

Paloma Partners Management Company

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This brochure (the “**Brochure**”) provides information about the qualifications and business practices of Paloma Partners Management Company (“**PPMC**”). If you have any questions about the contents of this Brochure, please contact us at (203) 862-8000. PPMC is registered as an investment adviser with the United States Securities and Exchange Commission (“**SEC**”) pursuant to the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). Registration with the SEC does not imply a certain level of skill or training and the information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

This Brochure is not: (i) an offer or agreement to provide advisory services to any person; (ii) an offer to sell interests (or a solicitation of an offer to purchase interests) in the Paloma Fund; (iii) a complete discussion of the strategies, risks, or conflicts of interest associated with the Paloma Fund; or (iv) to be relied on in determining whether to invest in the Paloma Fund or establish an advisory relationship with PPMC. The information provided in this Brochure about the Paloma Fund is qualified in its entirety by reference to the relevant Fund Documentation. Additional information about PPMC is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **ITEM 2 MATERIAL CHANGES AND GENERAL INFORMATION**

This annual update to our Brochure amends the last annual amendment dated March 31, 2023.

We do not consider any changes since our last update to be material, but investors are encouraged to review this updated Brochure in its entirety.

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#### ITEM 4            **ADVISORY BUSINESS**

PPMC was formed by S. Donald Sussman in 1989 and is equally owned by Mr. Sussman and 11 senior employees of PPMC, all of whom are listed in Schedule A of PPMC's Form ADV Part 1A. Paloma Partners Advisors LP ("**Paloma Advisors**"), is a relying adviser with respect to PPMC's investment adviser registration. Mr. Sussman owns and controls Paloma Advisors; additional information about Paloma Advisors is provided in Schedule R of PPMC's Form ADV Part 1A.

PPMC has a wholly-owned subsidiary, Paloma Switzerland GmbH, which maintains an office in Zurich, Switzerland. Paloma Switzerland GmbH primarily provides investor relations and marketing services to the Paloma Fund (defined below). References herein to "PPMC" include Paloma Switzerland GmbH, as applicable.

PPMC and Paloma Advisors are collectively referred to herein as **Paloma Management**.

Paloma Management provides discretionary investment advisory services to the Paloma Fund, and its advice is given in accordance with the investment objectives and guidelines as set forth in the Paloma Fund's private offering memoranda and other organizational and governing documents, as described and defined below. Investors in the Paloma Fund cannot obtain services tailored to their specific needs. Paloma Management does not participate in wrap fee programs.

As of December 31, 2023, Paloma Management advised \$3,318,788,440 in net asset value on a discretionary basis. Neither PPMC nor Paloma Advisors manage assets on a non-discretionary basis.

- **THE PALOMA FUND**

The "**Paloma Fund**" or the "**Fund**" is a multi-strategy hedge fund with a master-feeder structure including three feeder funds, Paloma Partners L.L.C. (a Delaware entity), Paloma International Limited (a Cayman Islands entity) and Paloma Offshore Limited (a Cayman Islands entity), which invest their investable assets in either the master fund or one or more Cayman Islands exempted limited partnership, as described below. The Paloma Fund seeks to achieve attractive long-term risk-adjusted returns through dynamic capital allocation among a changing set of investment strategies and Portfolio Managers (defined below).

Except as otherwise described below, the investment program of the Paloma Fund is exclusively carried out through the master fund, Paloma International L.P., and other entities through which the master fund makes investments or enters into transactions (collectively, the "**Master Fund**"). The feeder funds may invest in the Master Fund or one or more Cayman Islands exempted limited partnership (each, an "**SPV Master Fund**") directly or indirectly through an intermediate vehicle.

The feeder funds will participate (directly or indirectly through an intermediate vehicle) in each SPV Master Fund at a fixed percentage, reflecting each feeder fund's participation percentage in the Master Fund at the time the applicable underlying investment is made by such SPV Master Fund. In addition, in connection with certain investments made by the Master Fund or an SPV Master Fund, the feeder funds will participate (directly or indirectly through an intermediate vehicle) in such investment at a fixed percentage, as determined by Paloma Management. There are no diversification requirements or material limitations on the strategies, investments, instruments, leverage, markets or countries in which the Paloma Fund may invest.

Paloma Management has ultimate discretion and control over the Paloma Fund and its investments. Investment advice is provided to the Paloma Fund pursuant to the terms of each feeder fund's confidential private offering memorandum and other organizational and governing documents (collectively, "**Fund Documentation**"). Paloma Management's responsibilities to the Paloma Fund include: the selection of Portfolio Managers and strategies, managing the Master Fund's allocations and exposures across strategies and among Portfolio Managers, providing investment and credit risk management advice, and hedging the Master Fund's risk as deemed necessary. **Portfolio Managers** is the collective term used for Trading Teams (defined below), managers of Portfolio Funds (defined below) and managers of other direct investments in public or private companies.

**Trading Teams** are investment teams that pursue investment strategies in the Master Fund. Trading Teams are either engaged as independent contractors or are employed by PPMC. Independent contractors are responsible for their own operations (e.g., compliance and registration(s), supervision of employees, hiring of personnel and information technology) but are subject to Paloma Management's portfolio and risk management oversight. Descriptions of Trading Teams and their activities in this Brochure generally apply to all Trading Teams (regardless of whether or not a Trading Team is an independent contractor ("**External Trading Team**") or PPMC employee ("**Employee Trading Team**"), unless otherwise noted.

The Paloma Fund also makes direct investments in public or private companies and **Portfolio Funds**. Portfolio Funds are standalone funds or other investment vehicles into which the Master Fund invests capital.

Additional information about the Paloma Fund's entities is included in Section 7.B of Schedule D in PPMC's Form ADV Part 1A.

## **DISCLAIMER**

No guarantee or representation is made that the Paloma Fund's investment program, including, without limitation, its investment objectives, diversification, strategies or risk monitoring processes, will be successful. The risk management process includes an effort to monitor and manage risk, but does not imply low risk. There may be risks which are not monitored or controlled and risks that may be greater than forecasted, especially in unusual market conditions. Nothing herein is intended to imply that the Paloma Fund's investment strategy is "conservative", "safe", "risk free", or "risk averse". There can be no assurance that the Paloma Fund's investment objective will be achieved or that its portfolio design and risk monitoring strategies will be successful. Investors may lose all or substantially all of their capital.

## **ITEM 5 FEES AND COMPENSATION**

**PLEASE REVIEW THE RELEVANT FUND DOCUMENTATION, FINANCIALS AND DUE DILIGENCE QUESTIONNAIRE (“DDQ”) FOR A COMPLETE DISCUSSION OF THE FUND’S FEES AND EXPENSES.**

An investment in the Paloma Fund is subject to substantial fees and expenses. Expenses allocated to the Paloma Fund are material, both on an absolute basis and as a percentage of the Paloma Fund’s assets. For further details, please see below and the Paloma Fund’s most recent DDQ, Fund Documentation and financial statements.

The Fund assesses expenses on a “pass through” basis, which means that each feeder fund (and therefore its investors) is not only responsible for its direct fees and expenses and a pro rata share of the Master Fund’s (and any SPV Master Fund’s) expenses, but also for all or substantially all of the expenses incurred by its management entities as described below. Expenses are deducted periodically in advance or in arrears. Currency hedge share classes will also bear expenses related to the execution of the currency hedge.

PPMC does not have a fee schedule and does not currently receive asset-based or performance-based compensation. All or substantially all of PPMC’s expenses are passed through to and paid by the Paloma Fund and therefore the investors. PPMC’s expenses include expenses incurred by PPMC on behalf of the Paloma Fund, for the benefit of the Paloma Fund or for the benefit of Paloma Management. PPMC’s expenses are treated as Paloma Fund expenses regardless of whether or not they are directly related to the Paloma Fund’s investment activities. Additional information about PPMC’s expenses is provided below and in the Paloma Fund’s most recent DDQ, Fund Documentation and financial statements.

Generally, Paloma Advisors receives either a Management Fee payable monthly in arrears of 1/12 of 1.5% with respect to the capital account or net asset value of shares owned by investors in the Paloma Fund’s A, B and E classes or an annual Incentive Fee (or Incentive Allocation) of 20% of the net realized and unrealized capital appreciation attributable to each capital account or series of shares owned by investors in the Paloma Fund’s C and D classes. The Paloma Fund’s administrator calculates the amount of the applicable Management Fee or Incentive Fee (or Incentive Allocation). The Management Fee or the Incentive Fee (or Incentive Allocation) of a particular investor may be subject to a waiver, reduction or rebate or a portion thereof may be used to compensate a placement agent, to the extent applicable. Fees and compensation paid or allocated to Paloma Advisors are generally deducted from the assets of the Paloma Fund.

- FUND EXPENSES

Each feeder fund will bear its own expenses and its proportionate share of the Master Fund's expenses. These will include, without limitation, (i) on a direct basis, any fees payable by the feeder fund, organizational expenses of the feeder fund and operating expenses of the feeder fund, and (ii) on an indirect basis, similar fees and expenses incurred at the Master Fund (and any SPV Master Fund) as well as investment-related expenses of the Master Fund (and any SPV Master Fund) (but only to the extent the feeder fund participates in such investment), including, but not limited to: (a) the Management Fee, (b) the Incentive Fee, (c) expenses relating to the research, due diligence and monitoring of actual and prospective trades and investments (whether or not consummated) and the clearance, settlement and consummation of trades and investments, (d) organizational and operating expenses (including, without limitation, third-party professional fees) relating to the creation, establishment, qualification and any reorganization of the feeder fund or any other entity through, or in which, the feeder fund or Master Fund invests, (e) operational expenses (including taxes) and (f) any expenses related to a particular expense item listed above. The following is a more detailed description of these Fund Expenses:

- Expenses relating to the research, due diligence and monitoring of actual and prospective trades and investments (whether or not consummated) and the clearance, settlement and consummation of trades and investments, including, without limitation, the following:
  - investment sourcing fees;
  - fees and expenses related to research and market data (including, without limitation, information technology hardware, software or other technology used in obtaining or utilizing such research and market data, investment and industry research related expenses including subscription fees and expenses (e.g., Bloomberg and other data and research services), industry news, journals and other publications), which compensation may be performance-based;
  - expenses related to obtaining, processing and analyzing "big data" or "alternative data";
  - costs related to security and custody of digital assets (including third-party wallet providers) and fees and expenses relating to technology hardware, software or other technology to acquire digital assets;
  - due diligence expenses, including, without limitation, consulting and appraisal fees;
  - investment and research-related travel expenses;
  - brokerage, prime brokerage and futures commission merchant fees, commissions and expenses (as explained further in Item 12);
  - expenses relating to reorganizations, restructurings and workouts;
  - expenses relating to short sales and securities borrowing;



- clearing and settlement charges, including exchange fees and ticket charges;
  - custodial fees and expenses;
  - bank service fees;
  - interest expenses and fees related to financings or refinancings;
  - expenses relating to investment-related litigation;
  - fees and expenses of proxy research and voting services;
  - management fees and expenses associated with the Master Fund's (or any SPV Master Fund's) investments in certain securities (e.g. investments in shares issued by Exchange Traded Funds (ETFs), money market funds or mutual funds), as applicable;
  - fees and expenses of third-party professionals, including, without limitation, consultants, investment bankers, attorneys and accountants;
  - expenses relating to due diligence, enhanced reporting and/or compliance in respect of the feeder fund or the Master Fund's (or any SPV Master Fund's) environmental, social and governance considerations;
  - expenses related to identifying and recruiting Portfolio Managers (including finders' fees), as well as management and performance-based compensation payable to Trading Teams and in respect of the Master Fund's (or any SPV Master Fund's) investments in Portfolio Funds (see "Trading Team Compensation" below); and
  - other fees or compensation, expenses, advances, draws or start-up expenses that may be negotiated with Portfolio Managers in connection with the Master Fund's (or any SPV Master Fund's) investments in Portfolio Funds (including expenses charged on a pass-through basis).
- Organizational, professional services fees and operating expenses relating to the creation, establishment, qualification, ongoing maintenance, reorganization, dissolution, winding-up or termination of a feeder fund or any other entity through, or in which, the feeder fund or Master Fund (or any SPV Master Fund) invests.
  - Operational expenses, including, without limitation, the following:
    - legal, tax, regulatory (e.g., filing fees), administrative (e.g., administrator fees and expenses), and audit fees and expenses;
    - costs associated with the preparation and distribution of investor reports and other communications;
    - expenses incurred in connection with the offering and sale of shares or interests (including regulatory filings, travel and entertainment expenses and fees payable to any placement agent) and other similar expenses related to the Paloma Fund;
    - taxes;

- expenses incurred in connection with negotiating and complying with the provisions of any side letter;
- extraordinary expenses, including, without limitation, indemnification expenses and expenses relating to insurance (including directors' and officers' insurance and errors and omissions insurance, and coverage for each member of the advisory committee);
- fees and expenses of the feeder fund's (and Master Fund's or any SPV Master Fund's) directors or officers (including AML officers or advisory committee members (if applicable), including all travel, hotel and other expenses incurred in attending board and shareholder meetings;
- fees and expenses incurred in connection with any tax audit by any relevant authority, including, without limitation, any related administrative settlement and judicial review; and
- fees and expenses incurred in connection with all other inquiries, investigations, audits, subpoenas, enforcement actions and private litigation relating to the feeder fund, Master Fund, an SPV Master Fund or any trading subsidiary (*e.g.*, SEC, DOJ, FCA and stock and futures exchanges) incurred by PPMC and/or any Trading Team.

