



Part 2A of Form ADV: Axar Capital Management LP - Brochure

Item 1 - Cover Page

Amended March 29, 2024

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This Brochure provides information about the qualifications and business practices of Axar Capital Management LP (the “Adviser”). If you have any questions about the contents of this Brochure, please contact us at (212) 356-6130. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Axar Capital Management LP is an SEC-registered investment adviser. Registration of an investment adviser does not imply a certain level of skill or training.

Additional information about Axar Capital Management LP also is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 - Material Changes

Axar Capital Management LP is amending this “Brochure” as part of the annual update. This Item 2 only discusses material changes to this Brochure since the last annual update filed March 7, 2023. The following Items were amended to reflect updates to the Adviser’s business and/or more succinctly respond to the respective Item’s instructions:

- Item 4
- Item 5
- Item 8
- Item 11

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Item 4 - Advisory Business

- A. The Adviser is a Delaware limited partnership and has its principal place of business in New York, New York. The Adviser provides discretionary investment advisory services to various pooled investment vehicles (each a “Fund” and, collectively, the “Funds”), separately managed accounts (each a “Managed Account” and, collectively, the “Managed Accounts”), and an insurance company (the “Insurance Company” and, together with the Funds and the Managed Accounts, the “Clients” or “Client Accounts”). Interests in the Funds are offered to certain sophisticated, qualified investors, including: high net worth individuals, retirement plans, trusts, partnerships, corporations, insurance companies, or other businesses.

The Adviser was formed in 2015 by its general partner, Axar GP LLC, and the Adviser’s portfolio manager, Andrew M. Axelrod (the “Principal”).

- B. The Adviser’s primary investment objective is to generate positive risk-adjusted returns. The Adviser maintains multiple active management strategies. The Adviser’s general strategy employs an opportunistic, value-oriented investment strategy supported by an analytical, fundamental research approach to identifying and assessing intrinsic value. The Adviser employs a Fixed Income focused strategy with respect to the Insurance Company.
- C. While the Funds and the Managed Accounts will follow the general strategy stated above, the Adviser may tailor the specific advisory services with respect to each Client based on the particular investment objectives and strategies described in the applicable Client’s (i) confidential offering memorandum or separate account agreement (as applicable) and (ii) governing documents, including but not limited to an investment management agreement (referred to collectively as “Governing Documents”). Managed account clients may impose restrictions on investing in certain securities or types of securities.

All discussion of the Clients in this Brochure, including but not limited to their investments, the strategies used in managing the Clients, and conflicts of interest faced by the Adviser in connection with the management of the Clients are qualified in their entirety by reference to each Client’s respective Governing Documents.

- D. The Adviser does not participate in wrap fee programs.
- E. As of December 31, 2023, the Adviser manages approximately \$2,566,000,000 in discretionary regulatory assets under management. The Adviser does not manage any assets on a non-discretionary basis.

Item 5 - Fees and Compensation

- A. Below is a discussion of how the Adviser is generally compensated in connection with providing advisory services to its Clients. However, the Adviser may enter into different fee arrangements on a Client by Client basis. A potential investor in a Fund or any potential Client should read and review any and all Governing Documents in their entirety before making any investment decisions.

Management Fees. For its services to its Funds, the Adviser is generally entitled to a management fee (the “Management Fee”) which is paid by Fund investors and may vary depending on the class of interests held by the applicable Fund investors (at an annual rate that generally ranges from 1% to 2%). The Management Fee is paid in advance on a quarterly basis and, depending on the Fund, is directly deducted from each investor’s capital account. The annual Management Fee may be negotiated by Fund investors. Management Fee structures vary across Funds.

With respect to the services rendered to Managed Accounts and the Insurance Company, the Adviser generally receives a quarterly management fee which is based upon a percentage of the applicable Managed Account’s net asset value as agreed upon between the Adviser and the Managed Account holder and Insurance Company.

Performance-Based Fees (Incentive Allocation and Carried Interest). We receive performance-based fees from certain Clients. As of each December 31 of each year, Clients subject to an “incentive allocation,” which is generally equal to 10% to 20% of any New Appreciation (as defined below) then attributable to each investor’s capital account corresponding to such investor’s interests or shares (the “Performance Allocation”) will be made, and generally subject to a hurdle rate. The Performance Allocation will be allocated to an affiliate of the Adviser. For certain Clients, the Performance-Based Fee is instead paid upon liquidation of the relevant portfolio’s assets.

The “New Appreciation” is equal to the amount by which the Net Asset Value of fund interests (calculated after deduction of Management Fees and for all accrued expenses, but prior to the Incentive Allocation being calculated) exceeds the High Water Mark and a normally a hurdle rate attributable to such interests.

The “High Water Mark” applicable to each interest is the highest aggregate Net Asset Value of such interest as of any preceding December 31, after reduction for the Incentive Allocation then made.

With respect to the Managed Accounts, the Adviser is generally entitled to receive performance-based allocation at the end of each applicable performance period (as defined in the investment management agreement between the Adviser and the Managed Account holder).

Fund Organizational Expenses. Funds also bear the expenses of the organization of the Funds. The organizational and initial offering costs of the Funds include legal, accounting, printing, marketing and comparable expenses (not including any placement fees). The Funds may amortize such organizational expenses for Net Asset Value purposes in 60 equal monthly installments. The organizational expenses borne by the Funds are described in more detail in the Funds’ Offering Documents.

Operating Expenses. Depending on the Fund, investors can expect to pay operating expenses including: legal, auditing, accounting and other professional expenses (for example,

accounting and tax advisory fees, tax compliance and filing-related costs (including FATCA and AEOI compliance), legal fees charged in negotiating, prime brokerage, ISDA Master Agreements and related custody and segregation agreements, repurchase agreements or other trading or financing agreements); administration expenses and fees including, but not limited to, the provision of any investment/management-related reporting and certain mid-office services; research expenses (including research-related and due diligence travel); investment expenses such as commissions, ticket charges, prime brokerage fees, give up fees, borrow costs, interest on margin accounts and other indebtedness and similar charges, costs associated with closing bank debt and trade claim trades (including legal fees as well as costs associated with delayed settlement risk), as well as other expenses incurred in connection with trading the Fund's account; costs and expenses associated with engaging expert networks and consultants; order management systems; custodial fees; bank and wire service and transaction fees; regulatory reporting costs (including, for example, Schedule 13D, 13F, 13G and Form PF filing costs and expenses, as well as EDGAR formatting and filing costs); compliance costs, including, without limitation, costs of compliance programs, third-party compliance consultants, actual and "mock" examinations, regulatory and governmental inquiries, subpoenas and proceedings (in each case, whether involving the Funds or the Adviser); and other expenses and legal fees related to the purchase, sale and maintenance of Fund assets as determined by the Adviser (including, but not limited to, withholding, income and other taxes). The Funds' operating expenses also include fund director fees and other legal structuring costs including costs associated with issuing interests or shares as well as revising the Funds' offering and operative documents. Also, the Funds' operating expenses include insurance premiums (including errors and omissions insurance for the principals, members, directors, officers and employees of the Adviser and its affiliates, and the Funds' and any master funds' directors).

Furthermore, and to the extent operating expenses or other expenses apply to more than one Fund or Client such as the Managed Accounts and the Insurance Company, the Adviser has implemented an expense allocation policy in order to allocate such shared expenses fairly among the applicable Clients.

Miscellaneous. The Adviser may grant waivers of the Management Fees and Performance Allocations to principals, affiliates, and employees of the Adviser.

The Adviser may agree with certain investors to a variation of the terms set forth in a Funds' Offering Documents by side letter or otherwise, without obtaining the consent of any other Fund Investor. As a result of such side letters, certain Fund Investors may receive additional benefits which other Fund Investors will not receive. Except as required by law, in general, the Adviser is not required to notify the other Fund Investors of any such side letters or any of the rights and/or terms or provisions thereof, nor is the Adviser required to offer such additional and/or different rights and/or terms to any or all of the other Fund Investors.

- B. Management Fees and Performance-Based Fees from the Funds are paid/allocated as indicated in Item 5.A. above.
- C. Certain Clients will incur brokerage and other transaction costs. Item 12 of this Brochure discusses how the Adviser selects brokers and determines the reasonableness of their compensation. The direct expenses borne by each Client are described in more full detail in each Client's Offering Documents.
- D. The Management Fee with respect to the Funds is paid in advance on a quarterly basis, as indicated in Item 1.A. The Management Fee with respect to a Managed Account may be paid in advance or arrears, depending on the relevant management agreement.

- E. Other than as described above, neither the Adviser nor any of its supervised persons receives any compensation from the sale of securities or other investment products.

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

As stated in Item 5 above, the Adviser or its affiliates receive performance-based fees or allocations from certain Clients. These payments are subject to Section 205(a)(1) of the Investment Advisers Act of 1940, as amended (the “Advisers Act”), in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3, which requires that performance-based fees only be charged to “qualified clients” (as such term is defined in Rule 205-3).

Performance-based fees, in general, may create an incentive for an adviser or its supervised persons to make investments that are riskier and more speculative than would be the case in the absence of a performance-based fee. Such fee arrangements may also create an incentive to favor higher fee paying clients over other clients in the allocation of investment opportunities. To address these conflicts of interest with respect to any future clients, the Adviser implements policies and procedures to ensure that all clients receive equitable and fair treatment with respect to the allocation of investment opportunities.

Item 7 - Types of Clients

As mentioned in Item 4, the Adviser provides investment advisory services to private funds for sophisticated, qualified investors, including: high net worth individuals, retirement plans, trusts, partnerships, corporations, insurance companies, or other businesses. The Adviser also provides advisory services to separately managed accounts for institutional investors and an insurance company.

The typical minimum initial investment in a Fund or Managed Account varies by product and is either \$1,000,000 or \$20,000,000, although the Adviser may accept investments in a lesser amount at their sole discretion.

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

A. Methods of Analysis and Investment Strategies

The investment objective of the Adviser is to generate positive risk-adjusted returns. Investing in securities involves risk of loss that Clients should be prepared to bear.

