and sale of shares or limited partnership interests, as applicable, and other similar expenses related to a Feeder Fund (excluding fees payable to any placement agent); extraordinary expenses, including the following: indemnification expenses; fees and expenses incurred in connection with any tax audit by any applicable authority, including any related administrative settlement and judicial review; and fees and expenses incurred in connection with the reorganization, dissolution, winding-up or termination of the applicable Feeder Fund or the Master Fund.

If, in any given month, there are net subscriptions or net redemptions/withdrawals in respect of any class of Feeder Fund shares or limited partnership interests, the costs of resizing the Master Fund's portfolio (i.e., the profits and losses from executing the resizing trades) will be tracked and allocated to the class or classes of Feeder Fund shares or interests that account for such net subscriptions or net redemptions/withdrawals, as the case may be.

In consideration for the management fee, Watermark will be responsible for and will pay all overhead expenses of an ordinary and recurring nature such as rent, supplies, secretarial expenses, stationery, charges for furniture and fixtures, employee insurance, payroll taxes and compensation of employees.

D. Other Compensation and Conflicts of Interest

Neither Watermark nor its supervised persons accept compensation for the sale of securities or other products from any third party.

ITEM 6
PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

As disclosed in Item 5, Watermark receives a performance-based fee. Watermark's performance-based fee is structured subject to Rule 205-3 under the Investment Advisers Act of 1940, as amended ("Investment Advisers Act"). The performance-based fee arrangement may create an incentive for Watermark to select trades that may be riskier or more speculative than those that otherwise might be selected under a different fee arrangement. Watermark has a fiduciary duty to the Master Fund and the Feeder Funds to exercise good faith and fairness in all dealings involving the Master Fund and the Feeder Funds and takes account of such duty in dealing with this conflict of interest. Because Watermark's trading occurs through the Master Fund, any side-by-side management issues are not applicable.

ITEM 7
TYPES OF CLIENTS

As stated in Item 4.B. above, Watermark provides investment advice to the Master Fund and each of the Feeder Funds. Watermark and its employees may, in the future, provide investment advisory services to other clients.

ITEM 8
METHODS OF ANALYSIS, STRATEGIES AND RISK OF LOSS

A. Methods of Analysis and Investment Strategies

Watermark's trading strategy is a fixed-income, relative value strategy that is generally market neutral that seeks to profit from pricing inefficiencies among fixed income instruments (the "Strategy"). Watermark will seek to identify situations in the interest rate markets in which price relationships are temporarily distorted and will seek to establish positions in related financial instruments in the expectation that the price relationships among such financial instruments will return to fair value. In pursuing the Strategy, Watermark may take positions in instruments, including (i) futures contracts (and options thereon) relating to currencies, U.S. government securities and securities of non-U.S. governments, and other financial instruments, (ii) swaps, options and forward rate agreements, (iii) spot and forward currency transactions, (iv) agreements relating to or securing such transactions, (v) repurchase and reverse repurchase agreements, (vi) money market funds, (vii) obligations of the United States or any non-U.S. government or political subdivision thereof, and (viii) any other obligations and instruments or evidences of indebtedness of whatever kind or nature that exist now or are hereafter created. Products traded typically include interest rate swaps, government bonds, financial futures and foreign currency products in G7 and other liquid markets. Watermark does not take positions in equity securities.

Watermark uses proprietary software to analyze various market parameters and uses such information to develop the Strategy. Portfolio analytics and reports, which have been developed in-house and show the Master Fund's volatility, stress, correlation and liquidity, are generated daily so that portfolio risk can be thoroughly analyzed using many metrics. Watermark also makes use of various market reporting services (e.g., Bloomberg), financial newspapers, financial magazines and research materials prepared by other entities, in addition to broker screens and quotes to monitor current and past market conditions.

B. Material, Significant, or Unusual Risks Relating to Investment Strategies

The risks set forth herein with respect to the Master Fund and the Feeder Funds may also be applicable to any other clients managed by Watermark in the future to the extent the investment program overlaps with that of the Master Fund.

Legal and Regulatory Environment for Private Investment Funds and their Managers

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

Systemic Risk

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

Dependence on Watermark

The success of each Feeder Fund is dependent upon the ability of Watermark to manage the Master Fund and effectively implement the Master Fund's investment program. Each Feeder Fund's governing documents do not permit investors to participate in the management and affairs of the applicable Feeder Fund. If Watermark were to lose the services of the Principals (including in their capacity as members of the Watermark Board of Directors) or the Master Fund and/or the Feeder Funds were to incur substantial losses, Watermark might not be able to provide the same level of service to the Feeder Funds and the Master Fund as it has in the past and to continue operations. The loss of the services of Watermark could have a material adverse effect on the Master Fund, the Feeder Funds and the investors' investments therein.

Dependence on Service Providers

Each of the Feeder Funds and the Master Fund is dependent upon its counterparties and the businesses that are not controlled by Watermark that provide services to the Feeder Funds or the Master Fund (the "Service Providers"). Examples of Service Providers include an administrator, custodians, legal counsel and auditors. Errors are inherent in the business and operations of any business, and although Watermark will adopt measures to prevent and detect errors by, and misconduct of, counterparties and Service Providers, and transact with counterparties and Service Providers it believes to be reliable, such measures may not be effective in all cases. Errors or misconduct could have a material adverse effect on the Master Fund, the Feeder Funds and the investors' investments therein.

As the Feeder Funds and the Master Fund have no employees and the majority of the members of the Master Fund board of directors have been appointed on a non-executive basis, the Feeder Funds and the Master Fund are reliant on the performance of the Service Providers. Each investor's relationship is with the applicable Feeder Fund only. Accordingly, no investor will have any contractual claim against any Service Provider for any reason relating to the services provided by such Service Provider to the Feeder Fund or the Master Fund. Instead, the proper plaintiff in an action in respect of which a wrongdoing is alleged to have been committed against a Feeder Fund or the Master Fund, as the case may be, by the relevant Service Provider is, prima facie, such Feeder Fund or the Master Fund, as the case may be.

Banking Relationships

The Master Fund and the Feeder Funds will hold cash and, with respect to the Master Fund, other assets in accounts with one or more banks, custodians or depository or credit institutions (collectively, "Banking Institutions"), which may include both U.S. and non-U.S. Banking Institutions from time to time. The Master Fund may also enter into credit facilities and have other relationships with Banking Institutions. The distress, impairment, or failure of, or a lack of investor or customer confidence in, any of such Banking Institutions may limit the ability of each of the Feeder Funds and the Master Fund

to access, transfer or otherwise deal with its assets, draw upon a credit facility, or rely upon any of such other relationships, in a timely manner or at all, and may result in other market volatility and disruption, including by affecting other Banking Institutions. All of the foregoing could have a negative impact on the Feeder Funds and the Master Fund. For example, in such a scenario, the Feeder Funds and the Master Fund could be forced to delay or forgo an investment or a distribution, including in connection with a redemption, or generate cash to fund such investment or distribution from other sources (including by disposing of other investments or making other borrowings) in a manner that it would not have otherwise considered desirable. Furthermore, in the event of the failure of a Banking Institution, access to a depository account with that institution could be restricted and U.S. Federal Deposit Insurance Corporation (“FDIC”) protection may not be available for balances in excess of amounts insured by the FDIC (and similar considerations may apply to Banking Institutions in other jurisdictions not subject to FDIC protection). In such a case, a Feeder Fund or the Master Fund, as applicable, may not recover all or a portion of such excess uninsured amounts and could instead have an unsecured or other type of impaired claim against the Banking Institution (alongside other unsecured or impaired creditors). Watermark does not expect to be in a position to reliably identify in advance all potential solvency or stress concerns with respect to a Feeder Fund’s or the Master Fund’s banking relationships, and there can be no assurance that a Feeder Fund or the Master Fund will be able to easily establish alternative relationships with and transfer assets to other Banking Institutions in the event a Banking Institution comes under stress or fails.