Fund Expenses also include any expenses related to a particular expense item listed above (including periodic fees and charges, taxes, surcharges, penalties, assessments, costs or fees (including late fees), consulting fees, repair, replacement and maintenance costs, delivery charges, costs of physical and electronic security, and warranty expenses.

- **PASS-THROUGH EXPENSES – GENERAL**

In addition to Fund Expenses (described above), a feeder fund (and therefore its investors) will be responsible for its proportionate share of all or substantially all of the expenses of PPMC, including overhead and employee compensation, organizational expenses and operating expenses (all of which are, and are expected to continue to be, considerable). This expense pass through arrangement with PPMC differs from that of most other private fund structures (where the adviser typically receives a management fee in lieu of reimbursement for its overhead and similar expenses). In this instance, Paloma Advisors (or its designees) receives the Management Fee or the Incentive Fee (or Incentive Allocation), as applicable, and PPMC receives a reimbursement of all or substantially all of its operating and other expenses (note that PPMC is not entitled to receive a management fee or any incentive compensation from the Paloma Fund).

This arrangement presents the potential for certain conflicts of interest including:

- This expense pass through arrangement may not provide an adequate incentive for PPMC to reduce, manage or limit its expenses (including compensation expenses of

employees and third-party consultants or vendors). This could result in investors in the Paloma Fund indirectly paying a greater amount in expenses than would be the case if all or some of its expenses were not passed through to investors but rather had to be covered by a “fixed” fee with respect to the services provided.

- Many categories of PPMC Expenses (discussed below), which are borne by the Paloma Fund, are determined by Paloma Management without an “arm’s length” negotiation with any third party, and there is no limitation on the amount of PPMC Expenses that may be charged to the Paloma Fund. PPMC Expenses are not subject to approval by investors, or by independent third parties.

Prospective investors should consider the advantages and disadvantages of this expense pass through arrangement and should assess the potentially significant financial impact of it.

PPMC Expenses. All or substantially all PPMC Expenses are passed through to investors. “**PPMC Expenses**” include, but are not limited to:

- employee related expenses, including all direct and indirect base compensation, salaries, bonuses, wages, payroll taxes and processing, unemployment insurance, severance, overtime, benefits (e.g., medical, health insurance, life insurance, disability income insurance, flexible spending/dependent care plan and other benefits), retirement plan (including 401k matching), on-site fitness center (including equipment purchase, repair and maintenance), reimbursement for professional and workplace training and education expenses (including travel and meal expenses), temporary help, placement fees, recruitment expenses (including finders’ and placement agent fees), “buyout” or breakage expenses, relocation expenses, background checks, visa and green card expenses (e.g., legal and travel costs), and all other employment compensation payable to Employee Trading Teams (including performance-based compensation) (see “Trading Team Compensation” below);
- licensing and industry associations/professional organization membership fees and expenses;
- professional services expenses, including engagement of consultants and other external advisors and service providers (e.g., legal, tax, compliance, audit, accounting, corporate administration, programming, information technology, cyber-security, trade surveillance, facilities, marketing and media relations) for the benefit of PPMC or Paloma Advisors;
- disaster recovery expenses;

- facilities and overhead expenses, including rent (and security deposits if applicable) for office space for PPMC and any subsidiaries or branch offices (which includes ancillary space and facilities such as storage, pantries, lounge and meeting spaces, fitness centers, etc.), utilities, insurance premiums and any indemnification obligations (including directors' and officers' insurance and errors and omissions insurance), office cleaning (including maintenance staff and supplies), office design, office improvements and repairs, construction, moving expenses, back-up power, office furniture, fixtures and equipment, office supplies, mail and delivery fees and expenses (e.g., overnight delivery, messengers, postage), offsite storage fees and expenses and any supplies, maintenance fees/expenses and taxes (e.g., property taxes and sales and use taxes) related to PPMC's operations, facilities or overhead;
- expenses related to information technology, such as hardware, software, supplies and services, including computers, trading screens, servers, peripheral devices, data storage, data management, scanners, printers, projectors, networking hardware and accessories, data center equipment (e.g., racks and cabling) capacity and services, tutorials, licenses and maintenance and upgrades, recovery services, software/website development and support, installation and configuration, custom development, managed services (e.g., computer, telecom, network equipment and systems), information security and cybersecurity, publications (e.g., research subscriptions, books and training), computer repair, maintenance and help desk, including fees paid to service providers providing any such services;
- expenses related to trading, portfolio management, order management, risk management and similar systems and any related hardware, software, data, supplies and services;
- communications expenses, including telephone/internet equipment, lines, cable TV equipment and services, cellular equipment (i.e., smartphones), and any service plans, associated repairs, parts and maintenance;
- investor relations, marketing and offering expenses, including travel expenses (described below), meals, development, printing and distribution costs of marketing and investor relations materials and marketing event fees;
- travel expenses and related costs (including, without limitation, in connection with firm-sponsored off-site activities, continuing education, business meetings, industry meetings or seminars, recruiting, due diligence, marketing or investor relations purposes). Travel expenses include, without limitation, any type or class of transportation (including costs associated with rail or air tickets, luggage handling, travel agents, rental cars, car services and taxis, tips, gas, mileage, parking and tolls), hotel costs, conference registration fees

- and costs associated with speaking engagements (as applicable), travel visas, entertainment and meals;
- all expenses and costs (including those related to third-party services) associated with preparing and making regulatory and compliance filings on behalf of PPMC, Paloma Advisors, the feeder funds or the Master Fund (including, without limitation, Forms 13D, 13F, 13G and 13H, Form CPO-PQR, Form PF, Form ADV, Annex IV and other AIFMD-related filings, MiFID II and any other regulatory filings in the U.S. and/or governmental non-U.S. jurisdictions which may arise);
  - any other fees and expenses incurred in connection with any transactions, engagements, or other agreements (including financing arrangements) entered into by PPMC on behalf of Paloma Management, the feeder funds or Master Fund including, among other things, Employee Trading Teams;
  - operational and organizational expenses of PPMC (including, without limitation, third-party professional fees) relating to its creation, establishment, qualification and reorganization;
  - business entertainment expenses;
  - food and beverage-related expenses (e.g., costs associated with office pantry, catering for business meetings, food, supplies and related equipment);
  - any expenses related to a particular expense item listed above (including periodic fees and charges, taxes, surcharges, penalties, assessments, costs or fees (including late fees), consulting fees, cost of repair, replacement and maintenance costs, delivery charges, costs of physical and electronic security, and warranty expenses); and
  - fees and expenses related to regulatory compliance obligations related to or incurred by PPMC or any of its clients, including, without limitation, software, services and similar applications, reviews and evaluations, services from information and data providers, systems integration and similar services.

Allocations of PPMC Expenses. Paloma Management generally will seek to allocate PPMC Expenses (including Employee Trading Team compensation, and the compensation, salary and bonuses of any PPMC employee who dedicates significant time to any non-Fund business) fairly and equitably among the Paloma Fund and any other clients (or among the feeder funds that invest in the Master Fund) based upon certain estimates and assumptions that Paloma Management believes are reasonable and appropriate, but which may be imprecise and may result in the Paloma Fund (or a particular feeder fund) bearing a larger portion of such expenses than if they were calculated in a different manner. (Currently, the Paloma Fund generally bears substantially all costs and expenses of PPMC.)

In determining the allocation of expenses in connection with the activities of PPMC, the need to allocate common expenses may present a conflict. Paloma Management will attempt to mitigate such conflicts by making allocations and other judgments on a basis that it believes to be fair and equitable under the circumstances, although it may not be possible to fully or partially mitigate each such conflict, and such conflicts will not necessarily be resolved in favor of the Paloma Fund (and therefore its investors).

Reimbursement of Expenses. To the extent that expenses to be borne by the Paloma Fund are paid by Paloma Management, Paloma Management will generally seek reimbursement for such expenses from the relevant Paloma Fund entity. A decision by Paloma Management to not seek reimbursement for such expenses in one instance will not preclude Paloma Management from seeking reimbursement from the Paloma Fund for such expenses in another instance or from Paloma Fund bearing such expenses in the future.

For purposes of this section the words “include” or “including” shall mean “include, without limitation” or “including, without limitation,” as appropriate. The foregoing expenses may be revised by Paloma Management from time to time in its sole discretion. Further, the foregoing expenses are in addition to fees and expenses specifically described elsewhere in the Fund Documentation.

- **TRADING TEAM COMPENSATION**

External Trading Teams. Each External Trading Team generally receives asset-based or fixed compensation (a “**Trading Team Fee**”), which is negotiated annually by Paloma Management with such External Trading Team,”) and performance-based compensation. Compensation terms for External Trading Teams may also include, among other terms, advances and sign-on bonuses (or equivalent concepts) and will depend on what Paloma Management believes is necessary to engage and retain an External Trading Team.

Performance-based compensation payable to an External Trading Team is usually adjusted for a hurdle rate of return and/or a high water mark (either of which may be waived or modified by Paloma Management if it believes it is necessary to engage or retain an External Trading Team). In addition, the Trading Team Fee and performance-based compensation payable to an External Trading Team may be guaranteed for a specific period and may be modified or renegotiated in the discretion of Paloma Management. Any increase to the Trading Team Fee or performance-based compensation may be effected through one-time additional payments. Alternatively, changes to the Trading Team Fee or performance-based compensation may be effected through an amendment to the Trading Team’s agreement. Performance-based compensation is generally calculated by the Paloma Fund’s administrator based on the negotiated percentage of the External

Trading Team's net profits. While such percentage is not usually expected to exceed 20%, it may be greater for some External Trading Teams (and could be significantly greater) and often exceeds 20% in the case of algorithmic strategies.

Employee Trading Teams. Employee Trading Teams generally receive a salary and a bonus, which may be guaranteed for a specific period, and may be modified or renegotiated in the discretion of Paloma Management. The bonus is generally calculated on the basis of performance, but may be discretionary. Employee Trading Teams also receive other compensation (such as employee benefits and retirement plan contributions), as described above in "PPMC Expenses".

Trading Team Compensation Generally. Performance-based compensation paid to a Trading Team generally is expected to be based solely on that Trading Team's performance (in the event that a Trading Team advises more than one portfolio, performance-based compensation will generally be calculated by portfolio). Therefore, the Master Fund may (and likely will) pay bonuses (to an Employee Trading Team) and/or performance-based compensation (to an External Trading Team) for positive performance that is measured at a sub-account level even if the Master Fund's overall performance is negative. Accordingly, prospective investors should be aware that the fact that losses attributable to one Trading Team generally will not offset positive performance of another Trading Teams, and can result in higher overall bonuses (to an Employee Trading Team) and/or performance-based compensation (to an External Trading Team) being paid to Trading Teams than had bonuses and/or performance-based compensation been based on the Master Fund's overall performance.

Performance-based compensation payable to a Trading Team will typically be reduced or offset by the Trading Team Fee or other compensation or expenses (or a portion of those amounts) incurred on behalf of, advanced to, or otherwise allocated to such Trading Team (including draws or start-up expenses) (collectively, the "**Offset Expenses**"). For the avoidance of doubt, not all expenses are Offset Expenses. If a Trading Team does not generate sufficient bonuses or performance-based compensation to cover the amount of any such Offset Expenses, the Master Fund will not be able to recoup or offset those Offset Expenses in part or in full.

As described above, all direct and indirect amounts owed to or incurred on behalf of Trading Teams (which includes External Trading Teams as well as Employee Trading Teams) are borne, indirectly, by the Paloma Fund (and therefore investors), except for the Offset Expenses, based on the terms negotiated in such Trading Team's agreement, which terms may vary in respect of each Trading Team. Administrative service expenses do not generally offset profits when computing Trading Team performance-based compensation. This means that all or substantially all of the PPMC administrative service expenses/PPMC general expenses are borne directly by the Paloma Fund's

investors as such expenses do not reduce the compensation payable to any Trading Team. Administrative service expenses include compensation (salary, benefits & discretionary bonus) for Paloma Management's non-investment staff and certain operating expenses attributed to non-investment staff (including, but not limited to, occupancy, office expenses, computer supplies, software and maintenance, insurance, investment research and quotation services for non-investment staff).