The Adviser's general strategy employs an opportunistic, value-oriented investment strategy supported by an analytical, fundamental research approach to identifying and assessing intrinsic value. The Adviser intends that the Clients' investment strategy will not regularly use leverage or borrowed money, although it has done so on occasions. Further, there will be leverage embedded in several of the financial instruments the Funds hold. The Adviser invests opportunistically in various securities and financial instruments across diverse sectors and asset classes, focusing on event-driven and special situations investments across the capital structure. While the Adviser trades primarily in the United States, Canada and other G10 countries, it may invest in certain other countries, including emerging markets, from time to time. The Adviser may invest in distressed or stressed bank debt and bonds, mezzanine debt, notes, asset-backed securities, lease obligations, listed and over-the-counter ("OTC") equities, post re-organization equities, trade claims, structured products, municipal bonds, convertible bonds, bank regulatory capital, pooled vehicles, liquidating vehicles or trusts, preferred stocks, warrants, derivatives, credit default swaps and other securities and investment instruments selected by the Adviser. Given the opportunistic nature of the investment strategy, the composition of the portfolio will shift over time, depending on market conditions.

Through its general strategy, the Adviser searches for changing market conditions, negative sentiment, stressed or distressed companies and inefficiencies that may create opportunities for value-oriented investing. The Adviser seeks situations where prices have become distorted for reasons unrelated to intrinsic value. Asset prices deviate from intrinsic value for a host of reasons including forced selling, uncertainty surrounding a change in the business or industry, bankruptcy or balance sheet stress and other misunderstood conditions. The Adviser seeks to maintain an extensive pipeline of actionable credit and equity ideas, allowing for patience and investment only when a significant discount is available. The Adviser believes its competitive advantage lies in a uniquely broad sourcing edge, a credit-oriented mindset and its personnel's experience curve.

The Adviser attempts to invest at prices that reflect a significant discount to intrinsic value. The Adviser performs bottoms-up, fundamental analysis on every investment, supported by a comprehensive due diligence process under the general strategy. The Adviser does not adhere to one particular formula to determine value, but uses a range of valuation methods including, but not limited to, cash flow and earnings power analysis as well as balance sheet-based valuations. By considering value from multiple perspectives and consistently applying conservative assumptions when forecasting, the Adviser intends to identify investments that are likely to increase in value in absolute terms and where some change, event or other catalyst will cause the market's valuation mispricing to be corrected.

The Advisor also manages an insurance company investments while pursuing a fixed income focused strategy, which may or may not invest in certain asset classes or opportunities available to other Clients. Investments are guided by portfolio restrictions established by industry regulators, reinsurance agreements, or other contractual restrictions. In the course of executing its responsibilities, the Advisor may invest in credit securities, asset backed or mortgage backed securities, Collateralized Loan Obligations ("CLO"), single asset single borrower (SASB)

commercial mortgages, residential mortgages and mortgage pools, and other illiquid securities such as those invested by the general strategy. The Advisor may also engage in hedging activity using various tradeable and bespoke derivative securities and contracts with various counterparties.

B. Select Material Risks involved with the Adviser's strategies

Other than the fixed income focused strategy, there are no material restrictions on the strategies, leverage, markets or instruments that may be incorporated into the adviser's portfolio or the percentage of the assets that may be committed to any particular strategy type, market or instrument. By investing, Clients and Fund Investors are relying on the discretionary market judgment of the adviser's personnel, without any meaningful diversification, leverage, type of trading or strategy concentration limitations. The adviser may change the trading parameters applicable to the portfolio at any time.

There can be no assurance that the Adviser will successfully implement its risk management program or that the clients will not incur substantial or total losses.

Prospective Clients and Fund Investors are urged to consult with their own financial, legal and tax advisers regarding their individual circumstances and the suitability of an investment. Clients and Fund Investors could lose their entire investment.

The Adviser's investment strategies involves a high degree of business and financial risk that can result in substantial losses and is suitable only for investors prepared to bear such risk. The risks factors below are not intended to be exhaustive. Prospective Clients and Fund Investors should carefully review the risks described in the Clients' Governing Documents, including Fund Offering Documents.

The following risks generally apply to certain aspects of the Adviser's various strategies. Depending on a client's governing documents and related employed strategy, some risks herein may not be applicable.

Capital Market Risk

The Adviser's strategies are subject to a number of market risks, including, without limitation, directional price movements, deviations from historical pricing relationships, changes in the regulatory environment, changes in market volatility, "flights to quality" and "credit squeezes." The Adviser's style of alternative investing may be materially more speculative than traditional investing strategies. Under certain market conditions, alternative investment strategies such as those to be employed by a Client, have from time to time incurred sudden and dramatic losses.

The diversification of the Client's positions may not always be significant and, even if significant, may not provide meaningful risk control, even though such diversification may reduce the Client's profit potential due to offsetting profits and losses from different positions and strategies.

Structural economic and regulatory changes could adversely affect the prospects for the Adviser's strategies generally, as could certain general market conditions.

The particular or general types of market conditions in which a Client may incur losses or experience unexpected performance volatility cannot be predicted, and the Client may

materially underperform other investment funds with substantially similar investment objectives and approaches.

Leverage

Some Clients may invest in derivative instruments that have leverage embedded and in other investment instruments and transactions that are inherently leveraged. Although such Clients do not regularly borrow money directly, but some have done so, there are generally no restrictions on the amount or type of leverage which the Client may use, and the Client may borrow money directly from time to time. The Adviser will determine such leverage based on factors deemed relevant by the Adviser. The use of leverage can dramatically magnify both gains and losses, increasing the possibility of a shareholder's total loss of its investment in the Fund.

Leverage achieved by the Client through margin borrowings requires it to post collateral with brokers and counterparties. As a general matter, the banks and dealers that provide financing to the Client can apply essentially discretionary margin, haircut, financing, security and collateral valuation policies. Changes by banks and dealers in such financing policies, or the imposition of other credit limitations or restrictions, whether due to market circumstances or governmental, regulatory or judicial action, may result in large margin calls, loss of financing, forced liquidation of positions at disadvantageous prices, termination of swap and repurchase agreements and cross-defaults to agreements with other dealers. Any such adverse effects may be exacerbated in the event that such limitations or restrictions are imposed suddenly and/or by multiple market participants at or about the same time. The imposition of such limitations or restrictions could compel the Client to liquidate all or part of its portfolio at disadvantageous prices. In recent years, banks and dealers have substantially curtailed financing activities and increased collateral requirements, forcing many hedge funds to liquidate positions. Any or all of these situations could arise due to circumstances that the Adviser may be unable to control.

Competition

Client Accounts compete with numerous other private investment funds as well as other investors, many of which have resources substantially greater than the Clients.

The amount of capital committed to private credit investment strategies has increased dramatically during recent years. At the same time, market conditions have become significantly more adverse to many of such strategies than they were in previous years. The profit potential of the Client may be materially reduced as a result of the "saturation" of the alternative investment field.

Market Disruptions

The global financial markets have recently gone through disruptions that have led to extensive governmental intervention. Such intervention was in certain cases implemented on an "emergency" basis, suddenly and substantially eliminating market participants' ability to continue to implement certain strategies or manage the risk of their outstanding positions. Future disruptions may result in similar government interventions. In addition—as one would expect given the complexities of the financial markets and the speed with which governments have felt compelled to act—these interventions have been unclear in scope and application, and have resulted in confusion and uncertainty which in itself has been detrimental to some markets as well as previously successful investment strategies.

A Client may incur major losses in the event of disrupted markets and other extraordinary events in which historical pricing relationships become materially distorted. The risk of loss from pricing distortions is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. The financing available to the Client from its banks, dealers and other counterparties is typically reduced in disrupted markets. Such a reduction may result in substantial losses to the Client. Market disruptions may from time to time cause dramatic losses for the Client, and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk.

Political and Market Uncertainty

Some of the results of elections and referenda in recent years in the United States, Europe, India, Latin America and other developed and emerging markets have been unexpected and resulted in material market changes and increases in market uncertainty. The foregoing changes in political regimes have in some cases destabilized long-held treaties and customs between nations leading to further market instability in both developed and emerging countries. Given changes in administrations and applicable law following these votes, the future of current regulations, or the adoption of new regulations, is also uncertain. These uncertainties may have adverse impacts on, or alternatively create investment opportunities for, Clients.

In addition, global economies and financial markets are increasingly interconnected, which increases the possibilities that conditions in one country or region might adversely impact issuers in a different country or region. A rise in protectionist trade policies, and the possibility of changes to some international trade agreements, could affect the economies of many nations in ways that cannot necessarily be foreseen at the present time.

High public debt in the U.S. and other countries creates ongoing systemic and market risks and policymaking uncertainty. Interest rates were unusually low in recent years in the U.S. and abroad. Because there is little precedent for this situation, it is difficult to predict the impact on various markets of a significant rate increase or other significant policy changes.

Interest-Rate Risks

Interest rate risk refers to the risks associated with market changes in interest rates. Interest rate changes may affect the value of a debt instrument indirectly (especially in the case of fixed rate obligations) or directly (especially in the case of instruments whose rates are adjustable). In general, rising interest rates will negatively affect the price of a fixed rate debt instrument and falling interest rates will have a positive effect on the price of a fixed rate debt instrument. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules. The Adviser does not purport to have any expertise predicting future interest-rate movements, particularly as interest rates can be materially influenced by government interests reflecting changing political as well as macro-economic factors.

Risks of Interest Rate Mismatches

Clients may hold investments that have fixed interest rates but the issuers of which hold underlying loans that have floating interest rates. During periods of changing interest

rates, such mismatches between the interest rate of the Client's investments and the interest rate on the loans held by issuers of such investments may adversely affect the financial condition of such issuers. Such mismatch may be difficult to hedge, and there can be no assurances that an issuer of the Client's investments will attempt to hedge such risks or that any such attempts will be successful.

Potential Interest Rate Increases

Given the historically low interest rate environment in recent years, risks associated with rising interest rates are significantly heightened and, consequently, there has been a sustained period of very low levels of central bank set interest rates. Certain central banks, including the U.S. Federal Reserve Board, have recently raised interest rates and it is expected that others will also raise their interest rates in the near future, especially in light of persistently high inflation. Central banks may further raise rates in the future. For certain of Client investments that have a fixed rate of return, any such interest rate increases may negatively impact the returns on such investments.

Inflation

Inflation and rapid fluctuations in inflation rates have had in the past, are currently having and may in the future have negative effects on economies and financial markets. Wage and price controls have been imposed at times in certain countries in an attempt to control inflation, which could significantly affect the operation of Client investments. Governmental efforts to curb inflation often curb economic activity. As such, inflation and rapid fluctuations in inflation rates can adversely affect the financial performance of a Client.