Retention and Motivation of Employees

The success of the Master Fund and the Feeder Funds is dependent upon the talents and efforts of highly skilled individuals employed by Watermark and Watermark’s ability to identify and willingness to provide acceptable compensation to attract, retain and motivate talented investment professionals and other employees. There can be no assurance that Watermark’s employees will continue to be associated with Watermark, and the failure to attract or retain such employees could have a material adverse effect on the Master Fund, the Feeder Funds and the investors’ investments therein. Competition in the financial services industry for qualified employees is intense and there is no guarantee that, if lost, the talents of Watermark’s employees could be replaced.

Investment and Due Diligence Process

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

Effect of Substantial Losses, Withdrawals or Redemptions

If, due to extraordinary market conditions or other reasons, the Feeder Funds were to incur substantial losses or were subject to an unusually high level of redemptions or withdrawals, the revenue of Watermark may decline substantially. Such losses and/or redemptions or withdrawals may hamper Watermark’s ability to (i) retain employees, (ii) provide the same level of service to the Master Fund or the Feeder Funds as it has in the past, and (iii) continue operations.

Increasing Assets Under Management

The rates of return achieved by investment advisers often diminish as the assets under their management increases. Watermark has not agreed to limit the amount of capital it will manage.

Increased Regulatory Oversight

Increased regulation (whether promulgated under securities laws or any other applicable law) and regulatory oversight of and changes in law applicable to private investment funds and their managers may impose administrative burdens on Watermark, including responding to examinations and other regulatory inquiries and implementing policies and procedures. Such administrative burdens may divert Watermark's time, attention and resources from portfolio management activities to responding to inquiries, examinations and enforcement actions (or threats thereof). Regulatory inquiries often are confidential in nature, may involve a review of an individual's or a firm's activities or may involve studies of the industry or industry practices, as well as the practices of a particular institution.

Significant Fees and Expenses

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

Absence of Regulatory Oversight Over the Feeder Funds and the Master Fund

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

Recognition of each of PIF and the Master Fund as a professional fund under the British Virgin Islands Securities and Investment Business Act, 2010 ("SIBA") does not entail the supervision of any such fund by the British Virgin Islands Financial Services Commission or by any other regulator outside of the British Virgin Islands. The requirements considered necessary for the protection of investors that apply to a fund registered under SIBA as a public fund do not apply to such funds. Therefore, an investor in PIF, by virtue of such fund's investment in the Master Fund, is solely responsible for determining whether such fund is suitable for the investor's investment needs. Investment in PIF may present a greater risk to an investor than an investment in a fund registered under SIBA as a public fund.

Initial Payment of Redemption and Withdrawal Proceeds to Investors Based on Unaudited Data

If an investor elects to redeem or withdraw its entire investment from a Feeder Fund, the initial calculation and payment of an investor's redemption or withdrawal proceeds will be determined by the applicable Feeder Fund's net asset value as of the redemption date or withdrawal date, which will be based on estimated and unaudited data. The amount of such redemption or withdrawal proceeds will be finalized in conjunction with the completion of the year-end audit. In the event adjustments and revisions are made to a Feeder Fund's net asset value prior to the completion of the year-end audit,

the Feeder Fund will not seek reimbursement for any overpayment to redeeming or withdrawing investors if the size of the net asset value adjustment exceeds the audit holdback amounts attributable to such redeeming or withdrawing investors. Under these circumstances, where the audit holdback amounts prove to be inadequate, the remaining investors in all of the Feeder Funds will be adversely effected. In the event adjustments and revisions are made to such Feeder Fund's net asset value following the completion of the year-end audit, no revision to an investor's redemption or withdrawal proceeds will be made based upon such net asset value adjustments. Thus, the Feeder Fund will not seek reimbursement in the event of any overpayment and will not pay additional amounts in the event of an underpayment. As a result, a redeeming or withdrawing investor may be positively or negatively affected by a revision to such Feeder Fund's net asset value. To the extent that such revisions to net asset value decrease the net asset value of the Feeder Fund, the remaining investors in all of the Feeder Funds will be adversely affected by redemptions or withdrawals. Conversely, any increases in the net asset value of the Feeder Fund resulting from such adjustments will be entirely for the benefit of the remaining investors in all of the Feeder Funds.

Liability of the Feeder Funds, the Master Fund and Separate Classes

Each of the Feeder Funds and the Master Fund is a single legal entity and there is no limited recourse protection for any class, series or sub-series of shares or limited partnership interests, as applicable. Generally, creditors of the Feeder Funds may enforce claims against all assets of such Feeder Fund, but not against assets of the Master Fund, and creditors of the Master Fund may enforce claims against all assets of the Master Fund, but not against assets of a Feeder Fund. However, all assets of a Feeder Fund, including its investment in the Master Fund, may be available to meet all liabilities of such Feeder Fund, and all assets of the Master Fund may be available to meet all liabilities of the Master Fund, even if, in either case, the liability relates to a particular class, series or sub-series of shares or limited partnership interests, as the case may be.

Effect of Substantial Redemptions or Withdrawals

Substantial redemptions or withdrawals could be triggered by a number of events, including unsatisfactory performance, events in the markets or a significant change in personnel or management of Watermark, removal or replacement of Watermark as the investment adviser of the Feeder Funds or the Master Fund, legal or regulatory issues that investors perceive to have a bearing on the Feeder Funds, the Master Fund or Watermark, or other events. Actions taken to meet substantial redemption or withdrawal requests from the Feeder Funds could result in prices of instruments held by the Master Fund decreasing and in Feeder Fund and/or Master Fund expenses increasing (e.g., transaction costs and the costs of terminating agreements). The overall value of the Feeder Funds also may decrease because the liquidation value of certain assets may be materially less than their cost or mark-to-market value. The Master Fund may be forced to sell or unwind its more liquid positions, which may cause an imbalance in the portfolio that could have a material adverse effect on the remaining investors. Substantial redemptions or withdrawals could also significantly restrict the Master Fund's ability to obtain financing or transact with derivatives counterparties needed for its investment strategies, which would have a further material adverse effect on the Master Fund's and Feeder Funds' performance.

Limited Liquidity

An investment in the Feeder Funds has limited liquidity because investors will generally have only limited rights to redeem, withdraw or transfer their investments, and if the Master Fund board of directors has elected to suspend redemptions from the Master Fund, redemptions or withdrawals from

the Feeder Funds will be automatically suspended. Investors must be prepared to bear the financial risks of an investment in the Feeder Funds for an indefinite period of time.

Access to Information and Effect on Redemptions or Withdrawals

Because of the wide range of potential investments, potentially rapid shifts in the concentration of investments among types of instruments or sub-strategies, the inherent complexity of many of the Master Fund's investment sub-strategies and other factors, prospective and current investors will not have sufficient information to analyze or evaluate in detail the specific risks and potential returns of the Master Fund's investment program prospectively. Generally, Watermark will not provide any advance notice of anticipated changes in the composition of the Master Fund's portfolio. Furthermore, in response to questions and requests and in connection with due diligence meetings and other communications, the Feeder Funds and/or Watermark may provide additional information to certain investors and prospective investors that is not distributed to other investors and prospective investors. Such information may affect a prospective investor's decision to invest in a Feeder Fund, and investors (which may include personnel and affiliates of Watermark) may be able to act on such additional information and redeem or withdraw their investments potentially at higher values than other investors. Any such redemptions or withdrawals may result in reduced liquidity for other investors and, in order to meet larger or more frequent redemptions, a Feeder Fund or the Master Fund may need to maintain a greater amount of cash and cash-equivalent investments than it would otherwise maintain, which may reduce the overall performance of such Feeder Fund. Each investor is responsible for asking such questions it believes are necessary to make its own investment decisions, must decide for itself whether the limited information provided by Watermark and a Feeder Fund is sufficient for its needs and must accept the foregoing risks.