- PORTFOLIO FUND MANAGER COMPENSATION GENERALLY

The Master Fund's investment in a Portfolio Fund is subject to that Portfolio Fund's asset-based and performance-based compensation, as well as a share of that Portfolio Fund's expenses (which in certain cases may include other fees or compensation, expenses, advances, draws or start-up expenses that may be negotiated with a Portfolio Manager in connection with the Master Fund's (or any SPV Master Fund's) investments in a Portfolio Fund) A Portfolio Fund's expenses may be charged on a pass-through basis.

- LOSSES

Performance-based compensation is payable to each Portfolio Manager based solely on its own performance. A Portfolio Manager with positive performance is entitled to receive performance-based compensation even if the overall performance of the Paloma Fund is negative. If a Portfolio Manager suffers net losses during the year, the losses are generally carried forward and past losses generally must be made up before performance-based compensation becomes payable in subsequent years (unless subject to a modified structure as determined by Paloma Management). There is generally no "carry back" or "claw back" of losses to permit recouping of performance-based compensation from prior years.

- PALOMA ADVISORS – MANAGEMENT FEE

Management Fee. (for Class A, Class B, and Class E investors): Generally, each feeder fund pays a management fee (the "**Management Fee**") to Paloma Advisors (or its designees) at an annualized rate of 1.5% with respect to the capital account or net asset value of shares owned by each Class A investor, Class B investor and Class E investor (unless otherwise reduced pursuant to certain exceptions described below). The Management Fee is paid monthly in arrears following the month for which it was earned.

Incentive Fee. (for Class C and Class D investors): Generally, at the end of each calendar year, an amount equal to 20% of the net realized and unrealized capital appreciation attributable to each capital account or series of shares owned by Class C investors or Class D investors (the "**Incentive**



**Fee**") will be paid to Paloma Advisors (or its designees), subject to a "Loss Recovery Account" (i.e., a "high water mark") and other adjustments, all of which are more fully described in the Fund Documentation. If an investor withdraws all or any portion of the balance of its capital account related to a Class C interest or Class D interest or its Class C shares or Class D shares other than at calendar year-end, an Incentive Fee will be determined as of the Withdrawal Date with respect to the withdrawn amount (as if it were the last day of the calendar year), and paid to Paloma Advisors (or its designees). In certain limited circumstances more fully described in the Fund Documentation, a Class C investor or a Class D investor may be subject to an incentive allocation (the "**Incentive Allocation**") in lieu of an Incentive Fee with respect to particular investments.

- **ADDITIONAL EXPENSES RELATED TO PALOMA FUND CLASS B and D INVESTORS**

Class B and Class D investors in the Paloma Fund are subject to a Liquidity Capital Account Reduction<sup>1</sup> at an annualized rate (depending on the value of the capital account balance) of either 0.25% or 0.50% of the relevant capital account balance. The Liquidity Capital Account Reduction will be credited on a pro rata basis to the capital account balances of investors electing an annual withdrawal cycle up to the amount of expenses borne by such investors. Any excess Liquidity Capital Account Reduction is payable to Paloma Advisors. The Liquidity Capital Account Reduction is applied monthly in arrears.

- **ADDITIONAL EXPENSES RELATED TO THE HEDGE CURRENCY SHARE CLASSES**

Investors in non-US dollar share classes will bear the costs incurred in connection with hedging the applicable currency risk exposure including, without limitation, potential lost opportunity costs related to collateral or other requirements necessary to engage in the hedging activity (which may effectively reduce the amount of capital utilized by the relevant feeder fund for its investment program). Trade errors in respect of hedge currency share classes are allocated only to the subclasses of the investors participating in the related currency hedging activity.

- **COMPENSATION RECEIVED FROM AFFILIATED PORTFOLIO FUNDS**

The Paloma Fund currently invests, and may in the future invest, in affiliated Portfolio Funds (such as the China Funds (as described below). While the Master Fund pays all fees and expenses (including management and performance-based compensation) charged by the China Managers

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<sup>1</sup> Investors in the offshore feeder funds are subject to a Liquidity NAV Reduction, which reduces the net asset value of the shareholders' shares with a quarterly redemption cycle at the same rate as the Liquidity Capital Account Reduction reduces onshore investors' capital account balances.

pertaining to investments in the China Funds, to address the conflict of interest related to the receipt of compensation from both the Paloma Fund and the China Funds for the same capital (i.e., double fees), Paloma Advisors waives the Management Fee and the Incentive Fee in respect of the Paloma Fund's investments in the China Funds.

Please see additional disclosures related to investments in affiliated Portfolio Funds included in ITEM 10 and in Fund Documentation.

- FEE WAIVERS/REDUCTIONS

Paloma Advisor's may elect to negotiate Fund fees and reduce, waive, calculate differently, or provide rebates on:

- (i) Paloma Advisors' Management Fee or the Incentive Fee (or any applicable Incentive Allocation) with respect to certain investors, including, without limitation, investors that are partners, affiliates, or current and former employees of Paloma Management, members of the immediate families of those persons and trusts or other entities for their benefit, strategic or large investors, or in connection with solicitation arrangements with placement agents and asset aggregators.
- (ii) The Liquidity Capital Account Reduction with respect to certain investors, including, without limitation, strategic or large investors, or in connection with solicitation arrangements with placement agents and asset aggregators (but not investors that are partners, affiliates or employees of Paloma Management, members of the immediate families of those persons and trusts or other entities for their benefit).

## **ITEM 6                    PERFORMANCE-BASED FEES and SIDE-BY-SIDE MANAGEMENT**

Paloma Advisors accepts performance-based compensation from every client. As a result, neither Paloma Advisors nor PPMC face certain conflicts of interest that may arise when an investment adviser accepts performance-based fees from some clients, but not from other clients.

## **ITEM 7                    TYPES OF CLIENTS**

Paloma Management provides discretionary portfolio management services to the Paloma Fund. The Paloma Fund and/or shares or interests in the Paloma Fund are not registered under the U.S. Securities Act of 1933, as amended, and the Paloma Fund is excepted from the definition of an “investment company” under Section 3(c)(7) of the Investment Company Act of 1940, as amended. Accordingly, shares or interests in the Paloma Fund are offered exclusively to investors satisfying the applicable eligibility and suitability requirements either in private placement transactions within the United States or in offshore transactions. Investors in the Paloma Fund are also Qualified Eligible Persons as defined in the Commodity Exchange Act.

Paloma Management may (but currently does not) provide investment advice to other clients, including other private funds or separately managed accounts.

The minimum initial investment in the Paloma Fund is generally \$5,000,000 for Classes A, B, C and D and \$300,000,000 for Class E, which may be waived at the discretion of Paloma Management for the onshore feeder fund or the Board of Directors for the offshore feeder funds, as applicable.

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

- **METHODS OF ANALYSIS AND INVESTMENT STRATEGIES**

The following is a summary of the strategies and methods used in formulating advice or managing assets (and their material risks) for the Paloma Fund. Any or all of the strategies described below may be undertaken in developing or emerging markets, or in the securities of companies based in developing or emerging markets.

In the execution of these strategies, Paloma Management and/or Portfolio Managers may trade or invest, directly or indirectly, on margin or otherwise, in all forms of securities and other financial instruments, where “securities” and “financial instruments” are given their broadest possible meanings and include any interest of any kind commonly referred to as securities. The Paloma Fund may employ additional strategies, or variations of these strategies without advance notice to investors. Additional strategies and variations of strategies may involve higher levels of risk.

Depending upon the investment strategies employed and market conditions, the Paloma Fund may be adversely affected by unforeseen events involving such matters as changes in interest rates, liquidity (ability to transact), the credit status of an issuer, forced withdrawals of securities, break-up of planned mergers, unexpected changes in relative value, short squeezes, an inability to short stock, changes in tax treatment or market disruptions, among others.

All strategies carry a risk of loss. Certain risks are inherent, or more likely to impact a particular strategy or transaction, while other risks are related to the markets in which the Paloma Fund trades or the instruments are traded. Market risk is inherent in all securities investments to varying degrees, and there can be no assurance that the investment objective of the Paloma Fund will be achieved. Certain investment practices may increase the risk profile of the Paloma Fund. The Fund's activities could result in substantial losses (including the complete loss of capital) under certain circumstances.

While Paloma Management currently expects that Portfolio Funds as well as the Paloma Fund will primarily engage in these types of strategies, the Paloma Fund and Portfolio Funds may engage in investment strategies and trade in financial instruments that are not described in this Brochure. These descriptions do not in any way limit the Fund's or Portfolio Funds' investment activities.

*Credit Relative Value Investment Strategies* are designed to identify attractive long and short opportunities in corporate, asset backed and mortgage backed securities (including senior and subordinated claims as well as bank debt and other outstanding debt obligations). Portfolio Managers may seek to take advantage of idiosyncratic opportunities on both the long and short sides. Strategies may also have exposure to government, sovereign, equity, convertible or other obligations. Portfolio Managers may employ fundamental credit analyses focused on valuation, asset coverage and quality of collateral. In most (but not all) cases portfolio exposures are concentrated in publicly traded instruments, albeit with varying degrees of liquidity.

*Algorithmic Strategies* use quantitative methods and statistical models which seek to identify mispricings among securities and futures based on various metrics such as deviations from equilibria, momentum, pattern recognition, volume, or flow-driven momentum and factors underlying security price variations. The frequency of trading varies by model, but may be high. These portfolios may have directional exposure but generally seek to generate returns with minimal correlation to directional moves in major markets.

*Fundamental and Directional Strategies* measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition, prospects and management of a company itself) to determine if a company is

underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell).

*Commodities Strategies* trade commodities, futures, options, or derivatives on agricultural and energy products, metals and minerals, among others, based on technical and fundamental analysis of relevant markets. Investments can also include the equity of companies that produce, process, convert, transport and service commodities.

*Volatility and Correlation Strategies* trade derivatives (typically derivatives in which optionality plays a role) that are linked to the realized or implied volatility of an asset or basket of assets, or to the correlation of one or more assets.

*Fixed Income Strategies* typically include long and short credit positions based on quantitative or qualitative analysis of various fixed income securities to capture inefficiencies in the relative pricing of similar instruments. Instruments traded typically include bonds (including fixed, floating rate and zero coupon bonds), sovereign debt, interest rate swaps, futures contracts, forward contracts, government sponsored agency debt, mortgage backed securities, asset backed securities or related derivatives. These strategies may have significant directional exposure to take advantage of market dislocations.

*High Yield Strategies* trade and invest in credit derivatives, bank debt, senior and subordinated bonds, equity or other securities of unrated or below investment grade issuers based on an assessment of fundamental values.

*Capital Structure Strategies* seek to exploit pricing inefficiencies and informational asymmetries through a diversified portfolio of offsetting long and short positions within companies' capital structures. Investments can include bank debt, convertible and non-convertible senior and subordinated debt, and preferred and common stock of one or more companies.

*Convertible Securities Strategies* seek to exploit price differentials (spreads) between convertible securities and the underlying security. Instruments traded typically include bonds, preferred and common stock, and derivatives.

*Long/Short Strategies* seek to generate alpha and mitigate correlation to major market directional movements by establishing long and short positions in securities, indices, ETFs or baskets of securities. These strategies can either be market neutral or have some directional exposure.

*Distressed Strategies* generally invest in the securities and other assets of issuers in weak financial condition (perhaps having a negative net worth), experiencing poor operating results, needing substantial capital investment, facing special competitive or product obsolescence problems, or involved in various stages of bankruptcy or reorganization proceedings.

*Event Driven, Special Situation and Merger Arbitrage Strategies* involve investments in opportunities created by certain current or expected events or special situations and may involve a long or a short view with respect to an issuer depending on the anticipated outcome of particular events or transactions. The strategies trade in the securities of publicly traded companies in announced or prospective mergers, acquisitions, cash tender-offers, exchange offers, corporate recapitalizations or other corporate actions, including the anticipation of such events occurring in the future. These strategies may also trade in sovereign securities.

*Activist Strategies* seek to make investments for the purpose of influencing the management of a company (which may take a cooperative or hostile approach) to realize value through, for example, going private transactions, management changes, divestitures or acquisitions. These strategies typically involve acquiring a substantial ownership stake in an issuer either alone, or in conjunction with others.

*Investments in Private Equity/Private Placements* are medium to long-term investments in private companies that are not publicly traded securities. In addition to purchasing a company's equity, investments may be in mezzanine debt or other types of financing. Exit transactions from these investments typically involve, but are not limited to, initial public offerings (after which time, the Fund's interests may be subject to transfer restrictions for periods of time) or private sales of the Paloma Fund's investment.

*Investments in Real Assets* are typically opportunistic investments in physical, tangible assets which may include: commodities, equipment, natural resources or property. These investments may be longer-term investments.

*Macro-Economic Strategies* seek to profit by capturing market movements across a global universe of investment opportunities, such as equity, currency, commodity and fixed-income markets, based on a broader economic analysis than would be used for the purchase or sale of specific securities. These strategies may be directional and seek to exploit mispricings across markets and geographies.

*Fund-Level Hedging Strategies* seek to limit the exposure of the Paloma Fund to rapid, adverse changes in the market environment and to "tail risks." However, Paloma Management is not

obligated to hedge any specific risk and may elect not to hedge against certain risks or to alter the extent to which the Paloma Fund is hedged from time to time.