LIBOR Transition

LIBOR (the London Interbank Offered Rate), of different durations, has long been the standard "benchmark" rate used to determine the interest rates for a wide range of credit instruments as well as derivatives. The Financial Conduct Authority (the "FCA"), which is the regulator of LIBOR's administrator, ICE Benchmark Administration ("IBA"), announced that, after specified dates, LIBOR settings would cease to be provided by any administrator or would no longer be representative. Those dates are: (i) June 30, 2023, in the case of the principal U.S. dollar LIBOR tenors (overnight and one, three, six and 12 months); and (ii) December 31, 2021, in all other cases (i.e., one week and two month U.S. dollar LIBOR and all tenors of non U.S. dollar LIBOR). The FCA has proposed to require IBA to publish one-, three- and six-month U.S. dollar LIBOR until the end of September 2024 on a "synthetic" basis, but any such publications would likely be considered non-representative of the markets that the original LIBOR settings were intended to measure.

Actions by regulators have resulted in the establishment of alternative reference rates to LIBOR in most major currencies. The New York Federal Reserve's Alternative Reference Rates Committee endorsed the Secured Overnight Financing Rate ("SOFR") as its recommended alternative for U.S. dollar LIBOR in various financial contracts. SOFR has been published by the U.S. Federal Reserve since April 2018. Proposals for alternative reference rates for other currencies have also been announced or have already begun publication. Markets are slowly developing in response to these new rates, and questions around liquidity in these rates and how to appropriately adjust these rates to eliminate any economic value transfer at the time of transition remain a significant concern. The effect of any discontinuation of LIBOR or publication of "synthetic" LIBOR on a Client will vary depending on (1) existing fallback provisions in individual contracts and (2) whether, how, and when industry

participants develop and widely adopt new reference rates and fallbacks for both legacy and new products or instruments. Accordingly, it is difficult to predict the full impact of the transition away from LIBOR on Clients. The transition process may involve, among other things, increased volatility or illiquidity in markets for instruments that currently rely on LIBOR. The transition may also result in a reduction in the value of certain LIBOR-based investments held by a Client or reduce the effectiveness of related transactions such as interest rate hedges. Any such effects of the transition away from LIBOR, as well as other unforeseen effects, could result in losses for the Clients. Since the usefulness of LIBOR as a benchmark could also deteriorate during the transition period, effects could occur at any time.

Systemic Risk

Systemic risk is the risk of broad financial system stress or collapse triggered by the default of one or more financial institutions, which results in a series of defaults by other interdependent financial institutions. Financial intermediaries, such as clearing houses, banks, securities firms and exchanges with which a Client interacts, as well as the Client, are all subject to systemic risk. It is difficult, if not impossible, for any counterparty to know the financial condition of another counterparty in detail, and in a scenario in which a major investment bank declares bankruptcy, resulting in lasting uncertainty concerning, and material losses of, its customer funds, financial institutions can suddenly cease ordinary course dealings with each other, resulting in “credit freezes,” the inability to refinance short-term borrowings and general dysfunction of the financial markets. A systemic failure could have material adverse consequences on a Client and on the markets for the investments in which the Client seeks to invest.

Financial Institution Risk/Distress Events

A Client is subject to the risk that one of the Client’s banks, brokers, hedging counterparties, lenders or other custodians of some or all of the fund’s assets (**each, a “Financial Institution”**) fails to perform its obligations or experiences insolvency, closure, receivership or other financial distress or difficult, similar to that experienced by Silicon Valley Bank and Signature Bank in March 2023 (**each, a “Distress Event”**). Distress Events can be caused by factors including eroding market sentiment, significant withdrawals, fraud, malfeasance, poor performance or accounting irregularities. In the event a Financial Institution experiences a Distress Event, a Client may not be able to access deposits, borrowing facilities or other services for an extended period of time or ever. Although assets held by regulated Financial Institutions in the United States frequently are insured up to stated balance amounts by organizations such as the Federal Deposit Insurance Corporation (**“FDIC”**), in the case of banks, or the Securities Investor Protection Corporation (**“SIPC”**), in the case of certain broker-dealers, amounts in excess of the relevant insurance are subject to risk of loss, and any non-U.S. Financial Institutions that are not subject to similar regimes pose increased risk of loss. Although in recent years governmental intervention has resulted in additional protections for depositors, there can be no assurance that governmental intervention will be successful or avoid the risk of loss, substantial delays or negative impact on banking or brokerage conditions or markets.

Any Distress Event has a potentially adverse effect on the ability of the Adviser to manage a Client Account and its investments, and on the ability of the Adviser and/or the Client to maintain operations, which in each case could result in significant losses and unconsummated investment acquisitions and dispositions. Such losses have the potential to include the Client to pay fees and expenses in the event the Client is not able to close a transaction (whether due to the inability to draw capital on a credit line provided by a Financial

Institution experiencing a Distress Event or otherwise), as well the inability of the Client to acquire or dispose of investments at prices that the relevant Adviser believes reflect the fair value of such investments. Although the Adviser expects to exercise contractual remedies under the agreements with Financial Institutions in the event of a Distress Event, there can be no assurance that such remedies will be successful or avoid losses or delays.

Many Financial Institutions require, as a condition to using their services or otherwise, that the Adviser and/or a Client maintain all or a set amount or percentage of their respective accounts or assets with the custodian, which heightens the risks associated with a Distress Event with respect to such custodians. Although the Adviser seeks to do business with custodians that it believes are creditworthy and capable of fulfilling their respective obligations to the Client, the Adviser is under no obligation to use a minimum number of custodians with respect to the Client, or to maintain account balances at or below the relevant insured amounts.

Availability of Suitable Investments

While the Adviser believes that there are currently available many attractive investments of the type in which Clients invest, there can be no assurance that such investments will continue to be available for Client investment activities, or that available investments will meet a Client's investment criteria.

Credit Ratings

Credit ratings of structured finance products, other debt instruments and investments represent the rating agencies' opinions regarding their credit quality and are not a guarantee of future credit performance of such securities. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value. Therefore, the ratings assigned to securities by rating agencies may not fully reflect the true risks of an investment. Further, in the past several years many highly rated structured securities have been subject to substantial losses.

Risk of Natural Disasters, Epidemics, Pandemics, Terrorist Attacks and International Hostilities

Countries and regions in which Clients invest, where the Adviser has offices or where the Client or the Adviser otherwise do business are susceptible to natural disasters (*e.g.*, fire, flood, earthquake, storm and hurricane) and epidemics, pandemics (*e.g.*, COVID-19) or other outbreaks of serious contagious diseases. The occurrence of a natural disaster, epidemic or pandemic could adversely affect and severely disrupt the business operations, economies and financial markets of many countries (even beyond the site of the natural disaster or epidemic) and could adversely affect a Client's investment programs or the Adviser's ability to do business. The impact of infectious diseases on the health of the Adviser's employees could materially disrupt the Adviser's business activities and negatively affect the Adviser's ability to effectively monitor and manage the Client's portfolio and operate the Client Account in general. Infectious diseases or other public health crises can result in volatility in financial markets, which may disrupt historical pricing relationships or trends that the Adviser's strategies and models are based on, resulting in substantial and sudden losses to the Client. This risk of loss can be compounded by the fact that in disrupted markets positions may become illiquid and financing might become unavailable. Volatility may also make it more difficult or costly to rebalance portfolios or keep them within investment guidelines or targets. These events could also restrict travel, including investment-related travel, thus reducing the proficiency of the investment ideas of investment personnel.

In addition, terrorist attacks, or the fear of or the precautions taken in anticipation of such attacks, could, directly or indirectly, materially and adversely affect certain industries in which a Client invests or could affect the countries and regions in which the Client invests, where the Adviser has offices or where the Fund Client the Adviser otherwise do business. Other acts of war (*e.g.*, war, actual or threatened invasion, acts of foreign enemies, hostilities and insurrection, regardless of whether war is declared) could also have a material adverse impact on the financial condition of industries or countries in which a Client invests. Specifically, Russia's invasion of Ukraine in February 2022 and the resulting conflict has caused significant instability in global financial markets and has increased the threat of cyberattacks, nuclear incidents and further escalation of geopolitical tensions. The invasion has also led to multiple countries imposing economic sanctions and enhanced export controls on the activities of certain individuals and Russian entities and to numerous market participants voluntarily ceasing, suspending or reducing business with counterparties connected to Russia. Global and local macroeconomic impacts, including increased inflationary pressures, volatility in the price and supply of energy and other commodities, disruption to supply chains, economic pressure caused by movement of displaced persons and significant uncertainty in the commercial, legal and political environment are likely to further adversely impact individuals and businesses. The nature and duration of impacts of these types of events on the business of a Client, the Adviser and the Client's investments are difficult to predict, but could be both severe and long-lasting. Adverse impacts could include increased operating costs (as a result of increased energy and commodity prices, among other things) and foreign exchange risk, increased funding costs or reduced access to credit, disruption to supply chains, reductions in revenue and valuations of investments and adverse impacts on the operating margins of the Client's investments. These factors could severely impact the Adviser's operations and/or Clients' investments and overall performance.

Directional Trading

Many of the positions taken by the Adviser are fundamentally directional in nature, intended to profit from forecasting absolute price movements in a particular asset. Predicting future prices is inherently uncertain and the losses incurred, if the market moves against a position, are often not hedged. The speculative aspect of attempting to predict absolute price movements is generally perceived to exceed that involved in attempting to predict relative changes in price.

Fundamental Strategies

Fundamental analysis — which posits that markets are imperfect and that mispricings can be identified between prevailing market prices and those indicated by underlying fundamental data — is subject to the risk of inaccurate or incomplete market information, as well as the difficulty of predicting prices based on such information. Furthermore, even if the analyst is successfully able to identify mispricings on the basis of fundamental factors, there is the additional uncertainty of predicting the duration of such mispricings and, accordingly, when or whether it will be profitable to invest so as to profit from them. Fundamental analysis is subject to significant losses when market sentiment leads to the prices of assets being materially discounted from the level indicated by fundamental analysis (as in the case of “flights to quality” when the demand for assets other than Treasury securities diminishes to a degree significantly in excess of that indicated by the fundamental differences between Treasuries and other securities) or when technical factors, such as price momentum or option expirations, dominate the market.