Subscription Monies

Where a subscription for shares or limited partnership interests is accepted, the shares or limited partnership interests, as applicable, will be treated as having been issued with effect from the relevant subscription date notwithstanding that the subscriber may not be entered in the Feeder Fund's register of investors until after the relevant subscription date. The subscription monies paid by an investor will accordingly be subject to investment risk in the applicable Feeder Fund from the relevant subscription date. Details of the price at which a subscription was accepted may be obtained by the relevant investor from the Feeder Fund's administrator.

Effect of Redemptions and Withdrawals

Where a full redemption or withdrawal request is accepted, the shares or limited partnership interests, as applicable, will be treated as having been redeemed or withdrawn with effect from the close of business on the relevant redemption date or withdrawal date, as applicable, irrespective of whether or not such redeeming or withdrawing investor has been removed from the Feeder Fund's register of investors. With respect to all redemption or withdrawal requests that are accepted, the shares or limited partnership interests will be treated as having been redeemed or withdrawn, as applicable, with effect from the close of business on the relevant redemption or withdrawal date even if the redemption or withdrawal price has not been determined or remitted as of such date. Accordingly, on and from the close of business on the relevant redemption date or withdrawal date, investors in their capacity as such will not be entitled to or be capable of exercising any rights arising under the applicable Feeder Fund's organizational documents with respect to the securities being redeemed or withdrawn (including any right to receive notice of, attend or vote at any meeting of the Feeder Fund) save the right to receive the redemption or withdrawal price. Such investors will be creditors of the Feeder

Fund with respect to the redemption or withdrawal price of their redeemed shares or withdrawn limited partnership interests, as applicable. In the event the Feeder Fund becomes insolvent and is liquidated, investors that have submitted redemption or withdrawal requests that have been accepted prior to but have yet paid at, the time of liquidation will rank behind ordinary creditors but ahead of the remaining investors.

Identity and Reporting of Beneficial Ownership; Withholding on Certain Payments

In order to avoid a U.S. withholding tax of 30% on certain payments (which might in the future include payments of gross proceeds) made with respect to certain actual and deemed U.S. investments, an offshore Feeder Fund and the Master Fund have registered with the U.S. Internal Revenue Service (the “Service”) and generally will be required to identify, and report information with respect to, certain direct and indirect U.S. account holders (including debtholders and equityholders). The British Virgin Islands has signed a Model 1B (non-reciprocal) inter-governmental agreement with the United States (the “U.S. IGA”) to give effect to the foregoing withholding and reporting rules. So long as such Feeder Funds and the Master Fund comply with the U.S. IGA and the British Virgin Islands enabling legislation, they will not be subject to the related U.S. withholding tax.

A non-U.S. investor in an offshore Feeder Fund will generally be required to provide to such Feeder Fund information which identifies its direct and indirect U.S. ownership. Under the U.S. IGA, any such information provided to the Feeder Fund and certain financial information related to such investor’s investment in the Feeder Fund will be shared with the British Virgin Islands International Tax Authority or its delegate (the “BVI ITA”). The BVI ITA will exchange the information reported to it with the Service annually on an automatic basis. A non-U.S. investor that is a “foreign financial institution” within the meaning of Section 1471(d)(4) of the Internal Revenue Code will generally be required to timely register with the Service and agree to identify, and report information with respect to, certain of its own direct and indirect U.S. account holders (including debtholders and equityholders). A non-U.S. investor who fails to provide such information to the Feeder Fund or timely register and agree to identify, and report information with respect to, such account holders (as applicable) may be subject to the 30% withholding tax with respect to its share of any such payments attributable to actual and deemed U.S. investments of the Feeder Fund, and the Feeder Fund’s board of directors may take any action in relation to an investor’s shares or redemption proceeds to ensure that such withholding is economically borne by the relevant investor whose failure to provide the necessary information or comply with such requirements gave rise to the withholding. Investors should consult their own tax advisors regarding the possible implications of these rules on their investments in an offshore Feeder Fund.

U.S. Partnership Tax Audit Risk

The Master Fund, which intends to be treated as a partnership for U.S. tax purposes, may be required to file a tax return with the Service. If the tax returns of the Master Fund are audited by the Service, the U.S. tax treatment of the Master Fund’s income and deductions generally is determined at the Master Fund level. For U.S. tax returns of the Master Fund filed or required to be filed for tax years beginning prior to 2018, U.S. tax deficiencies arising from the audit, if any, are paid by the Feeder Funds (to the extent of any income that is, or is treated as, effectively connected with a trade or business in the United States or otherwise subject to withholding or other tax in the United States).

Under the general rule imposed under recent legislation, an audit adjustment of the Master Fund’s U.S. tax return filed or required to be filed for any tax year beginning after 2017 (a “Prior Year”) could result in a tax liability (including interest and penalties) imposed on the Master Fund for the year

during which the adjustment is determined (the “Current Year”). The tax liability generally is determined by using the highest tax rates under the Internal Revenue Code applicable to U.S. taxpayers, in which case the Feeder Funds and any other Current Year partners of the Master Fund would bear the audit tax liability at significantly higher rates (including interest and penalties) arising from audit adjustments and in amounts that are unrelated to their Prior Year economic interests in the Master Fund partnership items that were adjusted. The Master Fund may be able to use a lower tax rate to compute the tax liability by taking into account the fact that an offshore Feeder Fund is generally not expected to be subject to U.S. tax on most, if not all, of its share of the Master Fund’s income. However, the details of how this rule will be implemented are not yet known, and there can be no guarantee that the Master Fund would be able to use a lower tax rate to calculate the tax liability for any particular Prior Year under audit.

To mitigate the potential adverse consequences of the general rule, the Master Fund may be able to elect with the Service to pass through such audit adjustments for any year to its members who participated in the Master Fund for the Prior Year, in which case the Feeder Funds and each Prior Year participating member (and not the Master Fund itself) generally would be responsible for the payment of any tax deficiency, determined after including their share of the adjustments on their tax returns for the Current Year and calculated, in the case of an offshore Feeder Fund, using the tax rates generally applicable to non-U.S. entities. A Feeder Fund may also be able to mitigate such adverse consequences by, after the audit adjustments are made, filing an amended U.S. tax return for the Prior Year and paying tax, if any, on its share of the items adjusted on audit. The extent to which a Feeder Fund and/or the Master Fund will be able to mitigate the operation of the general rule under either of these alternatives is uncertain and may depend upon future regulatory guidance and amendments to the legislation.

Governmental Entity Investors

Governmental entities, including pension plans maintained by governmental agencies and instrumentalities, may invest in the Feeder Funds. Such investors may be subject to laws that affect the applicability or enforcement of certain terms generally governing the Feeder Funds. For example, exculpation, indemnification, confidentiality, choice of law and choice of venue provisions may be applied differently with respect to such investors. In addition, investment in the Feeder Funds by certain governmental entities may subject such Feeder Fund and/or Watermark to increased regulatory burdens and public disclosures about such Feeder Fund, its investors and its activities.

Systems and Operational Risks Generally

The Feeder Funds and the Master Fund depend on Watermark to develop and implement appropriate systems for the Feeder Funds’ and the Master Fund’s activities. The Master Fund relies heavily on financial, accounting and other data processing systems to execute, clear and settle transactions across numerous and diverse markets and to evaluate certain financial instruments, to monitor its portfolio and capital, and to generate risk management and other reports that are critical to oversight of the Master Fund’s activities. In addition, the Feeder Funds and the Master Fund rely on information systems to store sensitive information about the Feeder Funds, the Master Fund, Watermark, their affiliates and the investors. Certain of the Feeder Funds’, the Master Fund’s, and Watermark’s activities will be dependent upon systems operated by third parties, including custodians, the funds’ administrator, market counterparties and other service providers, and Watermark may not be in a position to verify the risks or reliability of such third-party systems. Failures in the systems employed by Watermark, custodians, the funds’ administrator, counterparties, exchanges and similar clearance and settlement facilities and other parties could result in mistakes being made in the confirmation or

settlement of transactions, or in transactions not being properly booked, evaluated or accounted for. Disruptions in the Master Fund's operations may cause the Master Fund to suffer, among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing failures or disruptions could have a material adverse effect on the Feeder Funds and the investors' investments therein.