*Investments in Developing or Emerging Markets or Asian Markets* may utilize any or all of the strategies described herein.

*Investments in Virtual Currency Spot Transactions and Virtual Currency Derivatives* are typically investments in Bitcoin, Ethereum and similar digital assets and cryptocurrencies (collectively, “Digital Assets”), and futures or options on futures on a Digital Asset.

### **DISCLAIMER**

The following is a summary of certain risks associated with the types of securities that Paloma Management and/or Portfolio Managers primarily recommend to the Paloma Fund (or the Portfolio Funds in which the Paloma Fund invests). The information included below does not include every potential risk associated with every investment strategy or security. Investors and prospective investors in the Paloma Fund are urged to ask questions regarding risk factors applicable to a particular investment strategy or security, read all product-specific risk disclosures (for example, the Fund Documentation) and determine whether a particular strategy or type of security is suitable for their account in light of their circumstances, investment objectives and financial situation. Investing in securities involves risk of loss, possibly a total loss of invested capital that investors should be prepared to bear.

There is no guarantee that the Paloma Fund’s investment program, including, without limitation, its investment objectives, strategies, or risk monitoring goals will be successful. Investment results may vary substantially over time. Investments in the Paloma Fund are speculative and involve a high degree of risk. There may be risks which cannot be monitored or controlled, and risks that may be greater than forecasted, especially in unusual market conditions. Paloma Management cannot guarantee that any assumptions relied on herein will be true for all future events or that all assumptions have been considered or stated.

- **CERTAIN RISKS RELATED TO INVESTMENT STRATEGIES, INVESTMENTS, AND TRADING**

*No Fixed Strategy, Instruments, Markets, Sectors or Issuer Weightings:* The Paloma Fund will opportunistically implement whatever strategies or discretionary approaches Paloma Management believes from time to time may be suited to prevailing market conditions. The risks associated with such strategies may be different from those described herein. There can be no assurance that Paloma Management will be successful in selecting any such strategy or discretionary approach and that losses will be avoided.

Although the diversification of the Paloma Fund's investments among a variety of strategies is intended to reduce the Paloma Fund's exposure to adverse events associated with specific companies, industries, asset types, strategies or markets, the amount of that diversification may be limited. As a result, the Paloma Fund's assets may become highly concentrated within a particular company, industry, asset type, strategy or market at any given time, and the Paloma Fund will therefore be more susceptible to fluctuations in value resulting from adverse economic conditions affecting the performance of a particular company, industry, asset type, strategy or market than would be the case for a less concentrated portfolio.

*Discretion of Paloma Management; New Strategies and Techniques:* Paloma Management has complete discretion in the types of financial instruments that the Paloma Fund may trade and has the right to modify, and will modify, the trading strategies or hedging techniques of the Paloma Fund without notifying investors or seeking their consent. Any of these new trading techniques may not be thoroughly tested in the market before being employed and may have operational or theoretical shortcomings that could result in unsuccessful trades and, ultimately, losses to the Paloma Fund. In addition, any new investment strategy or hedging technique utilized by the Paloma Fund may be more speculative than earlier techniques and may increase the risk of an investment in the Fund.

*Competition:* There is currently, and will likely be, competition for investment opportunities with others having investment objectives and strategies like those of the Paloma Fund. The Paloma Fund also competes for investment professionals having expertise in those investment opportunities. If competition prevents or hinders the Paloma Fund's ability to participate in certain investment opportunities or obtain the best investment professionals, the Paloma Fund's performance may suffer.

*Algorithmic Strategies:* These strategies are typically predicated on models designed around historical and anticipated price behavior and portfolio construction. As such, these strategies may not be successful if the models do not perform as anticipated or the market does not behave as expected. Perceived mispricings and predicted volatilities may fail to materialize as expected. Markets for certain investments traded in these strategies may be inefficient or illiquid and calculations within the models may involve significant uncertainties. There may be significant directional exposure to the volatility of one or more assets or the correlation of two or more assets. These strategies also typically employ significant leverage which magnifies gains and losses.

*Model-Based Trading:* The Paloma Fund may use an investment strategy that is determined principally by the concepts included in a model and the recommendations generated by the model.



The Paloma Fund is unlikely to be successful unless both the underlying assumptions of the model and the concepts utilized by the model are reliable. If such assumptions and concepts are unreliable, it is likely that the model will not generate profitable investment recommendations. The model may be more effective with certain investments than with others, and not all factors driving prices can be identified, much less quantified by the Portfolio Managers. Quantitative models may be ineffective or may contain human or electronic errors (in coding, inputs or otherwise) that are either not discovered, or if discovered not disclosed to Paloma Management.

*Reliance on Data Availability and Accuracy:* Quantitative models rely on historical and current market and other data provided by third parties. Any interruption in the flow of data, or an inability to appropriately process, clean or analyze such data is likely to disrupt the Portfolio Manager's ability to trade effectively. In addition, no assurance can be provided that the data supplied by third parties is accurate. There may be inaccuracies in such data and errors may be made in incorporating such data into models and analyses used. Investment decisions (including hedging decisions) made, or programming code, on the basis of inaccurate or incomplete information could have a material adverse impact on the Portfolio Manager's ability to trade and may cause positions to be unintentionally liquidated and/or cause the Portfolio Manager to accumulate positions it would not have sought to accumulate with accurate data. It is not expected that investors will be notified when such issues occur.

Furthermore, it is not possible for Portfolio Managers to integrate all relevant data into the quantitative models that are developed. Subjective decisions may be made regarding what data to integrate into its models. In making such determinations, Portfolio Managers may consider various factors, including the cost of obtaining such data, the technology cost of incorporating such data into the Portfolio Manager's research and trading infrastructure, and the reliability of the third party providing such data. The acquisition and/or processing of data from third parties are significant components of the modelling utilized by Portfolio Managers and inaccuracies in such data could have a negative impact on a Portfolio Manager's trading performance and, as such, a negative impact on the operating results of the Paloma Fund.

*Dependence on Technology:* The Paloma Fund's investment strategies rely heavily on automation and technology, including proprietary and third-party hardware and software. Portfolio Managers and Paloma Management use such hardware and software to provide investment advice to the Paloma Fund, including research, valuation, trade identification and construction, trade execution, clearing, risk management, back office functions and reporting. The performance of a Portfolio Manager and/or Paloma Management, and, therefore, the performance of the Paloma Fund, could be severely compromised by coding errors (including design and implementation errors), computer viruses, telecommunications failures, natural disasters, security breaches, software related "system

crashes,” disruption or deterioration of services of third-party providers, terrorist attacks and similar events. Such events might even cause computerized trading programs to generate trades or to execute trades many times the magnitude of, as well in the opposite market direction to, the transactions which were intended. Any event that interrupts the computer and telecommunications operations of the Paloma Fund’s Portfolio Managers or Paloma Management could result in, among other things, the inability of a Portfolio Manager or Paloma Management to establish, modify, liquidate, hedge or monitor the Paloma Fund’s investments and therefore could have a material adverse effect on the operating results of the Paloma Fund.

*Obsolescence Risk:* The Paloma Fund’s systematic trading strategies are unlikely to be successful unless the assumptions underlying the Portfolio Manager’s and/or Paloma Management’s models used to implement those strategies are realistic and either remain realistic and relevant in the future or are adjusted to account for changes in the overall market environment. If such assumptions are inaccurate or become inaccurate and are not promptly adjusted, it is likely that profitable trading signals will not be generated. If and to the extent that the models do not reflect certain factors, and the Portfolio Managers and/or Paloma Management do not successfully address such omission through its testing and evaluation and modify the models accordingly, major losses may result. Models employed by the Portfolio Managers and/or Paloma Management in connection with its systematic trading strategies cannot fully match the complexity of the financial markets; accordingly, unanticipated changes in underlying market conditions can significantly impact such strategies’ performance. As market dynamics shift over time, a previously highly successful strategy may become outdated. Even without becoming completely outdated, a given strategy’s effectiveness may decay in an unpredictable fashion as other market participants adopt similar strategies or market dynamics shift. The Portfolio Manager’s and/or Paloma Management will continue to test, evaluate and add new models, as a result of which the existing models may be modified from time to time. There can be no assurance as to the effects (positive or negative) of any modification on the Paloma Fund’s performance.

*Coding Errors:* The Paloma Fund’s investment strategies may involve the development and/or use by Portfolio Managers or Paloma Management of software that is prone to coding errors that may result in the execution of many unwanted trades (or, alternatively, the failure to place intended trades). While there are methods to mitigate the incidence and impact of software errors, such as testing, changing management procedures, monitoring and automated risk checks, the decision as to when to utilize new software involves balancing the expected benefits of any change (which would call for turning over the change quickly) with the risks that the software will contain errors (which would call for exhaustive testing). As such, there is risk that a Portfolio Manager or Paloma Management may turn over new software too quickly or too slowly, which could negatively impact the Paloma Fund. From time to time, Portfolio Managers and/or Paloma Management may deploy

new code with errors that could have been detected with more exhaustive or independent testing, although in such cases the Portfolio Manager and/or Paloma Management may nevertheless continue to believe that turning over the new code was the right decision given the risk-reward trade-off associated with the change. In addition, where a Portfolio Manager and/or Paloma Management believes that the benefit of rolling out a change outweighs the risk of not addressing (or even diagnosing the precise cause of) a known weakness, such Portfolio Manager and/or Paloma Management may deploy new code with known weaknesses. In such cases, it is possible that the Portfolio Manager's and/or Paloma Management's decision to deploy the change without addressing the known weakness will prove wrong in hindsight, and the Paloma Fund could be negatively impacted.

Given the difficulty of detecting coding errors, some errors will go undetected for long periods of time and some will never be detected. Moreover, some coding errors will be detected but not fixed by the Portfolio Manager or Paloma Management immediately, or, possibly, at all, due to competing priorities and/or the perception that the impact of the error is not material. Although the Portfolio Manager and Paloma Management will generally make judgments about the perceived impact of discovered errors so as to appropriately prioritize the remediation of the errors with other business demands, the Portfolio Manager and Paloma Management may not perform a quantitative impact analysis on discovered coding errors. The Portfolio Manager's or Paloma Management's judgment could prove to be wrong, and a software error that such Portfolio Manager or Paloma Management chooses not to fix immediately, or chooses to fix at different times for different clients, could have a material impact on the Paloma Fund. In addition, as a mathematical model can be expressed in computer code in multiple ways, the choice of code ultimately used may not result in the best representation of the model.

The occurrence of coding errors is inevitable given the Paloma Fund's sophisticated and highly complex trading processes, and coding errors will not constitute Trade Errors under Paloma Management's policies. Investors should understand that they are assuming the risks (including any losses) associated with these errors when investing in the Fund if this is one of the Paloma Fund's investment strategies. Paloma Management not expect to disclose discovered coding errors to investors, and losses arising from coding errors will be borne by the Paloma Fund (and therefore investors).

*Distributed Workforce Risks.* In early 2020, Paloma Management transitioned the majority of employees to remote work-from-home arrangements and imposed travel and related restrictions due to the outbreak of the novel coronavirus (SARS-CoV-2) and related respiratory disease (COVID-19). A partial or fully remote working environment increases risks relating to cybersecurity, data

protection, employee supervision, workforce engagement and cohesion of operations, which could negatively impact Paloma Management and the Paloma Fund.

Notwithstanding these risks, Paloma Management believes that a remote working environment, in whole or in part, provides certain benefits to Paloma Management and its employees (including in respect of workforce flexibility and the ability to recruit and retain personnel). Paloma Management will endeavor to appropriately protect against the risks and will employ workplace arrangements designed to balance the benefits and potential drawbacks of remote work and a distributed workforce going forward. However, there can be no assurance that the operations of the Paloma Fund will not be adversely affected.

*Relative Value Investments:* The Paloma Fund has historically been active in relative value strategies. While Paloma Management believes relative value strategies add value to the Paloma Fund's absolute returns, such strategies can have substantial exposure to certain market factors and there is no guarantee about how they will perform in various market environments.

*Fundamental or Directional Investments:* The identification of investment opportunities in undervalued or overvalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized. While these investments offer the opportunity for above-average capital appreciation, they also involve a high degree of financial risk and can result in substantial losses. There is a risk that the price of a security can move up or down along with the overall market regardless of the company's economic and financial condition.

*Macro-Economic:* Macro-economic based strategies depend on the ability to successfully exploit larger economic themes in highly liquid markets such as equity indices, bond futures, currencies, and commodities. These markets have the potential to adjust extremely quickly to new information and the Paloma Fund may not be able to exit a losing position until such adjustments have fully occurred, thus incurring a substantial loss. These strategies also typically employ significant leverage which has the potential to magnify gains and losses. Futures markets are also subject to regulations and limited trading which may prevent a position from being closed out when desired.