Credit Strategies

Clients may invest in the credit markets attempting to take advantage of undervalued securities. The identification of attractive investment opportunities in disrupted credit markets is difficult and involves a significant degree of uncertainty. The credit markets are, in general, highly susceptible to interest-rate movements, government interference, economic news, and investor sentiment. There was significant volatility in the credit markets in connection with the 2020 global outbreak of COVID-19, which outbreak could potentially have an enduring material adverse impact on credit markets. The credit markets also experienced significant volatility in the financial crisis of 2008-2009.

During periods of “credit squeezes” or “flights to quality,” the market for credit instruments other than U.S. Treasury bills can become substantially reduced. This poses a particular risk that credit investments may need to be sold at discounts to fair value in order to meet the obligations of a Client, including to pay Principal Proceeds. At the same time, the dealers may correspondingly reduce the value of outstanding positions, resulting in additional margin calls as loan to value triggers are hit under prime brokerage and swap agreements. Downward pressures on price and leverage could cause substantial or total losses for funds implementing credit strategies, such as some Clients. During the COVID-19 pandemic beginning in 2020 and the financial market crisis of 2008-2009, the market for credit instruments was so illiquid that a number of private investment funds had to sell otherwise desirable investments in other asset classes in order to meet margin calls on their credit positions.

Evolving Strategies; New Strategies

The Adviser’s investment approaches are continually evolving, and the Adviser may add new trading strategies at any time. The Adviser may allocate Client Accounts capital to develop and incubate new strategies if permitted, even if the Adviser has limited experience in such strategies. The Adviser anticipates that it will add additional, and terminate existing, strategies on an ongoing basis. There can be no assurance that the Adviser will be successful in implementing the strategies which the Adviser may from time to time develop and implement for Client Accounts, or that the Fund will not suffer losses during the development or incubation stage of a strategy.

Importance of Market Judgment

The Adviser’s strategies are by no means wholly quantitative or systematic; the market judgment and discretion of the Adviser’s personnel are fundamental to the implementation of its investment strategies. Generally, the greater the importance of subjective factors to a trading strategy, the more unpredictable its results.

Credit Analysis and Credit Risk

The strategies utilized by the Adviser require accurate and detailed credit analysis of issuers. The Adviser has limited experience with credit analysis, and there can be no assurance that its analysis will be accurate or complete. The Fund may be subject to substantial losses in the event of credit deterioration or bankruptcy of one or more issuers in its portfolio.

Duration of Investment Positions

The Adviser typically does not know (except in the case of certain options or derivatives positions which have pre-established expiration dates) the maximum — or, often, even the expected (as opposed to optimal) — duration of any particular position at the time of initiation. The length of time for which a position is maintained varies significantly based on the Adviser's subjective judgment of the appropriate point at which to liquidate a position so as to augment gains or reduce losses.

Many of Client Account transactions involve acquiring related positions in a variety of different instruments or markets at or about the same time. Frequently, optimizing the probability of being able to exploit the pricing anomalies among these positions requires holding periods of significant length — often many months to a year or more. Actual holding periods depend on numerous market factors which can both expedite and disrupt price convergences. There can be no assurance that Client Accounts will be able to maintain any particular position, or group of related positions, for the duration required to realize the expected gains, or avoid losses, from such positions.

Certain of Client Account investments may not have a defined time horizon to the extent that they are based upon the realization of the enterprise value of an investment as it develops and evolves. The longer the duration of an investment by Client Accounts, the greater the exposure of such position to the risks of general economic changes as well as changes in the Adviser itself.

The Master Fund's ability to realize value from other illiquid investments is often dependent on a "valuation" event — an initial public offering, sale, refinancing, *etc.* The specific "exit strategy" for an illiquid investment may not be determined at the time that the Master Fund commits to such investment, and changing market conditions may preclude the execution of the "exit strategy" that the Adviser might have expected to implement.

Reliance on Corporate Management and Financial Reporting

Many of the Client strategies rely on the financial information made available by the issuers to which the Client have exposure. The Adviser has, and will have, no independent ability to verify the financial information disseminated by the issuers, and depends upon the integrity of both the management of these issuers and the financial reporting process in general. Recent events have demonstrated the material losses that investors can incur as a result of corporate mismanagement, fraud and accounting irregularities. Equity securities prices are particularly vulnerable to instances of corporate mismanagement.

Uncertain Value of Investments

The Adviser has broad discretion to invest in several Client Accounts capital and will do so in certain cases in instruments which have an uncertain fair value.

There is a risk that a Fund Investor or Client who receives Liquidation Proceeds will be paid an amount less than such Fund Investor or Client would otherwise be paid if the actual value of the Fund and Other Client investments were higher than the value determined by the Adviser. Conversely, there is a risk that such Fund Investor or Client might, in effect, be overpaid if the actual value of such investment is lower than the value determined by the Adviser.

A Client may acquire a significant position in a given instrument — a position sufficiently large that the Client is unable to transact freely in such instrument, due to practical, contractual, legal or regulatory restrictions. The value of such position may be materially less than it would have been in the absence of such restrictions.

The actual timing of a position's liquidation may materially affect the values obtained on such liquidation, irrespective of the "fair value" of such position.

The Adviser, its affiliates and the Administrator are entitled to rely, without independent investigation, upon pricing information and valuations furnished by third parties, including pricing services.

The prices which dealers and counterparties quote for certain positions may differ materially from the prices at which such dealers and counterparties would be prepared actually to execute transactions in such positions.

Volatility

The prices of numerous instruments traded by the Client have been subject to periods of excessive volatility in the past, and such periods can be expected to recur. Price movements are influenced by many unpredictable factors.

Although volatility can create profit opportunities for the Fund, it can also create the specific risk that historical or theoretical pricing relationships will be disrupted, causing what should otherwise be comparatively low risk positions to incur potentially substantial losses.

The financial markets experienced increased volatility in 2008–2010 and the beginning of the COVID pandemic in 2020, which may recur in the future. On the other hand, in 2012 the equity markets experienced unusually low volatility, causing many arbitrage and similar strategies (which focus on profiting from the mispricings created in part by market volatility) to incur major losses.

Illiquid and Longer-Term Investments

Client Accounts may invest in certain illiquid and longer-term positions, including thinly traded securities and other less liquid assets, such as investments in private companies and liquidating vehicles or trusts.

If a Client Account holds illiquid longer-term investments, the Adviser may determine the Fair Market Value of such investments for accounting purposes using valuation models and market information. However, the Client Account's valuation of these positions may differ materially from the value ultimately realized upon the liquidation of such investments, particularly as certain of such investments tend to have realization and/or events which cause their value to increase or decrease suddenly in a manner not previously reflected in the Net Asset Value at which investors have recently subscribed.

There will often be no trading market for illiquid longer-term investments, and in the event a Client Account Fund holds such investments, the Adviser might only be able to sell these positions, if at all, at materially disadvantageous prices.

Possible Positive Correlation with Stocks and Bonds

One of the goals in incorporating a non-traditional investment such as the Shares into a portfolio is to provide a potentially valuable element of diversification. However, there can be no assurance, particularly during periods of market disruption and stress, that the performance of a Client Account will, in fact, experience a low level of correlation with a traditional portfolio of stocks and bonds. In 2008–2009, many hedge funds incurred losses generally comparable to the decline in the Standard & Poor’s 500 Index. A Client’s concentration on equity and equity-linked markets may increase the likelihood of such correlation.

It appears that during periods when market liquidity contracts, both alternative and traditional investment strategies tend to incur losses. Periods of illiquidity can be expected to recur from time to time, and during such periods the potential diversification benefits of an investment in a Client Account may not be realized. On the contrary, a Client’s performance may be highly correlated with the performance of traditional portfolio holdings.

“New Issue” Trading

Some Client Accounts may engage in “new issues” trading. Fund Investors that are “restricted persons” under FINRA Rules 5130 and 5131 will not be permitted to participate or participate fully in the returns generated by “new issues” trades.

Participation on Creditors’ Committees

The Adviser, representing the interests of Clients, may participate on committees formed by creditors to negotiate with the management of financially troubled companies that may or may not be in bankruptcy. The Adviser may also seek to negotiate directly with debtors with respect to restructuring issues. When the Adviser chooses to join a creditors’ committee, the Adviser would likely be only one of many participants, each of whom would be interested in obtaining an outcome that is in its individual best interests. There can be no assurance that a Client Account would be successful in obtaining results most favorable to it in such proceedings, although a Client Account may incur significant legal fees and other expenses in attempting to do so. As a result of participation by the Adviser on such committees, the Adviser may be deemed to have duties to other creditors represented by the committees, which might thereby expose Client Accounts to liability to such other creditors who disagree with the Adviser actions.

Material Non-Public Information

The Axar Parties may have access to material non-public information regarding the securities in Client Accounts. In the event that the Axar Parties receive such material non-public information, the Adviser may be prohibited from effecting transactions in a security that it would desire to effect and thus incur losses. For example, employees of the Adviser may serve on boards of directors or executive committees or in other management capacities at companies in which a Client invests, either directly or indirectly. Serving in such a capacity may expose such employee, and by association the Adviser and Clients, to certain limitations on the ability to trade the securities of the issuer company and certain conflicts of interest. As a result of such service, an employee may become aware, from time to time, of material non-public information about the company in which a Client invests, and the employee’s knowledge is likely to be attributed to the Adviser and the relevant Clients. Further, by reason of the

advisory, due diligence, committee participation and other activities of the Axar Parties, the Axar Parties may acquire confidential or material non-public information or be restricted from initiating transactions in certain securities.

The Axar Parties will not be free to divulge, or to act upon, any such confidential or material non-public information and, due to these restrictions, the Adviser may not initiate a transaction for a Client Account that the Adviser otherwise might have initiated, and the pertinent Client Accounts may be frozen in an investment position that it otherwise might have liquidated or closed out. As a result, the Adviser and Client Accounts may also be subject to Section 16 of the U.S. Securities Exchange Act of 1934, as amended (**the “Exchange Act”**), including the disclosure requirements, the restrictions on purchases and sales, and the disgorgement of profits in certain circumstances. Alternatively, the Adviser and its affiliates may decline to receive material non-public information which it is entitled to receive on behalf of the Clients in order to avoid trading restrictions for the Master Fund as well as other accounts under its management, even though access to such information might have been advantageous to Clients and other market participants are in possession of such information.