Cybersecurity Risk

As part of its business, Watermark processes, stores and transmits large amounts of electronic information, including information relating to the transactions of the Master Fund and personally identifiable information of investors. Similarly, service providers of Watermark, the Feeder Funds or the Master Fund, especially the funds' administrator, may process, store and transmit such information. Watermark has procedures and systems in place that it believes are reasonably designed to protect such information and prevent data loss and security breaches. However, such measures cannot provide absolute security. The techniques used to obtain unauthorized access to data, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time. Hardware or software acquired from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Network connected services provided by third parties to Watermark may be susceptible to compromise, leading to a breach of Watermark's network. Watermark's systems or facilities may be susceptible to employee error or malfeasance, government surveillance, or other security threats. On-line services provided by Watermark to investors may also be susceptible to compromise. Breach of Watermark's information systems may cause information relating to the transactions of the Master Fund and personally identifiable information of investors to be lost or improperly accessed, used or disclosed.

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

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

Valuation of Assets and Liabilities

The Master Fund's assets and liabilities are valued in accordance with Watermark's valuation policy. The valuation of any asset or liability involves inherent uncertainty. The value of an instrument determined in accordance with the valuation policy may differ materially from the value that could have been realized in an actual sale or transfer for a variety of reasons, including the timing of the transaction and liquidity in the market. Uncertainties as to the valuation of portfolio positions could have an impact on the net asset value of the Feeder Funds if the judgments of the funds' administrator, Watermark's Pricing and Valuation Committee or the Master Fund board of directors, as applicable, regarding the appropriate valuation should prove to be incorrect.

GAAP Net Asset Value Divergence

Due to GAAP requirements, the net asset value of a Feeder Fund for purposes of GAAP-compliant financial reporting may diverge from the net asset value of such Feeder Fund for all other purposes, including for purposes of allocating gains and losses among investors, which is relevant to, among other things, determining the net asset value of shares or limited partnership interests, calculating the management fee and the incentive fee, and calculating the amounts payable by a Feeder Fund in respect of a redemption or withdrawal or by or dividend to an investor. Net asset value divergence may occur, for example, in connection with the amortization of the organizational and initial offering expenses of a Feeder Fund, the measuring of fair value (as a result of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 820), or the recognition or unrecognition of uncertain tax positions (as a result of FASB ASC 740).

Counterparty Risk

The Master Fund has established relationships to obtain financing, derivative intermediation and custodial services that permit the Master Fund to trade in a variety of markets or asset classes over time. However, there can be no assurance that the Master Fund will be able to establish or maintain such relationships. An inability to establish or maintain such relationships could limit the Master Fund’s trading activities, result in losses, preclude the Master Fund from engaging in certain transactions or prevent the Master Fund from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and custodial services provided by any such relationships could have a significant impact on the Master Fund’s business due to the Master Fund’s reliance on such counterparties.

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

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

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

In addition, the Master Fund may use counterparties located in jurisdictions outside the United States. Such local counterparties usually are subject to laws and regulations in non-U.S. jurisdictions that are

designed to protect customers in the event of their insolvency. However, the practical effect of these laws and their application to the Master Fund's assets are subject to substantial limitations and uncertainties. Because of the range of possible factual scenarios involving the insolvency of a counterparty and the potentially large number of entities and jurisdictions that may be involved, it is impossible to generalize about the effect of such an insolvency on the Master Fund and its assets. Investors should assume that the insolvency of any such counterparty would result in significant delays in recovering the Master Fund's instruments from or the payment of claims therefor by such counterparty and a loss to the Master Fund, which could be material.

Competition; Availability of Investments

Certain markets in which the Master Fund may invest are extremely competitive for attractive investment opportunities. As a result, there can be no assurance that Watermark will be able to identify or successfully pursue attractive investment opportunities in such environments.

Significant Positions in Instruments; Regulatory Requirements

"Position limits" may be imposed by various regulators that may limit the Master Fund's ability to effect desired trades. Position limits are the maximum amounts of gross, net long or net short positions that any one person or entity may own or control in a particular instrument. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. If at any time positions managed by Watermark were to exceed applicable position limits, Watermark would be required to liquidate the Master Fund's positions to the extent necessary to come within those limits. Further, to avoid exceeding any position limits, the Master Fund might have to forego or modify certain of its contemplated trades.

Currency Exchange Exposure

The Master Fund may invest in instruments denominated in currencies other than the U.S. dollar. The Master Fund, however, values its instruments in U.S. dollars. The Master Fund may or may not seek to hedge its non-U.S. currency exposure by entering into currency hedging transactions. There can be no guarantee that instruments suitable for hedging currency or market shifts will be available at the time when the Master Fund wishes to use them, or that hedging techniques employed by the Master Fund will be effective. Furthermore, certain currency market risks may not be fully hedged or hedged at all. To the extent unhedged, the value of the Master Fund's positions denominated in currencies other than the U.S. dollar will fluctuate with U.S. dollar exchange rates as well as with the price changes of the investments in the various local markets and currencies.

Trading and the Risk of Loss

As a general matter, substantial risks are involved in trading financial instruments. The prices of instruments are volatile and market movements are difficult to foresee or predict. In particular, interest rates are subject to rapid change. One or more markets in which the Master Fund trades may move against the positions held by the Master Fund, thereby causing substantial losses. Government policies, especially those of the U.S. Federal Reserve Board and central banks, have profound effects on interest and exchange rates, which, in turn, affect prices in the international markets. Many other unforeseeable and unpredictable events, such as actions by various government agencies, domestic and international political events, changing market sentiment and inflation rates, may also cause sharp market

fluctuations. The Master Fund's trading is speculative and subject to significant risk of loss. No guarantee or representation is made that the Master Fund's investment program, including the Master Fund's investment objective, diversification strategies or risk monitoring goals, will be successful. Investment results may vary substantially over time.

No assurance can be made that profits will be achieved or that substantial or complete losses will not be incurred. Past investment results of the Master Fund and Watermark (or investments otherwise made by the investment professionals of Watermark) are not necessarily indicative of their future performance.

Relative Value

The success of the Master Fund's fixed-income relative value strategy depends upon Watermark's ability to identify and exploit perceived inefficiencies in the pricing of financial instruments, financial products, or markets. Identification and exploitation of such inefficiencies involve uncertainty. There can be no assurance that Watermark will be able to identify investment opportunities or exploit pricing inefficiencies in the interest rate or currency markets. Pricing inefficiencies, even if correctly identified, may not be corrected by the market, at least within a timeframe over which it is feasible for Watermark to maintain a position. Even pure arbitrage positions can result in significant losses if Watermark is not able to maintain both sides of the position until expiration or maturity. A reduction in the pricing inefficiency of the markets in which Watermark seeks to invest will reduce the scope for the Master Fund's investment strategies. In the event that the perceived pricing inefficiencies underlying the Master Fund's positions were to fail to converge toward, or were to diverge further from, relationships expected by Watermark, the Master Fund may incur losses. Even if the Master Fund's relative value investment strategy is successful, it may result in high portfolio turnover and, consequently, high transaction costs.

Changes in Strategy

Although Watermark will follow the trading guidelines set forth in the Master Fund's investment management agreement in making investment and trading decisions for the Master Fund, the trading guidelines grant Watermark broad discretion in placing orders for the Master Fund in a wide variety of financial instruments and markets. In addition, Watermark may from time to time modify its trading strategy in response to changing market conditions. There can be no assurance that such modifications will be successful or that such change will not result in losses.