*Short Selling:* A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Paloma Fund of buying those securities to cover the short position. Furthermore, there is no assurance that the securities necessary to cover a short position will be available for purchase, and purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. The securities borrowed by the Paloma Fund to effect the short sale may be recalled by the lender of those securities at any time, thus forcing the Paloma Fund to

purchase the securities and close out the short position at a loss, or the cost to borrow the securities may increase, making the trade more costly to maintain.

*Event Driven, Special Situations and Merger Arbitrage:* These strategies rely on a Portfolio Manager's ability to make predictions about (i) the likelihood that an event will occur and (ii) the impact such event will have on the value of a company's securities. If the event fails to occur or it does not have the anticipated effect, losses can result. For example, the adoption of new business strategies or completion of asset dispositions or debt reduction programs by a company may not be valued as highly by the market as anticipated, resulting in losses. In addition, a company may announce a plan of restructuring which promises to enhance value and fail to implement it, resulting in losses to the Paloma Fund. In liquidations and other forms of corporate reorganization, the reorganization may be unsuccessful, may be delayed or may result in a distribution of cash or a new security, the value of which may be less than the purchase price to the Paloma Fund of the security in respect of which such distribution was made. The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors, including, but not limited to: (i) opposition of the management or stockholders of the target company, which will often result in litigation to enjoin the proposed transaction; (ii) intervention of a federal or state regulatory agency; (iii) efforts by the target company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) in the case of a merger, failure to obtain the necessary stockholder approvals; (v) market conditions resulting in material changes in securities prices; (vi) compliance with any applicable federal or state securities laws; and (vii) inability to obtain adequate financing. Because of the inherently speculative nature of event driven investing, the results of the Paloma Fund's operations can be expected to fluctuate from period to period. Similar risks apply to event driven positions in sovereign securities.

*Activist Strategies:* Activist strategies are highly specialized, require devotion of substantial resources and usually involve relatively long investment horizons. The activist investing market is competitive and some of the going-private and leveraged buyout opportunities that the Paloma Fund may explore may be pursued by larger or better known investors, including private equity firms, LBO firms and other investment funds. There can be no assurance that the Paloma Fund will be able to identify or successfully pursue such opportunities in this environment. The Paloma Fund competes with many firms that may have substantially greater financial resources, more favorable financing arrangements and larger research staffs than are available to the Paloma Fund.

The Paloma Fund, acting either alone or in conjunction with others, may acquire a "control" position in an issuer's securities. This may subject the Paloma Fund to additional risks of liability for environmental damage, product defects, failure to supervise management, violation of

governmental regulations and other types of liability in which the limited liability characteristic of business operations may be ignored.

Some of the activist tactics that may be used involve litigation, which may be at the expense of the Paloma Fund. The Paloma Fund could be a party to lawsuits either initiated by it, or by a company in which the Paloma Fund invests, or by other investors, or state or federal government bodies. There can be no assurance that any such litigation would be resolved in favor of the Paloma Fund.

*Board Participation:* From time to time Trading Teams or the Paloma Fund may be able to place representatives on boards of certain companies in connection with Paloma Fund investments. While such representation may result in enhanced sale values of the investments, it may also prevent the Paloma Fund from freely disposing of its investments and may subject the Paloma Fund to additional liability. The Paloma Fund may indemnify any person for any claims arising from such board representation. Paloma Management or the applicable Portfolio Manager will attempt to balance the advantages and disadvantages of such representation when deciding whether and how to exercise the Paloma Fund's rights with respect to such companies, but the exercise of such rights could produce adverse consequences.

*Insider Status; Regulatory Requirements:* From time to time Paloma Management or a Portfolio Manager, employees or members of Paloma Management or members of a group of investors or managers with which Paloma Management or a Portfolio Manager is acting, may work with the management team of a company in which the Paloma Fund has invested or proposes to invest and/or may be appointed to such company's management team or board of directors in connection with an investment by the Paloma Fund, other clients of Paloma Management or personal investments of the employees and/or members of Paloma Management. In the course of such activities, Paloma Management (or its employees or members) or a Portfolio Manager may come into possession of material, non-public information concerning such company, and the possession of such information may limit the ability of the Paloma Fund to buy or sell the securities issued by such company or to pursue other investment opportunities related to such issuer.

In addition, "position limits" may be imposed by various regulators that may limit the Paloma 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 issuer's securities. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. To the extent that the Paloma Fund's position limits were aggregated with an affiliate's position limits (including the position limits applicable to a Portfolio Manager and/or employees or members of Paloma Management), the effect on the Paloma Fund and resulting

restriction on its investment activities may be significant. If at any time positions managed by Trading Teams were to exceed applicable position limits, positions would need to be liquidated, which might include positions of the Paloma Fund, to the extent necessary to come within those limits. Further, to avoid exceeding any position limits, the Paloma Fund might have to forego or modify certain of its contemplated trades.

In addition, if the Paloma Fund, acting alone or as part of a group, acquires beneficial ownership of more than 10% of a certain class of securities of a public company or places a director on the board of directors of such a company or member of such company's management team, under Section 16 of the Exchange Act, the Paloma Fund may be subject to certain additional reporting requirements and may be required to disgorge certain short-swing profits arising from purchases and sales of such securities. Furthermore, in such circumstances the Paloma Fund will be prohibited from entering into a short position in such issuer's securities, and therefore limited in its ability to hedge such investments or implement a strategy or investment by another Trading Team. Other considerations and regulatory requirements may apply to substantial acquisitions of securities in non-U.S. jurisdictions.

As noted herein, the Paloma Fund, acting either alone or as part of a group, may acquire a "control" position in an issuer's securities. This may subject the Paloma Fund to additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability in which the limited liability generally characteristic of business operations may be ignored.

*Hedging Transactions:* The success of the Paloma Fund's hedging strategy will depend, in part, upon the ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the portfolio investments being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the hedging strategy will also be subject to the ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While hedging transactions may be entered into with the intent to reduce risk, such transactions may result in poorer overall performance for the Paloma Fund than if such hedging transactions were not entered into. For a variety of reasons, Paloma Management or a Portfolio Manager may not seek to establish a perfect correlation between the hedging instruments utilized and the portfolio holdings being hedged. Such an imperfect correlation may prevent the Paloma Fund from achieving the intended hedge or expose the Paloma Fund to risk of loss.

*Negative Interest Rate:* Periods of very low or negative interest rates may lead to lower total returns for the Paloma Fund in the future. Very low or negative interest rates may magnify interest

rate risk. Changing interest rates, including rates that fall below zero, may have unpredictable effects on markets, may result in heightened market volatility and may detract from Paloma Fund performance to the extent the Paloma Fund is exposed to such interest rates.

To the extent the Paloma Fund is obligated to pledge cash collateral to secure its obligations under prime brokerage, currency hedging (and other) arrangements, if interest rates are negative, the Paloma Fund may be required to pay interest to the secured party at a rate equal to the absolute value of the negative interest rate. Banks may impose a negative interest rate and/or a balance sheet utilization fee on certain deposits from certain institutional customers. Negative interest rates and/or fees of this type could have an adverse effect on alternative investment funds, such as the Paloma Fund. Further, if interest rates are negative during the period beginning when an investor funds its subscription and ending on the effective date of its subscription, the investor may be forced to bear such costs, effectively losing money on the cash deposit, and the investor's subscription amount may be decreased as a result of the negative interest paid on such amounts.

*Highly Volatile Markets:* The prices of securities can be highly volatile. Price movements of forward and other derivative contracts in which the Paloma Fund's assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. Although market volatility can create trading opportunities, too much volatility may create additional risks that affect the ability of managers to put on and maintain effective hedges. It can cause the correlation between long positions and hedges to diverge, with the hedge having the opposite effect of that intended.

*"Widening" Risk:* For reasons not necessarily attributable to any of the risks enumerated herein (for example, supply/demand imbalances or other market forces), the prices of the securities in which the Paloma Fund invests may decline substantially. In particular, purchasing assets at what may appear to be "undervalued" levels is no guarantee that these assets will not be trading at even more "undervalued" levels at a time of valuation or at the time of sale. It may not be possible to predict, or to hedge against, such "spread widening" risk.

*Securities of Non-U.S. Companies:* Investments in securities of non-U.S. issuers have a range of other risks which may include expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains, other income or gross sale or disposition proceeds, political or social instability, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding securities of non-U.S. issuers, and non-U.S. issuers may not be subject to accounting, auditing and financial reporting standards and requirements comparable to, or as uniform as, those of U.S. issuers. There may also be less government supervision and



regulation of exchanges, brokers and issuers than there is in the United States, and the Paloma Fund may have greater difficulty taking appropriate legal action in non-U.S. courts. Non-U.S. markets also have different clearance and settlement procedures which in some markets have at times failed to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures that could adversely affect the Paloma Fund's performance.

Transaction costs of investing in non-U.S. securities markets are generally higher than in the United States, and securities denominated or whose prices are quoted in non-U.S. currencies also pose currency exchange risks (including blockage, devaluation and non-exchangeability).

*Developing or Emerging Markets:* Any of the Paloma Fund's investment strategies may be executed in developing or emerging markets. In addition to the risks for securities of non-U.S. companies, developing or emerging markets may be more likely than developed markets to experience periods of illiquidity, market disruptions, political instability, economic distress, social instability, rules changes, restrictions on capital movement, etc.

*Access to Markets:* Some emerging markets have securities markets to which foreign investors have only limited direct or indirect access, or which may require approvals or consents. In addition, there is in some countries a higher possibility of nationalization, expropriation or confiscatory taxation, political changes, government regulation, social instability or diplomatic developments (including war) or terrorism which could adversely affect the economies of such countries or the Paloma Fund's investments in those countries. These limitations and events may interfere with and/or delay the pricing or trading of securities in emerging market countries for significant periods of time.

*Currency Risk:* The economies, the currencies and the financial markets of a number of the emerging markets to which the Paloma Fund may be exposed have historically experienced extreme volatility, exposing investments in the markets of those countries to greater than usual risk.

*Trading Volume; Transparency:* Trading volumes on the securities exchanges of emerging markets can be substantially less than in the developed world, so that executing trades may be slow and cumbersome, and may result in transactions at unfavorable prices. There may be no approved settlement procedure, and trades may be settled by a free delivery of stock with payment of cash in an uncollateralized manner, potentially exposing the Paloma Fund to counterparty credit risk. In general there may be an increased risk of defaults and delays in settlement compared to the markets in more developed economies. Volatility of prices can be greater than in the developed world.

*Emerging Markets Banking and Financial Systems; Inflation:* The banking and other financial systems of many emerging markets are not all well developed or well regulated. Bank transfer delays, liquidity crises and other problems may arise as a result of the under-capitalization of the banking sector as a whole. Some emerging markets countries in which the Paloma Fund may invest have experienced substantial rates of inflation in recent years. Inflation and rapid fluctuations in inflation rates have had, and may in the future have, negative effects on the economies and securities markets of certain emerging economies.

*Legal and Tax Systems:* The legal and tax systems of many emerging markets are less predictable than most legal systems in countries with fully developed capital markets. Currently, the tax rules and regulations prevailing in many emerging markets are, as a general matter, either new or under varying stages of review and revision, and there is considerable uncertainty as to whether new tax laws will be enacted and, if enacted, the scope and content of such laws. Reliance on oral administrative guidance from regulators and procedural inefficiencies hinder legal remedies in many areas, including bankruptcy and the enforcement of creditor's rights. There can be no assurance that current taxes will not be increased or that additional sources of revenue or income, or other activities, will not be subject to new taxes, charges or similar fees in the future. In addition, changes to tax treaties (or their interpretation) with countries in which the Paloma Fund invests may have significant adverse effects on the Paloma Fund's ability to efficiently realize income or capital gains. With respect to certain countries, there is a possibility of expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains, other income or gross sale or disposition proceeds, limitations on the removal of funds or other assets of the Paloma Fund, and political or social instability or diplomatic developments that could affect investments in those countries.

*Convertible Securities:* Convertible securities are exposed to changes in the price of the security into which they are convertible, changes in the creditworthiness of the issuer, changes in interest rates, and changes in overall fixed-income risk premiums. There is a risk that pricing inefficiencies may not materialize or that the securities have no relationship to each other.

*Fixed Income Securities and Loans:* The Paloma Fund may invest in debt securities, bonds or other fixed income securities and loan instruments of U.S. and non-U.S. sovereign and corporate issuers that pay fixed, variable or floating rates of interest. The value of fixed income securities and loans in which the Paloma Fund may invest may change in response to fluctuations in interest rates and/or to perceptions of creditworthiness, political stability or soundness of economic policies. These fluctuations may be more acute with respect to high yield and distressed issuers. The value of fixed income securities can also be impacted by dealer and market liquidity, particularly in periods of significant financial market stress. Certain fixed income securities purchased for the

Paloma Fund will be non-performing and possibly in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation.