Board Membership

In addition to the risk that an employee of the Adviser may become aware of material non-public information regarding the securities in which Client Accounts invest as a result of such employee’s board membership (as discussed above), an employee serving as a director of a company owned, directly or indirectly, by Client Accounts may also face a conflict between the fiduciary duties owed by such employee to a Client and the duties owed to such company. In such circumstances, an employee may act in ways that are in the best interests of such company but not the Client. The Adviser intends to prevent employees from taking such positions when, in the Adviser’s determination, the potential risks to the Client outweigh the potential benefits. However, there can be no assurance that permitting the board membership of an employee will not result in less favorable results for the Client than if the employee was not permitted to serve in such capacity.

Subordination, “Cramdowns” and Dilution

Some Clients as senior secured creditors of an issuer can find themselves subordinated to otherwise junior creditors, depending on the laws of the applicable jurisdiction. For example, a bankrupt issuer may be able to apply under local law to the relevant court for “debtor in possession” or similar financing in order to obtain new capital for its operations. The persons who invest such new capital will take a senior position to the Client, even though the Client was previously senior to such persons. The Client may or may not be given an opportunity to participate in such financing.

A reorganization plan approved by any judicial or administrative body may result in a number of different creditors being compelled to accept materially adverse changes to the terms of the debt that they hold — including reduced interest rates, extended maturities and reduced acceleration rights. Such “cramdowns” may be imposed in the discretion of such governmental bodies in order to give the issuer a better chance of remaining economically viable.

In a reorganization, substantial amounts of equity are often issued to the senior lenders in return for the extinguishment of their debt. This can result in substantial dilution to an equity position previously acquired by a Client — either directly or through the acquisition of convertible debt.

Uncertainties of Foreclosure Process

If it becomes necessary to foreclose on the assets underlying a loan acquired by a Client, significant uncertainty may arise as to the outcome of the proceeding. Courts or other arbiters typically have broad discretion as to how they deal with the claims of different creditors, and the claims of secured creditors may not — despite their legal entitlement — always be respected as a matter of policy. There is a greater uncertainty in many emerging markets with respect to foreclosure proceedings because the laws in such markets often are not designed to address institutional lending.

Inadequate Bankruptcy and Insolvency Laws

Some Clients may make investments in high yield and financially distressed companies around the world, and the issuers in which the Adviser invests on behalf of its Clients may from time to time be subject to local bankruptcy and insolvency laws. Moreover, even if issuers do not actually become bankrupt or insolvent, the possible effect of such laws on such issuers will directly impact the value of their securities.

C. Select Material Risks of Certain Securities

Corporate Debt Obligations, Convertible Securities and High-Yield

Clients may invest in corporate debt obligations, convertible securities (which are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or a different issuer within a particular period of time at a specified price or formula) and high-yield securities.

The market value of debt securities generally tends to decline as interest rates increase and, conversely, increase as interest rates decline. Convertible securities also appreciate when the underlying common stock appreciates, and conversely, depreciate when the underlying common stock depreciates. Debt obligations are subject to the risk of an issuer's inability to meet principal and interest payments on the obligations, *i.e.*, credit risk. The Adviser may actively expose a Client to credit risk. However, there can be no guarantee that the Adviser will be successful in making the right selections and thus mitigate the impact of credit risk changes on a Client account.

Convertible securities generally: (i) have higher yields than the dividends on the underlying common stocks, but lower yields than non-convertible securities of a comparable duration; (ii) are less volatile in price than the underlying common stock due to their fixed-income characteristics; and (iii) have a significant option component to their value which is directly impacted by the prevailing market volatility and interest rates. The market for convertible securities is also typically materially less liquid than that for the underlying common stock and the value of convertible securities more directly at risk to increases in interest rates.

Because “high yield” bonds and preferred securities are rated in the lower rating categories by the various credit rating agencies, such securities result in greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominately speculative. They are also generally considered to be subject to greater risk than securities with higher ratings because the yields and prices of such securities may tend to fluctuate more than those for higher-rated securities, the market for lower-rated securities is thinner and less active.

Common Stocks

Clients may invest in long and short positions in common stock. Common stock prices are directly affected by issuer-specific events, as well as general market conditions. In addition, in many countries investing in common stocks is subject to greater regulatory and self-regulatory scrutiny than investing in debt or other financial instruments.

Preferred Stock

Preferred stock generally has a preference as to dividends and upon the event of liquidation over an issuer's common stock, but it ranks junior to debt securities in an issuer's capital structure. Preferred stock generally pays dividends in cash (or additional shares of preferred stock) at a defined rate, but unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer's board of directors. Dividends on preferred stock may be cumulative, meaning that, in the event the issuer fails to make one or more dividend payments on the preferred stock, no dividends may be paid on the issuer's common stock until all unpaid preferred stock dividends have been paid. Preferred stock may also be subject to optional or mandatory redemption provisions.

Distressed Securities

Investment in the securities of financially troubled issuers and operationally troubled issuers involves a high degree of credit and market risk. Although Client accounts may invest in select companies that, in the view of the Adviser, have the potential over the long-term for capital growth, there can be no assurance that such financially troubled issuers or operationally troubled issuers can be successfully transformed into profitable operating companies. There is a possibility that a Client may incur substantial or total losses on its investments or that such investments may not show any return for a considerable period of time. Under such circumstances, the returns generated from Client account investments may not compensate investors adequately for the risks assumed. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There can be no assurance that the Adviser will correctly evaluate the value of a company's assets or the prospects for a successful reorganization or similar action. During an economic downturn or recession, securities of financially troubled or operationally troubled issuers are more likely to go into default than securities of other issuers. In addition, it may be difficult to obtain information about financially troubled issuers and operationally troubled issuers.

Securities of financially troubled issuers and operationally troubled issuers are less liquid and more volatile than securities of companies not experiencing financial difficulties. The market prices of such securities are subject to erratic and abrupt market movements, and the spread between bid and asked prices may be greater than normally expected. In addition, it is anticipated that many of the Client portfolio investments may not be widely traded and that the Client's investment in such securities may be substantial relative to the market for such securities. As a result, the a Client may experience delays and incur losses and other costs in connection with the sale of its portfolio securities.

Troubled company and other asset-based investments require active monitoring and may, at times, require participation in business strategy or reorganization proceedings by the Adviser. To the extent that the Adviser becomes involved in such proceedings, a Client may

have a more active participation in the affairs of the issuer than that assumed generally by an investor. In addition, involvement by the Adviser in an issuer's reorganization proceedings could result in the imposition of restrictions limiting the Client's ability to liquidate its position in the issuer or increase the likelihood of the Client being involved in litigation.

Defaulted Securities

Certain Clients may invest in the securities of companies involved in bankruptcy proceedings, reorganizations and financial restructurings and may have a more active participation in the affairs of the issuer than is generally assumed by an investor. This may subject the Client to litigation risks or prevent the Client from disposing of securities. In a bankruptcy or other proceeding, the Client as a creditor may be unable to enforce its rights in any collateral or may have its security interest in any collateral challenged, disallowed or subordinated to the claims of other creditors. While the Client will attempt to avoid taking the types of actions that would lead to equitable subordination or creditor liability, there can be no assurance that such claims will not be asserted or that the Client will be able to defend against them successfully. Other investors may purchase the securities of these companies for the purpose of exercising control or management, and the Client may be at a disadvantage to the extent that the Client's interests differ from the interests of these other investors.

Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions which may be contrary to the interests of the Client. Furthermore, there are instances where creditors and equity holders lose their ranking and priority as such if they are considered to have taken over management and functional operating control of a debtor.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and the Client and is subject to unpredictable and lengthy delays. In addition, during the process the company's competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets. The debt of companies in financial reorganization will in most cases not pay current interest, may not accrue interest during reorganization and may be adversely affected by an erosion of the issuer's fundamental values. Such investments can result in a total loss of principal.

United States bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that the Adviser's influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors (for example, claims for taxes) may be quite high.

Certain Clients may also purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably

at the original purchase price) or forfeiture by the purchaser.

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

Bank Loans and Participations

The Adviser may invest a portion of a Client's assets in bank loans and participations. The special risks associated with these obligations include (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws, (ii) so called "lender liability" claims by the issuers of the obligations, (iii) environmental liabilities that may arise with respect to collateral securing the obligations, (iv) adverse consequences resulting from participating in such instruments with other institutions with lower credit quality and (v) limitations on the ability of the Client or the Adviser to directly enforce its rights with respect to participations. The Adviser balances the magnitude of these risks against the potential investment gain prior to entering into each such investment. Successful claims by third parties arising from these and other risks, absent bad faith, may be borne by the Master Fund. The Client does not currently intend to originate, organize or serve as an agent in connection with bank loans and participations.

In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories (collectively termed "lender liability"). Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to a borrower or has assumed a degree of control over the borrower resulting in a creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. Because of the nature of certain of the Client's investments, the Client could be subject to allegations of lender liability.

Trade and Other General Unsecured Claims

Some Clients may acquire interests in claims of trade creditors and other general unsecured claim holders of a debtor. Trade claims generally include, but are not limited to, claims of suppliers for goods delivered and for which payment has not been made, claims for unpaid services rendered, claims for contract rejection and claims related to litigation. Trade claims are typically unsecured and may be subordinated to other unsecured obligations of the debtor. The repayment of trade claims is subject to significant uncertainties, including potential set-off by the debtor, characterization of "preferences" in bankruptcy as well as the other uncertainties described herein with respect to other distressed debt obligations.

Swap Agreements

Among the various derivative transactions a Client may enter into are swap agreements and options on swap agreements ("**swaptions**"). These agreements can be individually negotiated and structured to include exposure to a variety of different types of investments, asset classes or market factors. A Client, for instance, may enter into swap agreements with respect to interest rates, credit defaults, currencies, securities, indices of securities and other

assets and/or other components of risk or return. Depending on their structure, swap agreements may increase or decrease the Client's market exposure.

Whether the Client's use of swap agreements or swaptions will be successful will depend on the Adviser's selection and negotiation of such transactions for the Client. Swap transactions may be highly illiquid and may increase or decrease the volatility of the Client's portfolio. Moreover, the Client bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty. The Client will also bear the risk of loss related to swap agreements, for example, due to breaches of such agreements or the failure of the Client to post or maintain required collateral. Many swap markets are relatively new and still developing. Dodd-Frank, as well as possible additional government regulation or other developments in the swap markets could adversely affect the Client's swaps trading and result in material losses.