Short Selling

The Master Fund may short financial instruments, and the success of the Master Fund's short selling investment strategy will depend upon Watermark's ability to identify and sell short instruments that are overvalued. A short sale creates the risk of a theoretically unlimited loss, in that the price of the instrument that is shorted could theoretically increase without limit, thus increasing the cost to the Master Fund of buying those instruments to cover the short position. Short strategies can also be implemented synthetically through various instruments. In some cases of synthetic short sales, there is no floating supply of an underlying instrument with which to cover or close out a short position and the Master Fund may be entirely dependent on the willingness of over-the-counter market makers to quote prices at which the synthetic short position may be unwound. There can be no assurance that

such market makers will be willing to make such quotes. Short strategies can also be implemented on a leveraged basis.

Short-Term Market Considerations

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

Leverage for Investment Purposes

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

Borrowing for Cash Management Purposes

The Master Fund has the authority to borrow for cash management purposes, such as to satisfy redemption and withdrawal requests from the Feeder Funds. The rates at and terms on which the Master Fund can borrow will affect the operating results of the Master Fund.

Collateral

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

Costs

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

Lending of Portfolio Instruments

The Master Fund may lend securities on a collateralized and an uncollateralized basis from its portfolio to creditworthy securities firms and financial institutions. While a securities loan is outstanding, the Master Fund will continue to receive the equivalent of the interest or dividends paid by the issuer on the securities, as well as interest on the investment of the collateral or a fee from the borrower. The

risks in lending securities, as with other extensions of secured credit, if any, consist of possible delay in receiving additional collateral, if any, or in recovery of the securities or possible loss of rights in the collateral, if any, should the borrower fail financially.

Diversification and Concentration

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

Hedging Transactions

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

Model and Data Risk

Watermark and certain service providers (including the Master Fund's administrator) rely heavily on quantitative and systematic models (including proprietary models developed by Watermark and/or a service provider) and information and data supplied by third parties ("Models and Data"). Models and Data can be used to construct sets of transactions and investments, to value investments or potential investments (whether for trading purposes, or for the purpose of determining and reviewing the net asset value of the Master Fund), to provide risk management insights, and to assist in hedging the Master Fund's exposure.

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

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

Quantitative Model Risk and Risk Management Danger

There can be no assurance that the models used by Watermark will continue to be viable. The use of a model that is not viable or not completely viable could, at any time, have a material adverse effect on the performance of the Master Fund. There can be no assurance that the Master Fund will achieve its investment objectives or that the models (even if completely or partially viable) will continue to further or ultimately be capable of furthering the Master Fund's investment objectives.

Risk management techniques are based in part on the observation of historical market behavior, which may not predict market divergences that are larger than historical indicators. Also, information used to manage risks may not be accurate, complete or current, and such information may be subject to misinterpretation. In the complex environment in which Watermark operates, effective risk management depends upon many factors, not all of which may be properly identified, and effective assessment, analysis, process creation, control or treatment of risks could be difficult to implement.

Obsolescence Risk

The Master Fund is unlikely to be successful unless the assumptions underlying the models are realistic and either remain realistic and relevant in the future or are adjusted to account for changes in the overall market environment. If such assumptions are inaccurate or become inaccurate and are not promptly adjusted, it is likely that profitable trading signals will not be generated. If and to the extent that the models do not reflect certain factors, and Watermark does not successfully address such omission through its testing and evaluation and modify the models accordingly, major losses may result. Watermark will continue to test, evaluate and add new models, as a result of which the existing models may be modified from time to time. Any modification of the models or strategies will not be subject to any requirement that investors receive notice of the change or that they consent to it. There can be no assurance as to the effects (positive or negative) of any modification on the Master Fund's performance.

Crowding/Convergence

There is significant competition among quantitatively-focused managers and the ability of Watermark to deliver returns that have a low correlation with the broader global markets and other hedge funds is dependent on its ability to employ models that are simultaneously profitable and differentiated from those employed by other managers. To the extent that Watermark is not able to develop sufficiently differentiated models, investment objectives may not be met, irrespective of whether the models are profitable in an absolute sense. In addition, to the extent that Watermark's models come to resemble those employed by other managers, the risk that a market disruption that negatively affects predictive models will adversely affect the Master Fund is increased, as such a disruption could accelerate reductions in liquidity or rapid repricing due to simultaneous trading across a number of funds in the marketplace.

Risk of Programming and Modeling Errors

The research and modeling process engaged in by Watermark is extremely complex and involves financial, economic, econometric and statistical theories, research and modeling; the results of that process must then be translated into computer code. Although Watermark seeks to hire individuals skilled in each of these functions and to provide appropriate levels of oversight, the complexity of the individual tasks, the difficulty of integrating such tasks, and the limited ability to perform "real world" testing of the end product raise the chances that the finished model may contain an error.

Involuntary Disclosure Risk

The ability of Watermark to achieve its investment goals for the Master Fund is dependent in large part on its ability to develop and protect its models and proprietary research. The models and proprietary research and the Models and Data are largely protected by Watermark through the use of policies, procedures, agreements, and similar measures designed to create and enforce robust confidentiality, non-disclosure, and similar safeguards. However, disclosure obligations to exchanges or regulators with insufficient privacy safeguards could lead to opportunities for competitors to reverse-engineer Watermark's models, and thereby impair the relative or absolute performance of the Master Fund.

Proprietary Trading Methods

Because the trading methods employed by Watermark on behalf of the Master Fund are proprietary to Watermark, an investor will not be able to determine any details of such methods or whether they are being followed.

Spread Trading

A part of Watermark's strategy may involve spread positions between two or more positions. To the extent the price relationships between such positions remain constant, no gain or loss on the positions will occur. Such positions, however, do entail a substantial risk that the price differential could change unfavorably, thus causing a loss to the spread position. Watermark's strategy also may involve arbitraging among two or more sovereign bonds or other instruments. This means, for example, that Watermark may cause the Master Fund to purchase (or sell) sovereign bonds or other instruments (on a current basis) and take offsetting positions in the same or related sovereign bonds or other instruments. To the extent the price relationships between such positions remain constant, no gain or loss on the positions will occur. These offsetting positions entail substantial risk that the price differential could change unfavorably causing a loss to the position.

Correlation Risk

The Master Fund may be exposed to correlated risks. These can occur, for example, when funds and other investors hold similar positions and employ similar strategies, resulting in intensified risks leading to potential cascading loss in times of market stress. The high leverage and hedging techniques that many arbitrage-driven quantitative hedge fund managers use can further magnify the effects of correlation risk.

General Economic and Market Conditions

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

Governmental Interventions

Extreme volatility and illiquidity in markets has in the past led to, and may in the future lead to, extensive governmental interventions in equity, credit and currency markets. Generally, such

interventions are intended to reduce volatility and precipitous drops in value. In certain cases, governments have intervened on an “emergency” basis, suddenly and substantially eliminating market participants’ ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition, these interventions have typically been unclear in scope and application, resulting in uncertainty. It is impossible to predict when these restrictions will be imposed, what the interim or permanent restrictions will be and/or the effect of such restrictions on the Master Fund’s strategies.

Sanctions

Watermark has adopted an Environmental, Social and Governance policy that prohibits the Master Fund from purchasing or selling sovereign bonds issued by countries on the United Nations Security Council’s sanction list. In addition, at any given time, whether under applicable law, by contractual commitment or as a voluntary risk management measure, the Master Fund may be required, or elect, to comply with various sanctions programs, including the Specially Designated Nationals and Blocked Persons List and Sectoral Sanctions programs administered by OFAC. Some sanctions that may apply to the Master Fund prohibit or restrict dealings with particular identified persons. Other potentially applicable sanctions programs broadly prohibit or restrict dealings in certain countries or territories or with individuals and entities located in such countries or territories. In addition to such current sanctions, additional sanctions may be imposed in the future. Such sanctions may be imposed with little or no advance warning or “safe harbor” for compliance and may be ambiguous, including as to the scope of financial activities that regulators may ultimately deem to be covered by the sanctions.