Evaluating credit risk for debt securities involves uncertainty because credit rating agencies throughout the world have different standards, making comparisons across countries difficult. Also, the market for credit spreads is often inefficient and illiquid, making it difficult to accurately calculate discounting spreads for valuing financial instruments. It is likely that a major economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

*ABS and MBS:* The investment characteristics of ABS and MBS differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that the principal may be prepaid at any time because the underlying loans or other assets generally may be prepaid at any time. Generally, mortgage obligors tend to prepay their mortgage loans when prevailing mortgage rates fall below the interest rates on their mortgage loans. Particular investments may experience outright losses, as in the case of an interest only security in an environment of faster actual or anticipated prepayments. Most commercial mortgage loans underlying MBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. ABS present certain risks that are not presented by MBS. Primarily, these securities do not have the benefit of the same security interest in the related collateral. There is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor. The value of an ABS is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement.

*Distressed and High Yield Securities:* The Paloma Fund may invest in "below investment grade" securities and obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Among the risks inherent in investments in troubled companies is the fact that it may be difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's

power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies' securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. There is no assurance that a Portfolio Manager will correctly evaluate the value of the assets collateralizing the loans or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which the Paloma Fund invests, the Paloma Fund may lose its entire investment, may be required to accept cash or securities with a value less than the Paloma Fund's original investment and/or may be required to accept payment over an extended period of time.

In addition, the Paloma Fund may invest in bonds of issuers, often troubled issuers, that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. Further, debt securities of troubled companies may not pay interest or dividends, whether inherently or by reason of default, whereas healthier issuers typically will pay interest or dividends on their debt securities.

*Bankruptcy Claims:* The Paloma Fund may invest in bankruptcy claims, which are amounts owed to creditors of companies in financial difficulty. Bankruptcy claims typically are illiquid and generally do not pay interest, and there can be no guarantee that the debtor will ever be able to satisfy the obligation on the bankruptcy claim. The markets in bankruptcy claims are not generally regulated by Federal securities laws or the U.S. Securities and Exchange Commission. Because bankruptcy claims are frequently unsecured, holders of such claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding. In addition, under certain circumstances, payments and distributions may be reclaimed if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

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

*Regulation in the Derivatives Industry:* There are many rules related to derivatives that may negatively impact the Paloma Fund, such as requirements related to recordkeeping, reporting, portfolio reconciliation, central clearing, minimum margin for uncleared 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 Paloma Management and the Paloma Fund, and increase the amount of time that Paloma Management 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 Paloma Fund.

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

These regulations may also result in the Paloma Fund forgoing the use of certain trading counterparties (such as broker-dealers and FCMs), as the use of other parties may be more efficient for the Paloma Fund from a regulatory perspective. This could limit the Paloma Fund’s trading activities, create losses, preclude the Paloma Fund from engaging in certain transactions or prevent the Paloma Fund from trading at optimal rates and terms.

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 EMIR), and similar regulations globally. In the United States, 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.

These new regulations could affect a variety of derivative-related activity, including (without limitation): reporting, central clearing, swap execution facilities, and margin requirements for non-cleared swaps.

*Commodities, Futures and Certain Derivative Investments:* The prices of commodities contracts and derivative instruments, including futures and options, are highly volatile. Payments made pursuant to swap agreements may also be highly volatile. Price movements of commodities, futures and options contracts and payments pursuant to swap agreements are influenced by, among other

things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the commodities underlying them. In addition, the Paloma Fund's assets are also subject to the risk of the failure of any of the exchanges on which its positions trade or of its clearinghouses or counterparties. Swaps and certain options and other custom instruments are subject to the risk of non-performance by the swap counterparty, including risks relating to the creditworthiness of the swap counterparty, market risk, liquidity risk and operations risk. If a counterparty defaults under a swap agreement, the value of the swap transactions with such counterparty can be expected to decline, perhaps to zero, potentially resulting in losses by the Paloma Fund. Paloma Management may take into account its view on the likelihood of default by a counterparty when determining the fair market value of transactions underlying swap agreements with that counterparty.

*Credit Default Swaps:* CDS are credit derivative contracts where one party (the buyer of protection) pays a premium to another party (the seller of protection) until the earlier of an agreed maturity or the date of a credit event. If a credit event occurs, the seller of protection is obligated to remit to the buyer of protection a certain payout. Credit events may include a failure by the reference company to pay principal or interest with respect to the reference obligation, a restructuring of the final maturity date of the reference obligation, an acceleration of the reference obligation so that it is due prior to its stated maturity date, a ratings downgrade of the reference obligation below certain specified ratings levels or a writedown (including an implied writedown) of the reference obligation. If a counterparty defaults under a swap agreement, the value of the swap transactions with such counterparty can be expected to decline, perhaps to zero. The settlement mechanism for the credit default swap market is comparatively new and may not operate efficiently at times of market stress which could result in significant losses to the Paloma Fund.

*Interest Rate Swaps:* The Paloma Fund may also enter into interest rate swaps. An interest rate swap is a derivative where the parties exchange interest payments on a specific principal amount per payment period, typically exchanging a fixed amount for a floating amount (an amount equal to a variable interest rate (such as LIBOR or SOFR) multiplied by the principal amount). In the event that the Paloma Fund enters into an interest rate swap and is paying a fixed amount, the Paloma Fund risks that the variable interest rate will decrease and therefore it is paying more than it is receiving. Alternatively, in the event that the Paloma Fund is paying a floating amount, it risks that the variable interest rate will increase and therefore it is paying more than it is receiving.

*Call and Put Options:* The Paloma Fund may incur risks associated with the sale and purchase of call options and put options. Under a conventional cash-settled option, the purchaser of the option

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

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

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

*Futures Contracts:* The Paloma Fund may trade futures contracts that reference a wide variety of equity indices, government bonds, commodities and other underlying instruments and indices on futures exchanges regulated by the CFTC and other regulatory organizations. Futures contracts are levered because of the limited margin typically required for futures traded on an exchange. Futures positions can be volatile and may become illiquid. Certain futures exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily limits." Under these daily limits, during a single trading day no trades may be executed at prices beyond the daily limits, which may result in futures positions becoming illiquid, reducing the Paloma Fund's ability to

liquidate unfavorable positions. It also is possible that an exchange or the CFTC may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation purposes only. The prices of futures are highly volatile.

*Forward Contracts:* The Paloma Fund may enter into forward contracts and options thereon, including non-deliverable forwards. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually widespread between the price at which they were prepared to buy and that at which they were prepared to sell. The imposition of credit controls or price risk limitations by governmental authorities may limit such forward trading to less than that which Paloma Management would otherwise recommend, to the possible detriment of the Paloma Fund. In its forward trading, the Paloma 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 Paloma Fund trades. Paloma 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. Paloma Management may order trades for the Paloma Fund in such markets through agents. Accordingly, the insolvency or bankruptcy of such parties could also subject the Paloma Fund to the risk of loss.

*Exchange Rate Fluctuations; Currency Considerations:* While the Paloma Fund will operate in U.S. dollars, the Paloma Fund's assets may often be invested in non-U.S. securities and any income or capital received will be denominated in the local currency of investment. Accordingly, changes in currency exchange rates (to the extent unhedged) will affect the value of the Paloma Fund's portfolio and the unrealized appreciation or depreciation of investments.

*Investments in Private Companies:* The Paloma Fund may invest in private companies, including early-stage investments in the infrastructure, technology, corporate formation, operation and overhead of, or relating to, private start-up companies, which involves a high degree of business and financial risk. Such companies with little or no operating history may require substantial additional capital to support expansion or to achieve or maintain a competitive position, may produce substantial variations in operating results from period to period or may operate at a loss. Such companies may face intense competition, including competition from companies with greater financial resources, more extensive development, better marketing and service capabilities and a larger number of qualified management and technical personnel. Such companies may also have substantial variations in operating results from period to period and experience failures or



substantial declines in value at any stage. The percentage of such companies acquired at an early-stage of development that survive and prosper can be small. Such risks may adversely affect the performance of such investments and result in substantial losses.

Some of the companies that the Paloma Fund invests in may have substantial debt, which in turn will increase the exposure of such companies to adverse economic factors such as downturns in the economy or deterioration in the conditions of such companies or their respective industries. In the event any such company cannot generate adequate cash flow to meet debt service, the Paloma Fund may suffer a partial or total loss of capital invested in the company.

*Illiquid Portfolio Instruments:* The sale of restricted and/or illiquid securities often requires more time and may result in higher brokerage charges than does the sale of more liquid securities. The limited liquidity of these investments may subject them to more extensive fluctuations in value and may impair the ability of the Paloma Fund to exit such investments. Companies whose securities are not publicly traded generally will not be subject to public disclosure and other investor protection requirements applicable to publicly traded securities. Illiquid positions also may be difficult to value and such valuation may require the exercise of substantial discretion by Paloma Management.

*Investments in Portfolio Funds:* Investments in Portfolio Funds may be illiquid, offering limited opportunities to withdraw. Withdrawals of capital from such funds typically require providing a notice of withdrawal several months in advance, and may have other significant limitations on the ability to withdraw, such as “lock-up” provisions (limiting the ability to withdraw for a certain period of time), “gate” provisions (limiting the amount that may be withdrawn at any one time) or the ability to “side pocket” all or a portion of the Paloma Fund’s investment (which cannot be withdrawn until the applicable fund removes the withdrawal restriction).

The Portfolio Managers of Portfolio Funds act independently and Paloma Management has no rights other than those provided to the Paloma Fund as an investor in the fund. In addition, Paloma Management may have limited or no information about the assets held by a Portfolio Fund at any given time. A Portfolio Fund may use investment strategies that differ from its past practices and are not fully disclosed and that involve risks that are not anticipated by Paloma Management. The Portfolio Funds may have limited operating history and Portfolio Managers may have limited experience in managing assets.

*ETFs, Mutual Funds, MLPs, and Similar Financial Instruments:* Investments in securities and other financial instruments (such as, among others, ETFs, mutual funds and MLPs) expose the Paloma Fund to risks associated with such securities and financial instruments, as well as risks associated with securities or instruments that underlie the financial instruments in which the fund is directly

invested. Such underlying securities and instruments may include, ETFs, mutual funds, MLPs and/or other instruments (including, without limitation, distressed and high yield securities, asset backed and mortgage backed securities, loans, convertible securities, bankruptcy claims, and any other type of security or financial instrument).

*Risks Relating to Digital Assets and Digital Assets Derivatives Trading.* The Paloma Fund may invest directly or indirectly in Digital Assets and Digital Asset derivatives, although Paloma Management expects that any such investment is likely to constitute only a small proportion of the Paloma Fund's portfolio. Digital Assets are relatively new, evolving products based upon new and evolving technologies. An investment in any Digital Asset is subject to a variety of risks, including technological, security and regulatory risks as well as associated uncertainties over the future existence, support and development of such Digital Asset. Digital Assets may also experience unusual volatility. Any such investment is highly speculative and subject to the risk that the entirety or a material portion of such investment or its value may be lost. Digital Asset derivatives, such as futures or options on futures on a Digital Asset, are also a relatively new asset class, and trading in these instruments, like trading in the Digital Assets themselves, carries a high level of risk. Investments in Digital Assets derivatives, like direct investments in Digital Assets, should be considered substantially more speculative and significantly more likely to result in a total loss of capital than many other investments. Risks associated with Digital Assets are numerous. The Paloma Fund's offering documents contain a complete overview of such risks.

*Trade Errors:* Given the volume of transactions executed on behalf of the Paloma Fund, investors should assume that Trade Errors and other errors will occur and that the Paloma Fund will both benefit from any resulting gains and be responsible for any resulting losses. Trade Errors might include, for example, the purchase or sale of a security or derivatives contract in the wrong amount or the purchase or sale of the wrong security or derivatives contract. Paloma Management has established policies and procedures for the handling of Trade Errors that require that such errors be corrected as soon as practicable after discovery. Paloma Management will determine in good faith whether or not the applicable Trading Team or Paloma Management entity will be required to reimburse the Paloma Fund for a Trade Error's resulting loss pursuant to the standard of care stated in the applicable agreement that governs the Trading Team's or Paloma Management entities' activities on behalf of the Paloma Fund. In making this determination, Paloma Management will have a conflict of interest in determining whether a Trade Error should be attributed to the account of the Paloma Fund or to a Paloma Management entity, and will attempt to resolve such conflict by an objective determination of the status of such Trade Error under the applicable standard. The Paloma Management entities' agreements, including their exculpation and indemnification provisions, are described in more detail under "Management and Administration," but generally, Paloma Management will be free from liability for its actions, except in the case of fraud, gross

negligence or intentional misconduct. Generally, in determining whether gross negligence was involved in a Trade Error, Paloma Management will evaluate and consider the adequacy of the supervisory procedures in place to prevent such errors from recurring with any frequency.