Dodd-Frank has required comprehensive regulation of swap agreements among many market participants, and may significantly disrupt the Client's use of swaps — at least for the foreseeable future.

Indirect Participation on Swap Execution Facilities

In an effort to facilitate the investment strategies employed by the Adviser, the Adviser may engage brokers that are members of swap execution facilities (“SEFs”) to place trades on its behalf. While Clients and Adviser are not necessarily direct members of any SEF, such indirect SEF participation may nevertheless require a Client and/or Adviser to consent to the SEF's jurisdiction as a self-regulatory organization and to be subject to certain aspects of the SEF's rulebook, which could subject it to a wide range of regulations and other obligations, together with associated costs. Like any other self-regulatory organization, SEFs regularly revise and interpret their rules, and such revisions and interpretations could adversely impact the Client.

Credit Default Swaps

Some Clients may purchase and sell credit derivatives contracts — primarily credit default swaps — both for hedging and speculative purposes. The typical credit default swap contract generally requires the seller to pay to the buyer, in the event that a particular reference entity experiences specified credit events, a specified notional amount in exchange for securities issued by such reference entity. In return, the buyer agrees to make periodic payments equal to a fixed percentage of the notional amount of the contract. The Client may also purchase or sell credit default swaps on a basket of reference entities as part of a synthetic collateralized debt obligation transaction.

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

As a buyer of credit default swaps, in circumstances in which the Client did not own the debt securities that are deliverable under a credit default swap, the Client would be exposed to the risk that deliverable securities would not be available in the market, or would be available only at unfavorable prices, as would be the case in a so-called “short squeeze.”

As a buyer or a seller of credit default swaps, the Client takes credit risk with respect to its counterparties. Credit default swaps generally trade on the basis of theoretical pricing and valuation models, which may not accurately value such swap positions when established or when subsequently traded or unwound under actual market conditions.

In certain instances of issuer defaults or restructurings, it has been unclear under the standard industry documentation for credit default swaps whether or not a “credit event” triggering the seller’s payment obligation had occurred.

The market in credit default swaps may be substantially curtailed by Dodd-Frank and the regulations promulgated thereunder.

RMBS and CMBS

Some Clients may invest in residential (“RMBS”) and commercial (“CMBS”) mortgage-backed securities. Investing in RMBS and CMBS involves the general risks typically associated with investing in traditional fixed-income securities (including interest rate and credit risk), as well as additional risks peculiar to the mortgages underlying such RMBS and CMBS. Mortgage-backed securities (“MBS”) generally provide for the payment of interest and principal on a monthly basis, and there also exists the possibility, particularly with respect to RMBS, that principal may be prepaid at any time due to, among other reasons, prepayments on the underlying mortgage loans or other assets. The rate of prepayments on underlying mortgages affects the price and volatility of an MBS, and may have the effect of shortening or extending the effective maturity beyond what was anticipated. Further, different types of MBS are subject to varying degrees of prepayment risk. Finally, the risks of investing in such instruments reflect the risks of investing in real estate securing the underlying loans, including the effect of local and other economic conditions, the ability of tenants to make payments, and the ability to attract and retain tenants.

Prepayments of the mortgage loans underlying RMBS and CMBS may be affected by any number of factors. In general, any factors that increase the attractiveness of selling a mortgaged property or refinancing a mortgage loan, enhance a borrower’s ability to sell or refinance or increase the likelihood of default under a mortgage loan, would be expected to cause the rate of prepayment in respect of a pool of mortgage loans to accelerate.

Portfolios of MBS may be backed by residential mortgage loans located in only a few states or regions, and be subject to geographic risks relating to such areas.

Index Risk

Some Clients may invest in structured notes, variable rate asset-backed securities (“ABS”) and MBS, including adjustable-rate MBS, which are backed by mortgages with variable rates, and certain classes of MBS derivatives, the rate of interest payable under which varies with a designated rate or index. The value of these investments is closely tied to the absolute levels of such rates or indices, or the market’s perception of anticipated changes in those rates or indices. This introduces additional risk factors related to the movements in

specific indices or interest rates which may be difficult or impossible to hedge, and which also interact in a complex fashion with prepayment risks.

Structured Notes

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

Consumer Asset-Backed Securities

Some Clients may invest in a wide variety of consumer asset-backed securities, including those backed by auto loans and leases, credit card loans and student loans, and other types of ABS, including those backed by small business loans, rental, commercial, and government fleet leases, certain insurance premium finance loans, equipment loans and leases, mortgage servicing advance loans, aircraft leases, manufactured housing installment sale contracts and installment loan agreements, floorplan loans and franchise loans.

Like MBS, ABS are affected by payments, defaults, and losses on the underlying assets and the recent global economic slowdown may adversely affect the performance and market value of these securities. Rising unemployment, decreases in the values of consumer assets and continued lack of availability of credit may lead to increased default rates across a wide range of different ABS receivables. Such market conditions may be accompanied by decreased consumer demand for the assets underlying such securities, which may weaken collateral coverage and increase the amount of a loss in the event of default.

ABS are also susceptible to prepayment risks. Receivables in ABS may or may not contain prepayment penalties. A reduction in interest rates may increase prepayments on the receivables and in turn a reduction in yield to maturity for ABS holders purchasing such securities at a premium. An increase in interest rates or other factors may slow prepayments which would result in a reduction in yield to maturity for ABS holders purchasing such securities at a discount. Governmental regulation may prohibit, limit, or delay repossession and sale of the assets to recover losses on defaulted assets underlying these ABS. As a result, payments on the related issue of ABS could be delayed and/or reduced. The assets underlying ABS may be obligations of the borrowers thereunder only and not insured or guaranteed by any other person or entity; consequently, distributions on such ABS may depend solely upon the amount and timing of payments and other collections on the related underlying assets.

Other Structured Investment Products

In addition to structured notes, some Clients may issue, acquire or otherwise participate in a variety of different structured investment products including, but not limited to, total return swaps and options. These structured products involve not only the risks of the underlying “reference asset,” but also the risks (including acceleration of the financing embedded in the

structure and/or restrictions imposed on the management and nature of the permissible reference assets) and costs of creating the structured products.

Equity-Linked Instruments and Related Options

A number of the financial instruments traded by Clients are referenced to underlying equities but also incorporate other components — duration, strike price, premiums, etc. — which can result in the Client's positions being unprofitable even though the Adviser may have correctly assessed the market value of the underlying equity instrument.

The Adviser may trade in put and call options, which involve qualitatively different risks than owning or selling short the underlying common stock. Because option premiums paid or received by an investor are small in relation to the market value of the investments underlying the options, trading put and call options is highly leveraged.

A number of traders as a matter of policy will not sell “naked” options — *i.e.*, options on common stocks not already owned by the trader in question — due to the risk of the value of such options spiking dramatically due to changes in stock prices, market volatility and/or interest rates. The Adviser, however, may from time to time sell “naked” options.

Derivatives Generally

Clients may use derivative financial instruments, including, without limitation, warrants, options, swaps, convertible securities, notional principal contracts, contracts for differences, forward contracts and futures contracts as well as options on such futures contracts. The use of derivative instruments — both for speculation and for hedging purposes — involves a variety of material risks, including the extremely high degree of leverage often embedded in such instruments as well as the possibility of material and prolonged deviations between the theoretical and realizable value of a derivative. The market in derivative instruments is also typically materially less liquid than the market in the underlying reference asset. Such risks (and other risks that may not be anticipated) may make it difficult as well as economically non-viable to the Client to close out derivative positions in order either to realize gains or to limit losses.

Many of the derivatives to be traded by the Client are principal-to-principal or OTC contracts between the Client and third parties entered into privately, rather than on an exchange. As a result, the Client generally will not be afforded the regulatory and financial protections of an exchange or its clearinghouse (or of the government regulator that oversees such exchange and clearinghouse). OTC contracts subject the Client to credit risk with regard to the third parties with which it trades and the Client will also bear the risk of counterparty non-performance under such contracts. Furthermore, in privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices.

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

The Client's use of derivatives for hedging purposes involves certain additional risks, including: (i) imperfect correlation between price movements in the asset on which the derivative is based and price movements in such derivative; and (ii) possible impediments to effective portfolio management or the ability to meet short-term obligations because of the percentage of the Client's assets segregated to secure its obligations under derivatives contracts.

The terms of the Client's derivative contracts generally allow the counterparty to the Client to terminate such contracts under numerous circumstances, including as a result of certain levels of Net Asset Value declines (whether as a result of performance, redemptions or a combination of the two), increases in the Client's mark-to-market exposure to such counterparty and the Client's postponement of the determination of Net Asset Value and/or Effective Dates. If a derivative contract is terminated prematurely, the Client is likely to incur material losses.

Regulation of the OTC Derivatives Market

Dodd-Frank, enacted in July 2010, included provisions that comprehensively regulated the OTC derivatives markets for the first time. Dodd-Frank, and the rules promulgated thereunder, mandates that a substantial portion of OTC derivatives be submitted for clearing to regulated clearinghouses. OTC trades submitted for clearing are subject to minimum initial and variation margin requirements set by the relevant clearinghouse, as well as margin requirements mandated by the CFTC, SEC and/or federal prudential regulators. OTC derivatives dealers also typically demand the unilateral ability to increase Clients' collateral requirements for cleared OTC trades beyond any regulatory and clearinghouse minimums. The regulators also have imposed margin requirements on non-cleared OTC derivatives and requirements regarding the holding of customer collateral by OTC derivatives dealers. These requirements may increase the amount of collateral a Client is required to provide and the costs associated with providing it. OTC derivative dealers also are required to post margin to the clearinghouses through which they clear their customers' trades instead of using such margin in their operations, as was widely permitted before Dodd-Frank. This has increased and will continue to increase the OTC derivative dealers' costs, and these increased costs are generally passed through to other market participants in the form of higher upfront and mark-to-market margin, less favorable trade pricing, and the imposition of new or increased fees, including clearing account maintenance fees.