Depending on the scope and duration of a particular sanctions program, compliance by the Master Fund may result in a material adverse effect on the Feeder Funds and the investors’ investments therein. Watermark and the Master Fund may be subject to heightened or targeted regulatory scrutiny and information requests as a result of such sanctions. In addition, if Watermark or the Master Fund were to violate or be deemed in violation of any such sanction, it could face significant legal and monetary penalties. Sanctions may negatively impact the Master Fund’s ability to effectively implement its investment strategy and have a material adverse impact on the Master Fund’s investments in various ways, including by preventing or inhibiting the Master Fund from making certain investments, forcing the Master Fund to divest from investments previously made, and leading to substantial reductions in the revenues, profits and value of the Master Fund’s investments. Finally, sanctions may have broader economic implications, such as influencing the price of certain commodities, which may have adverse effects on inflation and the value of the U.S. dollar, which may adversely affect investment objectives and strategies of the Master Fund.

Climate Change-Related Risks

The environmental effects of climate change, including rising temperatures, extreme weather, fires, flooding, erratic weather fluctuations, agricultural failures and displacement and destabilization of human populations, could have materially adverse effects on the Instruments held by the Master Fund. Watermark believes that such risks may increase over time, although the time period over which these consequences might unfold is difficult to predict. In addition to the physical, economic and geopolitical risks associated with climate change, there are transition risks. The willingness of certain governments, industries and businesses, especially those that profit from, or have a reliance on, fossil fuels, to adapt to climate change or transition to sustainable practices may also adversely affect the value of instruments held by the Master Fund.

Assumption of Catastrophe Risks

The Master Fund may be subject to the risk of loss arising from direct or indirect exposure to various catastrophic events, including the following: hurricanes, earthquakes and other natural disasters (which may be caused, or enhanced in frequency and severity, by climate change factors); war, terrorism and other armed conflicts; social or political unrest; cyberterrorism; major or prolonged power outages or network interruptions; and public health crises, including infectious disease outbreaks, epidemics and pandemics. To the extent that any such event occurs and has a material effect on global financial markets or specific markets in which the Master Fund invests (or has a material negative impact on the operations of Watermark or the Service Providers), the risks of loss can be substantial and could have a material adverse effect on the Feeder Funds and the investors' investments therein. Furthermore, any such event may also adversely impact one or more individual investors' financial condition, which could result in substantial redemption or withdrawal requests by such investors as a result of their individual liquidity situations and irrespective of Feeder Fund performance.

Derivative Instruments

Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, credit risk, legal risk and operations risk. The regulatory and tax environment for derivative instruments in which the Master Fund may participate is evolving, and changes in the regulation or taxation of such instruments may have a material adverse effect on the Master Fund.

In addition, certain longer-dated swaps may include provisions that require such swaps to be terminated prior to the stated term. Such provisions, referred to as mandatory breaks, may result in the cash settlement of the swap. If the Master Fund is out-of-the-money at the time a swap is terminated and such swap is required to be cash settled, the Master Fund will be obligated to pay its counterparty the absolute value of the cash settlement amount. Under such circumstances, the Master Fund's counterparty will calculate the value of the swap at the time of termination. Since the interests of the Master Fund's counterparties may not be aligned with the interests of the Master Fund, an early termination of a swap may adversely affect the Master Fund if such counterparty values the terminated swap in a manner that is unfavorable to the Master Fund.

Regulation in the Derivatives Industry

There are many rules related to derivatives that may negatively impact the Master Fund, such as requirements related to recordkeeping, reporting, portfolio reconciliation, central clearing, minimum margin for uncleared over-the-counter ("OTC") instruments and mandatory trading on electronic facilities, and other transaction-level obligations. Parties that act as dealers in swaps are also subject to extensive business conduct standards, additional "know your counterparty" obligations, documentation standards and capital requirements. All of these requirements add costs to the legal, operational and compliance obligations of Watermark and the Master Fund, and increase the amount of time that Watermark spends on non-investment-related activities. Requirements such as these also raise the costs of entering into derivative transactions, and these increased costs will likely be passed on to the Master Fund.

These rules are operationally and technologically burdensome for Watermark and the Master Fund. These compliance obligations require employee training and use of technology, and there are operational risks borne by the Master Fund in implementing procedures to comply with many of these additional obligations.

Many of these requirements were implemented under legislation intended to reform the U.S. financial regulatory system, the EU Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (known as the European Market Infrastructure Regulation, or “EMIR”) and similar regulations globally. In the United States, the regulatory responsibility for derivatives is divided between the SEC and the CFTC, a distinction that does not exist in any other jurisdiction. The SEC has regulatory authority over “security-based swaps” and the CFTC has regulatory authority over “swaps.” EMIR is being implemented in phases through the adoption of delegated acts by the European Commission. As a result of the SEC and CFTC bifurcation and the different pace at which the SEC, the CFTC, the European Commission and other international regulators have promulgated necessary regulations, different transactions are subject to different levels of regulation. Though many rules and regulations have been finalized, there are others, particularly SEC regulations with respect to security-based swaps, that are still in the proposal stage or are expected to be introduced in the future.

The following describes derivatives regulations that may have the most significant impact on the Master Fund:

Reporting

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

Central Clearing

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

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

Another risk is that the Master Fund may be subject to more onerous and more frequent (daily or even intraday) margin calls from both the Master Fund’s futures commission merchants (“FCMs”) and the clearinghouses. Virtually all margin models utilized by the clearinghouses are dynamic, meaning that unlike traditional bilateral swap contracts where the amount of initial margin posted on the contract is typically static throughout of the life of the contract, the amount of the initial

margin that is required to be posted in respect of a cleared contract will fluctuate, sometimes significantly, throughout the life of the contract. The dynamic nature of the margin models utilized by the clearinghouses and the fact that the margin models might be changed at any time may subject the Master Fund to an unexpected increase in collateral obligations by clearinghouses during a volatile market environment, which could have a detrimental effect on the Master Fund. Clearinghouses also limit collateral that they will accept to cash, U.S. treasuries and, in some cases, other highly rated sovereign and private debt instruments, which may require the Master Fund to borrow eligible securities from a dealer to meet margin calls and raise the costs of cleared trades to the Master Fund. In addition, clearinghouses may not allow the Master Fund to portfolio-margin its positions, which may increase the Master Fund's costs.

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

Swap Execution Facilities

In addition to the central clearing requirement, certain swap transactions are required to trade on regulated electronic platforms such as swap execution facilities ("SEFs"), which may require the Master Fund to subject itself to regulation by these venues. CFTC rules governing the operation of SEFs continue to evolve; the SEC has yet to finalize rules related to security-based SEFs.

The EU regulatory framework governing derivatives is set not only by EMIR but also a legislative package known as a recast of the Markets in Financial Instruments Directive ("MiFID II"). Among other things, MiFID II requires transactions in derivatives to be executed on regulated trading venues.

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

Margin Requirements for Non-Cleared Swaps

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

the Master Fund is required to segregate initial margin with a third-party custodian, additional costs will be incurred by the Master Fund.

Currencies

A principal risk in trading currencies is the rapid fluctuation in the market prices of currency contracts. Prices of currency contracts traded by the Master Fund are affected generally by relative interest rates, which in turn are influenced by a wide variety of complex and difficult to predict factors such as money supply and demand, balance of payments, inflation levels, fiscal policy, and political and economic events. In addition, governments from time to time intervene, directly and by regulation, in these markets, with the specific effect, or intention, of influencing prices which may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations.

A substantial portion of the Master Fund's assets may be denominated in currencies other than the U.S. dollar. The Master Fund could experience losses because of adverse currency fluctuations between the U.S. dollar and the denominated currencies of the instruments it trades. Watermark will endeavor to hedge the U.S. dollar value of the Master Fund's trading positions by entering into currency futures and forwards when it deems necessary, but there can be no assurance that such hedging efforts, if undertaken, will be successful.

Debt Securities

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

Call and Put Options

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

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

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

Swaptions

The Master Fund may enter into an option on a swap agreement, also called a “swaption”. A swaption is an OTC option that gives the buyer the right, but not the obligation, to enter into a swap on a specified future date in exchange for paying a market-based premium. Swaptions also include options that allow one of the counterparties to terminate or extend an existing swap.