*Leverage and Financing Risk:* The Paloma Fund may leverage its capital to seek to achieve a higher rate of return and may pledge its securities in order to borrow additional funds for investment purposes. The Paloma Fund may also leverage its investment return with options, short sales, swaps, forwards and other derivative instruments. The amount of borrowings which the Paloma Fund may have outstanding at any time may be substantial in relation to its capital. While leverage presents opportunities for increasing the Paloma Fund's total return, it has the effect of potentially increasing losses as well. Further, if the securities pledged to brokers to secure the Paloma Fund's margin accounts decline in value, the Paloma Fund could be subject to a "margin call," pursuant to which the Paloma Fund must either deposit additional funds or securities with the brokers, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden drop in the value of the Paloma Fund's assets, the Paloma Fund might not be able to liquidate assets quickly enough to satisfy their margin requirements. The forced liquidation of all or a portion of the Paloma Fund's portfolio at distressed prices could result in significant losses to the Paloma Fund.

*Change in Margin Terms:* In the absence of specific agreements, securities margin arrangements are generally subject to change or revocation by the lender upon very limited notice and for any or no reason. The lender may demand an increase in the collateral, including requiring collateral equal to the full amount of the borrowings, and, if the Paloma Fund is unable to provide additional collateral, the lender could liquidate assets held by the lender to satisfy the Paloma Fund's obligations. Liquidation in that manner could have extremely adverse consequences, which may be exacerbated in the event that these changes or revocations are imposed suddenly or by multiple lenders.

*Net Asset Value Triggers:* The trading agreements, such as ISDAs, to which the Paloma Fund is a party, typically include NAV Triggers. While a decline in the Paloma Fund's net asset value may be the result of a number of factors, including market conditions, withdrawals and/or diminishing performance, NAV Triggers provide a mechanism for the Paloma Fund's counterparties and prime brokers to take protective measures to limit exposure to the Paloma Fund during a period of decline or volatility. Such protective measures may include requesting additional collateral, imposing other limitations on the Paloma Fund's ability to effect trades, closing out the Paloma Fund's positions under the relevant agreement on the counterparty's side of the market and at prices determined by the counterparty, setting off other amounts owed by the counterparty or terminating the relevant trading agreement(s). Further, a termination of an ISDA or a declaration of default by a

counterparty also may permit other counterparties to exercise similar rights against the Paloma Fund under the cross-default and/or cross-acceleration provisions of other ISDAs and financing agreements. Any of these events could result in substantial losses to the Paloma Fund or have an adverse effect on the Paloma Fund's ability to trade and carry out its investment strategy.

*Repurchase Agreements:* The use of repurchase and reverse repurchase agreements by the Paloma Fund involves certain risks. For example, if the buyer of securities from the Paloma Fund under a repurchase agreement defaults on its obligation to sell back the underlying securities to the Paloma Fund, as a result of its bankruptcy or otherwise, the Paloma Fund will seek to obtain such securities elsewhere, which could involve costs or delays, and the price of the underlying securities may be greater than the repurchase price agreed to by the defaulting buyer. If the buyer becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, the Paloma Fund's ability to obtain the underlying securities may be restricted. It is possible, in a bankruptcy or liquidation scenario, that the Paloma Fund may not be able to substantiate its interest in the underlying securities.

*Commodities Futures and Options Margin:* Because of the limited initial margin required for, and substantial volatility associated with, the purchase or sale of most listed commodity futures contracts or commodity options, the Paloma Fund may be required to deposit a substantial amount of additional variation margin, on short notice, in order to maintain their positions. If it fails to do so, its positions may be liquidated at a loss, making the Paloma Fund liable for any resulting deficit. Under the U.S. Commodity Exchange Act, as amended, futures commission merchants are required to maintain customers' assets in a segregated account, but the Paloma Fund will nevertheless be subject to a risk of loss if a futures commission merchant fails to do so and becomes bankrupt.

*Margin in Periods of Stress:* In periods of market stress, and particularly in periods of stress specific to the Paloma Fund, lenders or counterparties may attempt to increase margin levels. Additionally, a simultaneous, broad-based increase in margin among hedge funds generally would likely adversely impact the investments held by the Paloma Fund by decreasing demand and increasing supply of those or similar investments.

## **ITEM 9                      DISCIPLINARY INFORMATION**

Paloma Management has not been involved in legal or disciplinary events that would require disclosure in response to this ITEM 9.

## ITEM 10      OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

- CFTC REGISTRATION AND NFA MEMBER STATUS

Both PPMC and Paloma Advisors are registered as commodity pool operators with the U.S. Commodity Futures Trading Commission (“**CFTC**”) and are members of the National Futures Association (“**NFA**”). Certain shareholders of PPMC are registered with the NFA as Principals and relevant PPMC employees, as required, are registered and/or may have pending registrations with the NFA as Associated Persons or Principals. Mr. Sussman is also registered with the NFA as a Principal and as an Associated Person of both Paloma Advisors and PPMC. Paloma Management’s Chief Compliance Officer is registered with the NFA as a Principal of both PPMC and Paloma Advisors.

- AFFILIATED PORTFOLIO MANAGER AND AFFILIATED PORTFOLIO FUNDS

The China Funds are private equity funds that generally invest in private companies operating in or affected by economic activity in China and securities reasonably related to such investments. The China Funds are managed by the China Managers (an affiliated Portfolio Manager). Mr. Sussman effectively owns 50% of the China Managers. Additional information about the China Managers is provided in Section 7.A of Schedule D in PPMC’s ADV Part 1A. The Paloma Fund currently invests, and may in the future invest, in affiliated Portfolio Funds (including the China Funds). Given that the Paloma Fund pays all fees and expenses (including management and performance-based compensation) charged by the China Managers pertaining to investments in the China Funds, Paloma Advisors waives the Management Fee and the Incentive Fee in respect of the Paloma Fund’s investments in the China Funds in order to avoid receiving compensation from both the Paloma Fund and the China Funds on the same capital and the same return (*i.e.*, to avoid collecting double fees).

Investment decisions with respect to the Master Fund’s investments in Portfolio Funds will be based on such criteria as Paloma Management may determine to be appropriate at the time. It is possible that the Master Fund may pay affiliated Portfolio Funds higher fees and expenses than would be the case if an investment were made in a comparable, non-affiliated collective investment fund or vehicle. Paloma Management has no obligation to determine whether an investment in a comparable, non-affiliated collective investment fund or vehicle would subject the Master Fund (and thus the Paloma Fund) to lower fees and expenses.

- OTHER INVESTMENT ACTIVITIES

External Trading Teams and managers of Portfolio Funds may (and in certain cases, do) engage directly or indirectly in any business or other activities, including exercising investment advisory and management responsibility and buying, selling or otherwise dealing with securities for their own accounts, for the accounts of family members, and for the accounts of other clients. These activities may conflict with their activities on behalf of the Paloma Fund. For example, External Trading Teams and managers of Portfolio Funds may give advice and take action in the performance of their duties to one client which may differ from the timing and nature of action taken with respect to the Master Fund or Portfolio Fund. These other activities may affect the prices and availability of the securities and other financial instruments in which the Master Fund or Portfolio Fund invests. Paloma Management seeks to mitigate these conflicts of interest with respect to External Trading Teams and Portfolio Funds, through due diligence reviews and, where appropriate, through contractual representations or obligations.

Paloma Management may enter into arrangements with certain External Trading Teams whereby an External Trading Team may develop new business initiatives and investment strategies for the Paloma Fund while managing assets for the Paloma Fund and their other clients. Certain tools developed or enhanced as part of such arrangements may be shared across the Paloma Fund and such External Trading Team's other clients.

External Trading Teams have established, and may in the future establish, one or more funds which may or may not also be Portfolio Funds (meaning the Paloma Fund may also make a passive investment in such funds).

In certain circumstances, the Master Fund may invest in securities or other instruments of the same issuer (or affiliated group of issuers) having a different seniority in the issuer's capital structure. If the issuer becomes insolvent, restructures or suffers financial distress, there may be a conflict, insofar as the issuer may be unable (or in the case of a restructuring prior to bankruptcy may be expected to be unable) to satisfy the claims of all classes of its creditors and security holders.

- BOARD MEMBERSHIPS

Trading Team personnel may serve as directors of companies in which the Master Fund invests. In addition to any fiduciary duties owed to the Paloma Fund, as a director of a company, such individuals also owe a fiduciary duty to the company. Board memberships may place the individual in a position where they must make a decision that is not in the best interests of the Paloma Fund. Trading Team personnel serving as directors may receive non-public information as a result of their duties and such knowledge may restrict the Master Fund's ability to buy or sell securities of the

relevant company. Board members may receive compensation for their service on a board; such compensation may or may not be passed on to the feeder fund(s) invested in the relevant issuer.

- LETTERS OF UNDERSTANDING A/K/A “SIDE LETTERS”

By entering into side letters, certain investors in the Paloma Fund may request, and be granted, the right to receive information that at the time is not generally requested or received by other investors in the Paloma Fund, and as a result, may be able to act on such information (i.e., request redemptions).

Paloma Management seeks to ensure that rights related to access to information that are given to any investor in the Paloma Fund through a side letter are generally also provided to all investors in the Paloma Fund with many being provided through provisions in each feeder fund’s private offering memorandum, most notably in the section titled “REPORTS; NOTICE OF CERTAIN EVENTS”.

Please see ITEM 11 below and Fund Documentation for further discussion of certain conflicts of interest.

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

Paloma Management has adopted a Code of Ethics (the “**Code**”) that includes: (i) a standard of conduct to which all supervised persons are required to adhere, (ii) reporting requirements, rules and restrictions applicable to the personal investment activities of supervised persons, and (iii) a requirement that supervised persons report violations of the Code to the Chief Compliance Officer. The term supervised persons includes Paloma Management’s partners, employees (including Employee Trading Teams), members, owners, principals, directors and officers and, where applicable, consultants. Members of External Trading Teams are not supervised persons.

Paloma Management and its employees may trade securities and derivative instruments for their own accounts of the type held by or considered for investment by the Master Fund and may from time to time take positions in their personal accounts that are opposite the positions taken for or held by the Master Fund at the same time.

The Code requires preclearance approval for personal investment activities, including investments in private placements. Trading in certain securities, e.g., publicly traded ETFs and mutual funds, is permitted without preclearance approval. Supervised persons are generally prohibited from initiating new positions in initial public offerings, futures, commodities or debt securities (except

municipal bonds and U.S. Government securities). Additionally, supervised persons are prohibited from executing transactions in issuers included on PPMC's Restricted List.

Supervised persons are subject to certain reporting requirements including the provision of initial and annual holdings reports (excluding accounts holding certain exempt securities or managed accounts) and quarterly transactions reports. The Chief Compliance Officer reviews violations of the Code to determine appropriate actions or sanctions.

Investors and prospective investors may obtain a complete copy of the Code of Ethics free of charge by submitting a written request to the Chief Compliance Officer, David Friedman, at Two American Lane, Greenwich, CT 06836-2571 or by phone at (203) 862-8000.

- INVESTMENT IN THE PALOMA FUND AND PORTFOLIO FUNDS

Paloma Management and certain of its employees are invested in, and may, in the future, invest in investment vehicles managed by Paloma Management, by Portfolio Managers and by their respective affiliates, and do or may pay lesser (or no) fees than other investors may pay. As part of the personal trading preclearance process for private placements, conflicts of interest such as reduced fees are evaluated prior to granting approval. Paloma Advisors has waived the Management Fee and, while currently not applicable, will waive any future Incentive Fee (or Incentive Allocation), in each case, for current or former employees invested in the Paloma Fund.

As discussed in ITEM 10, the Paloma Fund is invested in affiliated Portfolio Funds. Please see disclosure above related to the China Funds.

- CROSS TRADES

Cross trades give rise to conflicts of interest between clients. For example, one client could be advantaged to the detriment of another in the event that the securities being exchanged are not priced in a manner that reflects their fair value. In addition, an investment adviser could use its investment authority to transfer unappealing securities from one client to another.

Paloma Management may direct, from time to time and subject to applicable client investment guidelines and restrictions, one client to sell securities to another client (or with other funds) through a cross trade. Cross trades will be executed if Paloma Management believes it is in the best interest of both clients involved in the trade and is consistent with its duty to seek best execution. Cross trades may be executed with the assistance of a broker-dealer or as an "internal cross" where the client's custodian is instructed to book the transaction at a price determined in accordance with Paloma Management's valuation policies. No fees will be charged by Paloma Management to its



clients in connection with the completion of a cross trade. Cross trades are submitted to the Advisory Committee for review and approval.

- **PRINCIPAL TRADES**

Paloma Management does not generally engage in principal transactions. However, if Paloma Management were to consider a principal transaction that involved the Master Fund, Paloma Management has a formal review and approval process in place before a related party transaction can occur which includes review and approval by the Advisory Committee.