With respect to cleared OTC derivatives, a Client does not face a clearinghouse directly but rather does so through an OTC derivatives dealer that is registered with the CFTC or SEC and that acts as a clearing member. Clients may face the indirect risk of another clearing member customer failing to meet its obligations to its clearing member. Although in the United States cleared OTC derivatives are not generally subject to the same "fellow customer risk" as cleared futures contracts due to the operation of the CFTC's "legally segregated, but operationally commingled" customer protection rules, if a clearinghouse through which Clients clear OTC derivatives fails for any reason, including due to a default by a cleared swaps customer of any futures commission merchant ("FCM"), Clients will suffer losses to the extent that such failure causes Clients' FCM to default or the Clients' FCM is no longer obligated to perform on the cleared OTC derivative following the failure of the clearinghouse.

The CFTC also requires certain derivative transactions that were previously executed on a bi-lateral basis in the OTC markets to be executed through a regulated futures exchange or swap execution facility. The SEC is also expected to impose similar requirements on certain security-based derivatives in the future, though it is not yet clear when these parallel SEC

requirements will go into effect. Such requirements may make it more difficult and costly for investment funds, including a Client, to enter into highly tailored or customized transactions. They may also render certain strategies in which a Client might otherwise engage impossible or uneconomic to implement. If a Client decides to execute derivatives transactions through such exchanges or execution facilities — and especially if it decides to become a direct member of one or more of these exchanges or execution facilities — a Client would be subject to the rules of the exchange or execution facility, which would bring additional risks, liabilities, and regulatory requirements.

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

Forward Contracts

Some Clients may trade deliverable forward contracts in the inter-bank currency market. Such deliverable forward contracts are not currently traded on exchanges; rather, banks and dealers act as principals in these markets. As a result of Dodd-Frank, the CFTC regulates certain types of forwards, specifically non-deliverable forwards and many so-called deliverable forwards where the parties do not take actual delivery. Changes in the forward markets may entail increased costs and result in burdensome reporting requirements. There is currently no limitation on the daily price movements of forward contracts. Principals in the forward markets have no obligation to continue to make markets in the forward contracts traded. The imposition of credit controls by governmental authorities or the implementation of regulations pursuant to Dodd-Frank might limit such forward trading to less than that which the Adviser would otherwise recommend, to the possible detriment of the Fund.

Currency Markets

Client may trade currencies and foreign exchange. Such transactions involve a significant degree of risk. The markets in which foreign exchange transactions are effected are volatile and specialized. Significant changes, including changes in liquidity and prices, can occur in such markets within very short periods of time, often within minutes. Foreign exchange trading risks include, but are not limited to, exchange rate risk, maturity gaps, interest rate risk and potential governmental interference through regulation of the local exchange markets, foreign investment or particular transactions in the native or foreign currencies. Foreign exchange transactions can result in a Client's returns being substantially better or worse than they would have been had the Client not entered into such transactions.

Exchange Rate Risk and Currency Hedging

Clients' investments generally are denominated in U.S. dollars, though Clients may make investments denominated in non-U.S. dollar currencies from time to time. To the extent a Client makes investments denominated in non-U.S. dollar currencies, the Client is subject to the risk that the value of such other currencies will decline versus the U.S. dollar. The Adviser may in its discretion, but is not required to, hedge currency risks, including through forward contracts (agreements to exchange one currency for another at a future date), swap agreements

or futures, to protect against adverse changes in exchange rates and to facilitate transactions in non-U.S. securities to the extent and in the manner the Adviser deems practicable. In each instance, the ability to implement and maintain any such hedging transactions will be dependent upon numerous factors, including: (a) the willingness of the hedging counterparty or broker to accept or maintain such transactions; (b) the Client ability to satisfy margin or settlement payments on such transactions and the deadlines imposed for making such payments; and (c) the potential bankruptcy of the hedging counterparty or broker for such transactions.

Small to Medium Capitalization Companies

The Adviser may invest a portion of a Client's capital in the securities of companies with small to medium market capitalizations. Although the Adviser believes that these securities may provide significant potential for appreciation, such securities, particularly smaller-capitalization stocks, often involve higher risks than do investments in the securities of larger-capitalization companies. Smaller-capitalization stocks are often more volatile and more illiquid than large-capitalization stocks.

Municipal Instruments

Clients may invest in municipal bonds. These bonds—backed by the taxing power of a municipality, by dedicated revenue streams or by other sources—are subject to governmental approvals and political processes and are often limited in aggregate amount. The maturity dates, call and sinking fund payment and other terms of these securities vary widely, as does the demand for different issues, as well as the creditworthiness of the respective issuers. There can be no guarantee that the Adviser will be successful in making the right selections and thus mitigate the impact of credit risk on a Client.

Non-U.S. Markets

Investing in non-U.S. securities involves certain considerations not typically associated with investing in the securities of U.S. issuers. These considerations include changes in exchange rates and exchange control regulations, political and social instability, expropriation, imposition of punitive and retroactive taxes, less market liquidity and less available issuer-specific information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Emerging Markets

While most Clients trade primarily in the United States and Canada, some could invest in certain other countries, including other G-10 countries and emerging markets, from time to time. Investing in emerging market debt or equity involves certain risks and special considerations not typically associated with investing in other more established economies or securities markets. Such risks may include: (i) the risk of nationalization or expropriation of assets or confiscatory taxation; (ii) social, economic and political uncertainty including war; (iii) dependence on exports and the corresponding importance of international trade; (iv) price fluctuations, less liquidity and the smaller capitalization of the securities markets; (v) currency exchange rate fluctuations; (vi) rates of inflation (including hyperinflation); (vii) controls on foreign investment and limitations on repatriation of invested capital and on a Client's ability to exchange local currencies for U.S. dollars; (viii) governmental involvement in and control

over the economies; (ix) governmental decisions to discontinue support of economic reform programs generally and to impose centrally planned economies; (x) differences in auditing and financial reporting standards which may result in the unavailability of material information about issuers; (xi) less extensive regulation of the securities markets; (xii) longer settlement periods for securities transactions in emerging markets; (xiii) less developed corporate laws regarding fiduciary duties of officers and directors and the protection of investors; and (xiv) certain considerations regarding the maintenance of a Client portfolio securities and cash with non-U.S. sub-custodians and securities depositories.

The foregoing risks are generally applicable to many non-U.S. markets. All of these risks tend to be exacerbated in the emerging markets.

Contingent Liabilities

From time to time a Client may incur contingent liabilities in connection with an investment. For example, a Client may enter into agreements pursuant to which it agrees to assume responsibility for default risk presented by a third party, or may, on the other hand, enter into agreements through which third parties offer default protection to the Client.

The outcome of contingent liabilities is typically uncertain, both as to timing and amount. Contingent liabilities may result in actual costs to the Client long after the events giving rise to such contingencies arose, and at a time when the investor population of the Client has changed materially from what it was at the time of such events. Furthermore, the amount of the liability ultimately incurred may far exceed the corresponding contingency reserves established from time to time in the past. On the other hand, certain contingent liabilities — for example, reserves established under ASC 740 (as defined below) — may neither be realized nor resolved until the Client Account itself is dissolved, and in the case of a Fund, most of the Fund Investors whose shareholdings were reduced by reserves created to cover such contingencies have redeemed.

Counterparty and Settlement Risk

Institutions, such as brokerage firms, banks and broker-dealers, generally have custody of the Fund's portfolio assets and may hold such assets in "street name." A Client is subject to the risk that these firms and other brokers, counterparties or clearinghouses with which the Client deals may default on their obligations to the Client. Any default by any of such parties could result in material losses to the Client. Bankruptcy or fraud at one of these institutions could also impair the operational capabilities or the capital position of the Client. In addition, securities and other assets deposited with custodians or brokers may not be clearly identified as being assets of the Client, causing the Client to be exposed to a credit risk with regard to such parties. The Client generally will only be an unsecured creditor of its trading counterparties in the event of bankruptcy or administration of such counterparties. In some jurisdictions, the Client may also only be an unsecured creditor of its brokers in the event of bankruptcy or administration of such brokers. The Client attempts to limit its brokerage and custody transactions to well-capitalized and established banks and brokerage firms in an effort to mitigate such risks, but the collapse in 2008 of the seemingly well-capitalized and established Bear Stearns and Lehman Brothers demonstrates the limits on the effectiveness of this approach in avoiding counterparty losses.

The Client may effect transactions in OTC or "interdealer" markets. The participants in such markets are typically not subject to the same level of credit evaluation and regulatory

oversight as are members of “exchange-based” markets. This exposes the Client to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Client to suffer a loss. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Client has concentrated its transactions with a single or small group of counterparties. The Client is not restricted from dealing with any particular counterparty or in the size of the exposure which the Client may provide to a given counterparty. The inability to make complete and “foolproof” evaluations of the financial capabilities of the Client’s counterparties and the absence of a regulated market to facilitate settlement increases the risk to the Client.

While Dodd-Frank was intended to bring more stability and lower counterparty risk to the derivatives markets by requiring central clearing of certain standardized derivatives trades, not all of the Client account’s trades will be subject to a clearing requirement because the trades are grandfathered or because they are bespoke, or because they are within a class that is not currently subject to mandatory clearing. Furthermore, it is still uncertain whether Dodd-Frank has been effective in reducing counterparty risk or if such risk may actually increase as a result of market uncertainty, mutuality of loss to clearinghouse members, or other reasons.

Risk of Loss Due to the Bankruptcy or Failure of Market Participants

Clients are subject to the risk of the insolvency of its counterparties (such as broker-dealers, commodity brokers, banks or other financial institutions, exchanges or clearinghouses).

A Client’s assets could be lost or impounded during a counterparty’s bankruptcy or insolvency proceedings and a substantial portion or all of the Client’s assets may become unavailable to it either permanently or for a matter of years. Were any such bankruptcy or insolvency to occur, the Adviser might decide to liquidate an investment, suspend, limit or otherwise alter trading, perhaps causing the Client to miss significant profit opportunities and/or to postpone an Effective Date. Even if the Client were not to lose any of its assets on deposit with a bankrupt or insolvent counterparty, the disruption of the Client account’s trading resulting from such counterparty’s inability to continue to function in such capacity could result in material losses to the Client. Open positions held by the Client may not be closed out merely because the Client’s counterparty is unable to execute transactions, and may result in substantial losses which the Client is powerless to prevent.

There are increased risks in dealing with offshore brokers and unregulated trading counterparties, including the risk that assets may not benefit from the protection afforded to “customer funds” deposited with regulated brokers and dealers. The Client may be required to post margin for its trading activities with counterparties who are not required to segregate customer funds. In the case of a counterparty’s bankruptcy or inability to satisfy substantial deficiencies in other customer accounts, the Client may recover, even in respect of property specifically traceable to it, only a pro rata share of all property available for distribution to all of such counterparty’s customers.