Futures Contracts

The value of futures contracts depends upon the price of the underlying assets, such as currencies. The prices of futures contracts are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, as well as national and international political and economic events and policies. In addition, investments in futures contracts are also subject to the risk of the failure of any of the exchanges on which the Master Fund’s positions trade or of its clearinghouses or counterparties. Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as “daily price fluctuation limits” or “daily limits”. Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Master Fund from promptly liquidating unfavorable positions and subject the Master Fund to substantial losses or prevent it from entering into desired trades. Also, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

Non-U.S. Futures Transactions

Foreign futures transactions involve executing and clearing trades on a foreign exchange. This is the case even if the foreign exchange is formally “linked” to a domestic exchange, whereby a trade executed on one exchange liquidates or establishes a position on the other exchange. No domestic organization regulates the activities of a foreign exchange, including the execution, delivery, and clearing of transactions on such an exchange, and no domestic regulator has the power to compel enforcement of the rules of the foreign exchange or the laws of the foreign country. Moreover, such laws or regulations will vary depending on the foreign country in which the transaction occurs. For these reasons, the Master Fund may not be afforded certain of the protections which apply to domestic transactions, including the right to use domestic alternative dispute resolution procedures. In particular, funds received from customers to margin foreign futures transactions may not be provided

the same protections as funds received to margin futures transactions on domestic exchanges. In addition, the price of any foreign futures or option contract and, therefore, the potential profit and loss resulting therefrom, may be affected by any fluctuation in the foreign exchange rate between the time the order is placed and the time the foreign futures contract is liquidated or the time the foreign option contract is liquidated or exercised.

Combination Transactions

The Master Fund may engage in spreads or other combination options transactions involving the purchase and sale of related options and futures contracts. These transactions are considerably more complex than the purchase or writing of a single option. They involve the risk that executing simultaneously two or more buy or sell orders at the desired prices may be difficult or impossible, the possibility that a loss could be incurred on both sides of a multiple options transaction, and the possibility of significantly increased risk exposure resulting from the hedge against loss inherent in most spread positions being lost as a result of the assignment of an exercise to the short leg of a spread while the long leg remains outstanding. Also, the transaction costs of combination options transactions can be especially significant because separate costs are incurred on each component of the combination.

Forward Contracts

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

Repurchase and Reverse Repurchase Agreements

In a reverse repurchase transaction, the Master Fund “buys” securities 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 Master Fund, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by the Master Fund involves certain risks. For example, if the seller of securities to the Master Fund under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, the Master 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 Master Fund’s ability to dispose of the underlying securities may be restricted. It is possible, in a bankruptcy or liquidation scenario, that the Master 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 Master Fund may suffer a loss to the extent that it is forced to

liquidate its position in the market, and proceeds from the sale of the underlying securities are less than the repurchase price agreed to by the defaulting seller. Similar elements of risk arise in the event of the bankruptcy or insolvency of the buyer.

Non-U.S. Exchanges

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

Non-U.S. Investments

Investing in the securities of governments outside of the United States involves certain considerations not usually associated with investing in securities of the U.S. government, including political and economic considerations, such as greater risks of expropriation, confiscatory taxation, imposition of withholding or other taxes on interest, dividends, capital gains, other income or gross sale or disposition proceeds, limitations on the removal of assets and general social, political and economic instability; the relatively small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; the evolving and unsophisticated laws and regulations applicable to the securities and financial services industries of certain countries; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the Master Fund's investment opportunities. As a result, the Master Fund may be unable to structure its transactions to achieve the intended results or to mitigate all risks associated with such markets. It may also be difficult to enforce the Master Fund's rights in such markets.

ITEM 9 DISCIPLINARY HISTORY

None of Watermark or its management persons are the subject of, and have not been the subject of, any legal or disciplinary events.

ITEM 10 OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

A. Broker-dealer Registration Status

None of Watermark or its management persons are registered as, or have any application to register as, a broker-dealer or a registered representative of a broker-dealer.

B. Futures Commission Merchant, Commodity Pool Operator, or Commodity Trading Adviser Registration Status

Watermark is registered with the Commodity Futures Trading Commission as a commodity pool operator. Watermark also is a member of the National Futures Association ("NFA") and is registered as an NFA Swap Firm.

The Principals are also each registered with the NFA.

C. Material Relationships or Arrangements with Industry Participants

Not applicable.

D. Material Conflicts of Interest Relating to Other Investment Advisers

Not applicable.

ITEM 11
CODE OF ETHICS, PARTICIPATION OR INTEREST
IN CLIENT TRANSACTIONS AND PERSONAL TRADING

A. Code of Ethics

Watermark has adopted a Code of Ethics (“Code of Ethics”) pursuant to Rule 204A-1 under the Investment Advisers Act. The portion of the Code of Ethics that governs personal securities transactions is applicable to: (i) any employee of Watermark and any of the Principals (collectively, “employees”) who has access to non-public information regarding clients’ purchase or sale of securities, is involved in making securities recommendations to (or in the case of a discretionary manager like Watermark, investment decisions on behalf of) clients or who has access to such recommendations that are non-public (“Access Persons”), and (ii) the members of their households.

The Code of Ethics requires all employees to exercise their authority and responsibility for the benefit of Watermark’s clients and to refrain from activities that may conflict with the interests of its clients. The Code of Ethics contains policies and procedures that, among other things:

- prohibit employees from taking personal advantage of opportunities belonging to clients;
- require employees to place the interests of clients first, not take inappropriate advantage of their positions, maintain independence in the investment-decision making process and comply with applicable laws;
- prohibit trading on the basis of material, non-public information;
- impose limits on personal trading by Access Persons, including prior approval and reporting obligations with respect to such trading;
- impose limits on the giving or receiving of gifts and entertainment;
- impose limits on political contributions to U.S. public officials and candidates for public office in accordance with the SEC’s rules and regulations;
- prohibit the giving of gifts or gratuities to foreign officials and foreign political parties, their officials and candidates for office; and
- restrict employees’ outside business activities.

Watermark’s Code of Ethics requires Access Persons to obtain prior approval from the Chief Compliance Officer before trading in Reportable Securities, which, for purposes of the Code of Ethics, includes: (a) sovereign debt securities, including direct obligations of the government of the United States (but excluding all savings bonds and floating rate notes issued by the government of the United States, as well as sovereign debt securities with a remaining maturity of one year or less, municipal

debt securities and agency debt securities); (b) interest rate and currency derivatives, including futures, swaps, and options; and (c) shares or equity interests issued in an initial public offering or a limited offering, including interests in private investment funds and investment clubs. In addition, employees may not trade in any account in any security subject to a restriction on trading issued by the Chief Compliance Officer under Watermark's insider trading policies.

Unless otherwise specified in the approval, if a request to transact is approved, such employee will be authorized to complete such approved transaction during the period ending one business day following the date of such approval. Approval will be withheld whenever the proposed transaction presents an actual or potential conflict of interest, in the sole discretion of the Chief Compliance Officer, with current or currently contemplated positions in any of Watermark's client accounts.

In accordance with Watermark's policies, brokerage feeds have been established and personal securities transactions are electronically sent to a third-party compliance vendor that has been engaged by Watermark. The Chief Compliance Officer reviews reports generated by the compliance vendor to determine if personal securities trading complies with Watermark's policies. If brokerage transactions are not electronically sent to the compliance vendor, employees are asked to provide duplicate brokerage account statements to Watermark, and such statements are then reviewed by the Chief Compliance Officer or a designee thereof. On a quarterly basis, the Chief Compliance Officer or a designee thereof is required to review all securities transactions affected in employees' (and the members of their households) brokerage accounts, and on an annual basis, employees are required to disclose all securities held in such employee's brokerage account(s).

Watermark's supervised persons must acknowledge the terms of the Code of Ethics upon the commencement of employment, and thereafter, annually or following an amendment to the Code of Ethics.