## **ITEM 12      BROKERAGE PRACTICES**

Trading Teams and Paloma Management use prime brokers and counterparties that have been reviewed and approved by the Treasury Department, which monitors such relationships on an ongoing basis. Executing brokers are selected by Trading Teams in consultation with Paloma Management. Factors relevant to the evaluation of prime brokers, executing broker-dealers and counterparties include:

- Reliability
- Reputation and integrity
- Financial stability
- Transaction and financing costs
- Counterparty diversification and credit exposure considerations
- Strategy expertise
- Counterparty agreements including agreements relevant to swaps, futures and foreign markets
- Trading capabilities relative to the strategy
- Diversification and stability
- Commission rates and volume impact on tiered commission rates
- Suitability

In selecting brokers and dealers to effect portfolio transactions, we may consider the full range of quality of the broker's services to meet best execution obligations and may not pay the lowest commission rates or prices available. The following are some factors that contribute to efficient execution, although we are not required to weigh these factors equally:

- price quotes
- the size of the transaction and ability to find liquidity

- the broker-dealer's promptness of execution
  - the nature of the market for the financial instrument
  - the timing of the transaction
  - the difficulty of execution
  - the broker-dealer's expertise in the specific financial instrument or sector in which the trader seeks to trade
  - the extent to which the broker-dealer makes a market in the financial instrument involved or has access to such markets
  - the broker-dealer's skill in positioning the financial instruments involved
  - the quality and usefulness of brokerage and research services and investment ideas presented by the broker-dealer or third parties
  - the broker-dealer's ability to accommodate any special execution or order handling requirements that may surround the particular transaction
- SOFT DOLLARS

Soft dollar arrangements generally arise when an investment adviser obtains products and services, other than securities execution, from a broker-dealer (or from a third party to whom the investment adviser directs payments from the broker-dealer) in return for commissions paid in connection with directing client securities transactions to the broker-dealer. Soft dollar arrangements may pose a conflict of interest for the investment adviser in such arrangements since it allows the adviser to pay with brokerage commissions, expenses that would otherwise be borne by the investment adviser, rather than receiving most favorable execution.

Paloma Management intends to enter into soft dollar arrangements. While Paloma Management is obligated to seek best execution for each client, the fact that Paloma Management can obtain or receive such products or services creates an incentive for Paloma Management to select or recommend a broker-dealer based on Paloma Management's interests, including where Paloma Management decides not to engage another broker-dealer that offers business terms that are also favorable to the Paloma Fund.

Paloma enters into securities transactions with broker-dealers that provide, as part of their bundled services, access to research and research-related services. Paloma Management may have an incentive to select a broker based on our interest in receiving research or services offered by such broker.

When the Paloma Fund's commissions (or markups or markdowns with respect to certain types of riskless principal transactions) are used to acquire products and services through the use of "soft

dollars,” products and services received will be of the type contemplated by the Safe Harbor provided in Section 28(e) of the U.S. Securities Exchange Act of 1934 (that is, “research” and “brokerage”), although transactions may or may not otherwise comply with the provisions of Section 28(e) (e.g., may relate to transactions in instruments other than securities such as futures).

Products and services constituting “research” may be in any form (e.g., written, oral or on-line) and can include, without limitation:

- Traditional research reports analyzing the performance of a particular company or stock, market, company and financial data
- Market, economic, political and financial information (including studies and forecasts)
- Statistical information including market analysis
- Data on the pricing and availability of securities
- Seminars and conferences relating to the investment in securities or containing analyses of issuers, industries, securities, economic factors and trends and portfolio strategy

Products and services constituting “brokerage” can include, without limitation:

- Execution algorithms
- Order management systems
- Post-trade reporting and analysis
- Clearance services
- Settlement services
- Custody services

Soft dollar products and services may be provided directly by broker-dealers, by third parties at the direction of broker-dealers or purchased on behalf of the Paloma Fund with credits or rebates provided by broker-dealers. Additionally, from time to time Paloma Management may ask a broker-dealer who is executing a transaction to “step out” a portion of the transaction in favor of a broker-dealer who is willing to provide products or services for soft dollars.

When a product or service obtained with soft dollars provides both research and non-research assistance to Paloma Management (“mixed use” product or service), a good faith allocation will be made of the cost that may be paid with soft dollars.

Trading Teams do not have an obligation to obtain the lowest available commission cost. Accordingly, if a Trading Team determines in good faith that the commissions charged by a broker or the transaction costs charged by a dealer are consistent with their obligation to seek best

execution and are reasonable in relation to the value of the products or services provided by the broker or dealer, the Paloma Fund may pay commissions to the broker or transaction costs to the dealer in an amount greater than another might charge to execute the same transaction.

In the event an External Trading Team with clients in addition to the Paloma Fund enters into a soft dollar arrangement, it is possible that another client will benefit (which benefit may be disproportionate relative to its contribution to the expenditure that generated them) from soft dollar services paid for by the Paloma Fund.

- **CONFLICTS OF INTEREST**

Through “capital introduction” events sponsored by the Master Fund’s prime brokers, Paloma Management and the Paloma Fund will be introduced to potential investors. Investors in the Paloma Fund may be referred by a prime broker (or an affiliate of a prime broker), and include fund-of-funds affiliated with brokers and brokerage firms themselves. Additionally, prime brokers may provide certain consulting services to Paloma Management. Neither Paloma Management nor any Fund compensates any prime broker for organizing the events, for investments in the Paloma Fund ultimately made by prospective investors attending the events or otherwise referred by such prime broker or for any such consulting services. Paloma Management’s participation at these prime broker sponsored events and receipt of other services (including, without limitation, capital introduction services) from a prime broker creates the appearance that Paloma Management’s decision to select prime brokers and to determine the extent to which a prime broker will be used is influenced by the prime broker’s invitation to the events and provision of these services. However, Paloma Management does not require any Trading Team to execute transactions through a specific broker-dealer or use a specific prime broker or other counterparty to compensate anyone for client referrals.

Paloma Management does not cause the Paloma Fund to pay higher commissions or other transactions costs in connection with any capital introduction program; however, Paloma Management (and consequently the Paloma Fund) pays directly, not using commissions, to attend certain conferences, seminars and other events that are attended by prospective investors, but not in exchange for solicitation activities.

In addition, certain prime brokers or counterparties do have platforms, some for which a fee is paid (which is offset by a reduction in the fee amount earned by Paloma Advisors) and through which their clients and customers invest in our Funds directly or through a feeder fund established by the platform. However, participation on such a platform does not drive decisions regarding selection or use of a prime broker or other broker-dealer.

Prime brokers also introduce Paloma Management to potential Trading Teams. This creates the appearance of a conflict of interest that such prime brokers may be indirectly compensated (e.g., via commissions) for such referrals. However, neither Paloma Management nor the Paloma Fund compensates prime brokers for Trading Team referrals or introductions. In some cases a referral may be the result of an existing relationship with the Trading Team and while the Trading Team may indicate a preference for using the referring prime broker, Paloma Management's approval to use the prime broker will be based on the selection criteria described above.

Investors cannot direct brokerage or require the use of specific brokers.

*Aggregation of Trade Orders:* In the case that Paloma Management executes trades on behalf of multiple clients, and if portfolio decisions are made contemporaneously for multiple clients in the same instrument, Paloma Management may, if consistent with market conditions, client characteristics, and applicable law, bunch or aggregate client orders for execution. These bunched or aggregated orders might facilitate execution and may reduce brokerage and other costs. Paloma Management, however, is not required to bunch or aggregate orders if portfolio management decisions are not made contemporaneously, if Paloma Management determines that it would be consistent with its investment management duties or the interests of its clients not to do so, or if bunching or aggregating is not practical operationally or otherwise.

Although it is anticipated that any bunching or aggregation of orders will benefit each client overall, aggregating orders may disadvantage clients, including by resulting in shared allocations of orders or higher execution prices for clients. Alternatively, not aggregating orders may disadvantage clients, including by resulting in higher costs (including higher execution prices) for client orders.

*Trade Errors:* From time to time, errors will occur with respect to trades executed on behalf of the Paloma Fund. Paloma Management has adopted policies and procedures reasonably designed to identify and resolve trade errors in a timely and appropriate manner. The Paloma Fund (and not Paloma Management or Trading Teams) will bear the cost of any losses (and reap the benefits of any gains) resulting from trading errors and similar human errors, absent gross negligence or intentional misconduct. Trade errors might include, for example, keystroke errors that occur when entering trades into an electronic trading system, the purchase or sale of a security or derivatives contract in the wrong amount or the purchase or sale of the wrong security or derivatives contract. Given the volume of transactions executed on behalf of the Paloma Fund, investors should assume that trading errors (and similar errors) will occur and that the Paloma Fund will both benefit from any resulting gains and be responsible for any resulting losses. Paloma Management generally will not notify investors that a trade error (or similar error) has occurred. Certain investment strategies may involve the development and/or use of models and software which are prone to coding errors.

Coding errors will not constitute trade errors. The Paloma Fund does not expect to disclose discovered coding errors to investors and losses arising from coding errors will be borne by the Paloma Fund. Trade errors in respect of hedge currency share classes are allocated only to the subclasses of the investors participating in the related currency hedging activity.

### **ITEM 13            REVIEW OF ACCOUNTS**

Paloma Management's Risk Management Department monitors the Paloma Fund on an ongoing basis. Monitoring and analysis are performed using an internal Risk Management System, other tools, research, expertise and knowledge, and risk is adjusted risk when appropriate.

- **REPORTS TO CLIENTS**

Investors in the Paloma Fund receive various written reports on an ongoing basis including monthly unaudited account statements, quarterly net asset value statements for the applicable feeder fund, monthly portfolio reports, periodic letters and annual financial statements audited by an independent public accounting firm. Also, see disclosures in Item 10 under Letters of Understanding a/k/a "Side Letters".

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

Paloma Management does not pay for client referrals. The Paloma Fund or Paloma Management have entered into arrangements that provide for the compensation of third party placement agents hired to solicit investors for the Paloma Fund (typically calculated as a percentage of the management fee attributable to the placed investor(s)) at the Paloma Fund's or Paloma Advisors' expense, provided that where such compensation is payable by the Paloma Fund, the management fee payable to Paloma Advisors will be reduced by the amount of any such compensation so that the Paloma Fund will not ultimately bear the cost of compensating the third party placement agents.

Any compensated placement agent arrangements are entered into consistent with applicable regulatory requirements.

Paloma Management is not paid a sales charge in connection with the sale of interests or shares in the Paloma Fund.

### **ITEM 15            CUSTODY**

Paloma Management is deemed to have custody of the Paloma Fund's assets because it is authorized to withdraw funds or securities from the Paloma Fund (for example to deduct fees or

pay expenses) and because it serves as general partners to the Master Fund which gives Paloma Management access to the cash and securities of the Paloma Fund.

The Paloma Fund's securities, cash, cash equivalents and other financial instruments are generally held by qualified custodians, unless such assets are subject to applicable exceptions to the qualified custodian requirement of Rule 206(4)-2 under the Advisers Act (the "Custody Rule"). Additional information about the Paloma Fund's custodians is provided in PPMC's ADV Part 1A.

Investors in each feeder fund receive annual financial statements audited by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board for the feeder fund in which they have invested within the required period under the Custody Rule. Investors are urged to carefully review such statements.

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

Investment discretion is exercised in a manner that is consistent with a feeder fund's investment objectives, policies and strategies disclosed in the applicable Fund Documentation. PPMC's investment discretion is subject to Paloma Advisors' ultimate authority. PPMC and Paloma Advisors typically assume investment authority through their agreements with the Paloma Fund.

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

Paloma Management has authority to vote proxies on behalf of its clients. In accordance with Advisers Act Rule 206(4)-6, Paloma Management has adopted and implemented written policies and procedures ("Proxy Voting Policy and Procedures") reasonably designed to ensure that proxies are voted in the best interests of its clients and in accordance with its fiduciary duties.

Paloma Management generally votes proxies through a third-party proxy voting service pursuant to guidelines agreed upon with Paloma Management. Paloma Management's stated voting guidelines are to vote "for" management proposals, "against" shareholder proposals and "abstain" on all other proposals. To the extent the execution of a particular strategy involves voting proxies, Paloma Management will consult with relevant Trading Team(s) to ensure that votes are cast in a manner that Paloma Management believes is consistent with its fiduciary duty. A Trading Team may override any, or all, of our standing instructions it deems not to be in the best interest of clients. Trading Team overrides to the standing instructions are documented, reviewed, and approved by the Chief Compliance Officer or his designee.

Paloma Management requires the reporting of any potential or actual conflicts of interest regarding a proxy voting decision and these conflicts are evaluated by the Chief Compliance Officer. Any conflicts, including where two or more Trading Teams direct us to vote a proxy but have differing

views concerning how the proxy should be voted, will be reviewed and resolved by the Chief Compliance Officer in consultation with the Chief Operating Officer/Deputy Chief Investment Officer.

Investors in the Paloma Fund may obtain a complete copy of our Proxy Voting Policy and Procedures or information on how proxies were voted for the Paloma Fund free of charge by submitting a written request to the Chief Compliance Officer, David Friedman, at 2 American Lane, Greenwich CT 06836-2571 or by phone at (203) 862-8000.

**ITEM 18            FINANCIAL INFORMATION**

This item is not applicable to Paloma Management.