A copy of Watermark's Code of Ethics may be obtained from Chief Compliance Officer, Terence Woolf, at (609) 683-8200.

B. Securities That You or a Related Person Has a Material Financial Interest

Please refer to Item 11.D. below.

C. Investing in Securities That You or a Related Person Recommends to Clients

Please refer to Item 11.D below.

D. Conflicts of Interest Created by Contemporaneous Trading

From time to time, various potential and/or actual conflicts of interest may arise from the overall advisory, investment and other activities of Watermark and its employees. Watermark has adopted a Code of Ethics (discussed in Item 11.A above), which establishes policies and procedures designed to monitor and address such conflicts of interest.

Advisory and Other Activities - Watermark provides discretionary investment advice to the Master Fund and the Feeder Funds. Watermark may, in the future, provide investment advisory services to other clients.

Watermark may give advice or take action with respect to the investment of one or more clients that may not be given or taken with respect to other clients with the same or similar investment programs, strategies and objectives. Accordingly, clients with the same or similar investment programs, strategies and objectives may not hold the same securities or instruments or achieve the same performance. Watermark and its employees also may advise clients with conflicting programs, strategies and objectives. These activities may adversely affect the process and availability of securities or instruments held by or potentially considered for one or more clients.

Furthermore, the time and effort of Watermark will not be devoted exclusively to the business of a client, and Watermark will devote as much time to each client as Watermark deems appropriate to perform its duties. Watermark and its employees may also participate in other ventures, as principals or otherwise. Accordingly, Watermark and its employees may have conflicts in allocating their time and services among clients, other investments and other ventures. To the extent that Watermark or its employees engage in outside business activities, Watermark has established policies and procedures which require such employees to obtain prior approval with respect to the conduct of any such outside business.

Investment Activities - Watermark and its employees may invest on behalf of themselves in securities and other instruments that would be appropriate for, may be held by, or may fall within the investment programs, strategies and objectives of a client. They may also take action for their own accounts that may differ from or, may conflict with or be adverse to advice given or action taken for a client. However, as discussed above, Watermark's employees must obtain prior approval before transacting in "Reportable Securities" for their own accounts or accounts in which they have a direct or indirect beneficial interest and/or control. In the event of any actual or potential conflict, any such transaction in Reportable Securities will not be approved.

ITEM 12

BROKERAGE PRACTICES

A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.

Watermark has full discretionary authority to manage the investments of the Master Fund, including authority to make decisions with respect to which financial instruments are bought and sold, the amount and price of those financial instruments, the brokers or dealers to be used for a particular transaction, and commissions or mark-ups and mark-downs paid. Watermark's authority is limited by the investment program of the Master Fund and Watermark's own internal policies and procedures.

i. Brokerage Commissions and Other Compensation

Securities and derivative transactions generate a substantial amount of brokerage commissions and other compensation, all of which the clients are obligated to pay. Watermark has sole discretion in deciding which brokers and dealers the Master Fund uses and in negotiating the rates of compensation the Master Fund pays.

ii. Best Execution

Watermark selects the broker-dealers that execute the Master Fund's transactions. In selecting broker-dealers, Watermark, subject to its overall duty to obtain "best execution" of transactions, has the

authority to and may consider the full range and quality of the services and products provided by such broker-dealers. As a part of this selection process, Watermark may consider such factors as: (i) the ability of the brokers and dealers to effect the transaction; (ii) the brokers' or dealers' facilities; (iii) the responsiveness of brokers and dealers to instructions from Watermark; (iv) reliability and financial responsibility; (v) commission rates; and (iv) the provision of other services to Watermark and/or its clients.

1. Research and Other Soft Dollar Benefits.

Watermark receives no third-party research for which it is obligated to direct execution business to broker-dealers. Watermark may receive research generated by broker-dealer firms which is made available to all or other customers of that broker-dealer. However, the receipt of such research from a broker-dealer is not one of the factors Watermark considers when selecting a broker-dealer to execute trades for the Master Fund. Watermark uses only those broker-dealers that it believes will provide the Master Fund with high-quality services and competitive execution costs, taking into consideration the services received by Watermark or its clients. While the rates paid by its clients may not be the lowest rates the Master Fund could obtain, Watermark believes that the benefit of the overall relationship with those broker-dealers will nonetheless benefit the Master Fund on the whole.

2. Brokerage for Client Referrals

Watermark may place transactions with a broker or dealer that may refer investors to the Feeder Funds if otherwise consistent with seeking best execution, provided that Watermark is not selecting the broker-dealer in recognition of its referral of investors.

3. Trade Errors

While Watermark endeavors to execute all trades with diligence and care, Watermark may on occasion experience trade errors. Once identified, a trade error is corrected and/or mitigated in an expeditious manner and, if practicable, in a manner so that the amount of the loss, if any, attributable to such trade error is reduced.

The Master Fund will benefit from any gains resulting from trade errors and will be responsible for any losses (including additional trading costs) resulting from trade errors and similar human errors, absent fraud, material breach of fiduciary duties, material breach of the Master Fund's constitutional documents, bad faith or gross negligence of the relevant person. To the extent an error is caused by a counterparty, such as a broker-dealer, Watermark will strive to recover any losses associated with such error from the counterparty.

4. Directed Brokerage

Not applicable.

ITEM 13
REVIEW OF ACCOUNTS

A. Frequency and Nature of Review of Client Accounts or Financial Plans

Watermark performs variously daily, weekly, monthly, quarterly and periodic reviews of the Master Fund's and the Feeder Funds' accounts, including reviews for margin requirements, profit/loss, risk exposure and price relationships between account positions and general market conditions and compliance with trading guidelines, as set forth in the Master Fund's investment management agreement. Such reviews are performed by Watermark's operations team and/or by the Principals. Watermark's operations team reconciles on a daily basis all cash and portfolio positions of the Master Fund and the Feeder Funds. Other independent parties reviewing the Master Fund's and the Feeder Funds' accounts include the funds' administrator, which performs weekly and month-end reconciliations, and the funds' auditor, as part of its audit work.

B. Factors Prompting Review of Clients Accounts Other than a Periodic Review

Watermark will review the Master Fund's and the Feeder Funds' accounts as it deems necessary.

C. Content and Frequency of Account Reports to Clients

Investors in the Feeder Funds receive monthly account statements from the funds' administrator. The administrator also sends investors in the Feeder Funds transparency and performance summary reports on a monthly basis. Additional materials available on the Master Fund's website include, but are not limited to: marketing brochures, a due diligence questionnaire and Watermark's letters to investors.

ITEM 14
CLIENT REFERRALS AND OTHER COMPENSATION

A. Economic Benefits for Providing Services to Clients

Other than the fees described in Item 5 above, Watermark does not receive any other economic benefits from providing its investment and trading advisory services.

B. Compensation to Non-Supervised Persons for Client Referrals

Watermark has not entered into any oral or written agreements with third parties whereby it, directly or indirectly, compensates such party for client referrals.

ITEM 15
CUSTODY

Watermark does not have physical custody of any client assets. However, under Rule 206(4)-2 under the Advisers Act, Watermark is deemed to have custody of the assets of the Master Fund and the Feeder Funds. In accordance with Rule 206(4)-2, audited financial statements are furnished annually to all investors in the Feeder Funds within 120 days of the close of their fiscal year.

ITEM 16
TRADING DISCRETION

Watermark, subject to the objectives, guidelines and restrictions of the Master Fund's investment management agreement, has complete discretion to buy or sell securities or other financial instruments for the Master Fund and to select counterparties that execute such transactions.

ITEM 17
VOTING CLIENT SECURITIES

Watermark does not have a proxy voting policy as it does not trade in equity positions or debt securities that confer voting rights.

ITEM 18
FINANCIAL INFORMATION

Watermark is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition that is reasonably likely to impair its ability to meet its contractual and fiduciary commitments to the Master Fund or the Feeder Funds and is and has never been the subject of any bankruptcy proceeding.