Custody Risk

Clients, the Prime Brokers and other primary custodians may appoint sub-custodians in certain non-U.S. jurisdictions to hold the assets of the Clients. A Client’s primary custodians

may not be responsible for cash or assets held by sub-custodians in certain non-U.S. jurisdictions, or for any losses suffered by the Client as a result of the misconduct, bankruptcy or insolvency of any such sub-custodian. A Client may therefore have potential exposure on the default of any sub-custodian and, as a result, many of the protections which would normally be provided to the Client by a custodian will not be available to the Client.

Custody services in certain non-U.S. jurisdictions remain undeveloped and, accordingly, there is transaction and custody risk of dealing in certain non-U.S. jurisdictions. Given the undeveloped state of the regulation of custodial activities and custodian bankruptcies in certain non-U.S. jurisdictions, the ability of the Client to recover assets held by a sub-custodian in the event of such sub-custodian's bankruptcy would be in doubt. Even where a custodian, including a registered broker-dealer, is located and regulated in the United States, U.S. protections and regulations may be insufficient, and the Client unable to recover its assets — at least on a timely basis.

In the case of Funds, the Fund may change its brokerage and custodial arrangements without prior notice to, and without the consent of, its Fund Investors.

Liquidating Portfolios

Irrespective of the success or failure of the Adviser's strategies, Fund Investors' severely restricted ability to redeem from a Fund materially increases the risk of an investment in the Fund Investor Holdings by making it impossible for Fund Investors to limit losses or recognize profits on their investment because it is not possible to make redemptions in order to recognize profits or mitigate losses before such profits may have been eliminated or such losses significantly accelerated. Investors must recognize that traditional redemptions from a Fund may not be permitted—and for some Funds, Fund Investors may only elect to Convert their Shares to Class L Shares. The Liquidating Portfolio mechanic for processing redemptions means that Conversions do not realize gains or curtail losses; Converting Fund Investors remain subject to all the risks of the performance of the Liquidating Portfolio in which they are invested as of such Conversion Date.

The Liquidating Portfolios will remain part of the Fund. Because of the potentially materially different composition of the different Liquidating Portfolios both as compared to each other and as compared to the General Portfolio, a Fund Investor will be subject to the "cross-collateralization" or "contagion" risk of having the assets of the General Portfolio or a Liquidating Portfolio in which such Fund Investor participates be depleted to pay the obligations of the General Portfolio or a Liquidating Portfolio in which such Fund Investor does not participate.

As Liquidating Portfolios generally will not make any new investments, they will necessarily become increasingly concentrated as they liquidate investments over time. This concentration could lead to losses.

Certain Credit Exposure Risks

Some Clients may be exposed to the credit risks of Other Clients as a result of certain co-investment or participation arrangements. For example, a participation agreement between a Client and an Other Client may allow the Client to trade certain assets on behalf of an Other Client but receive settlement funding from such Other Client at a later time. Exposure to the

credit risk of Other Clients poses the risk that the Client will incur costs as a result of losses by such entities which are unrelated to the actions or trading of the Client.

The Adviser has endeavored to minimize this risk by closely monitoring and limiting any such credit exposure. In the event a Client trades on behalf of an Other Client pursuant to a participation or similar agreement, the Adviser will require prompt payment from the Other Client to the Client.

Cybersecurity

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

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

The loss or improper access, use or disclosure of the Adviser's or Clients' proprietary information or systems may cause the Adviser or the Clients' to suffer, among other things, financial loss, business disruption, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing events could have a material adverse effect on the Clients' investments therein.

Item 9 - Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the adviser or the integrity of adviser's management.

The Adviser and its personnel have no legal or disciplinary events to report.

Item 10 - Other Financial Industry Activities and Affiliations

- A. The Adviser is not registered, and does not have an application pending to register, as a broker-dealer or registered representative of a broker-dealer. Currently, no employees of the Adviser are registered representatives of a broker-dealer.
- B. Neither the Adviser nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.
- C. The managing member or general partner of each Fund is an affiliate of the Adviser. These entities, which are listed in Item 7 of the Adviser's Form ADV Part 1, are entitled to receive a share of the Performance Allocation attributable to the related Fund. This may create an incentive for the Adviser to make investments that are riskier or more speculative than would be the case if such arrangement was not in effect. However, as noted in Item 11, the Adviser has adopted a written Code of Ethics that contains policies and procedures to address conflicts of interest. Under such policies and procedures, the Adviser is required to make investment decisions for its Clients in a manner that is consistent with its fiduciary duties to its Clients.

The Adviser also serves as the general partner for certain entities that are the appointed Adviser for certain Funds (the "Relying Advisers"). These Relying Advisers, which are listed in Schedule R of the Adviser's Form ADV Part 1, are controlled by the Adviser.

- D. The Adviser does not recommend or select other investment advisers for its Clients.

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

- A. The Adviser has adopted a written Code of Ethics designed to address and avoid potential conflicts of interest as required under Rule 204A-1 of the Advisers Act (the “Code”). The Code sets forth a standard of business conduct and compliance with federal securities laws by all of the Adviser's employees. The Code contains policies and procedures that ensure that all personal securities trading by employees of the Adviser is conducted in such a manner as to avoid actual or potential conflicts of interest or any abuse of an individual's position of trust and responsibility. The Adviser prohibits personal trading on most single name securities including any right to acquire such security, such as puts, calls, other options, rights in such securities, and other such instruments; requires pre-clearance of personal trades in certain circumstances, including purchases of a single name security listed on the S&P 500, an IPO, or a new private placement; requires periodic reporting of employees' personal securities transactions and holdings; and requires prompt internal reporting of Code violations.

The Adviser has established procedures to prevent the abuse of material, non-public information, which includes procedures for, among other things, the use and maintenance of restricted trading lists.

The Adviser's Code of Ethics is available, upon request, to any Client or prospective Client as well as any Fund investor or qualified prospective Fund investor.

Additionally, the Adviser and its related entities engage in a broad range of activities. In the ordinary course of conducting its activities, the interests of a Client may, from time to time conflict with the interests of the Adviser, other Clients or their respective affiliates. Certain of these conflicts of interest, as well a description of how the Adviser addresses such conflicts of interest, can be found below.

In the case of all conflicts of interest, the Adviser's determination as to which factors are relevant, and the resolution of such conflicts, will be made using the Adviser's best judgment, but in its sole discretion. In resolving conflicts, the Adviser will consider various factors, including the interests of the applicable Clients with respect to the immediate issue and/or with respect to their longer-term courses of dealing. Certain procedures for resolving specific conflicts of interest are set forth below. When conflicts arise, the following factors generally mitigate, but will not eliminate, conflicts of interest:

- (1) A Client will not make an investment unless the Adviser believes that such investment is an appropriate investment considered solely from the viewpoint of such Client;
- (2) Many important conflicts of interest will generally be resolved by set procedures, restrictions or other provisions contained in the Governing Documents for the Clients;
- (3) Where the Adviser deems appropriate, unaffiliated third parties may be used to help resolve conflicts, such as the use of an investment banker to opine as to the fairness of a purchase or sale price; and
- (4) Prior to subscribing for interests in a Client, each investor receives information relating to significant potential conflicts of interest arising from the proposed activities of the Client.

Specifically, with respect to conflicts of interest that may arise in connection with its investment activities, the Adviser has adopted written policies and procedures relating to the allocation of investment opportunities, and will make allocation determinations consistently with Client

Governing Documents and such policies. The Adviser will not allocate investment opportunities based, in whole or in part, on (i) the relative fee structure or the amount of fees paid by any Client or (ii) the profitability of any Client.

Additionally, employees serve on the boards of Client portfolio companies. In such capacity the employees who serve as directors are expected to receive director's fees that are retained in whole or in part by the relevant employee. Serving in such capacity and receiving such compensation gives rise to conflicts to the extent that an employee's fiduciary duties to a portfolio company as a director conflicts with the interests of the Adviser's Clients. As the Clients will generally be significant investors in such companies, it is expected that such interests will generally be aligned. In addition, because the employee retains the director's fees, the employee may have an incentive to support the interest of the portfolio company over the interests of the Client.

- B. Neither the Adviser nor its related persons regularly recommends to Clients, or buys or sells for Client accounts, securities in which the Adviser or a related person has a material financial interest. Adviser personnel, including the Principal, do invest in certain Funds. Specifically, the Principal has invested a significant portion of his liquid net worth in certain Funds and other accounts advised by the Adviser. This generally aligns the interests of the Principal with Funds and their investors. There can be circumstances in which the Adviser determines an investment in a Fund is in a Client's best interest. In such circumstances, the Adviser's or related persons' interests will be fully disclosed to the Client before such investment is made. As discussed above, the Adviser has established procedures to address potential conflicts of interests which may arise in its business, including such investments.
- C. The Adviser and its personnel generally do not invest in the same securities that are recommended to Clients. If this situation were to arise, the investment would be vetted for conflicts in accordance with the Adviser's Code.
- D. As provided by the Code, the Adviser may not recommend investments to Clients, or make investments for Clients, at or about the same time that the Adviser or its related persons buy or sell the same investments for their own account.

Item 12 - Brokerage Practices

- A. The Adviser has complete discretion to determine, subject to each Client's disclosed investment objectives, policies and strategies, the securities to be purchased or sold and in what amounts, the broker-dealers and other financial intermediaries to use in effecting the transactions for Clients, and the commission rates to be paid for such transactions.

Brokerage. The Adviser selects the broker-dealers and other financial intermediaries used to effect transactions on behalf of its Clients. The Adviser seeks to obtain "best execution" from these broker-dealers based on a variety of factors. In selecting broker-dealers to effect portfolio transactions, the Adviser may cause Clients to enter into arrangements pursuant to which the Clients pay transaction costs in an amount greater than would be incurred if another broker-dealer were used. The Adviser is not required to solicit competitive bids or seek the lowest available commission or transaction costs. The transactions executed by Clients may be cleared through, and the Clients' investment instruments may be held by, a number of financial institutions the Adviser selects on terms negotiated with each such financial institution individually. Subject to the Adviser's agreement with each Client, the Adviser generally will use a variety of financial institutions both to take advantage of differing expertise and capabilities and to avoid, due to credit concerns, having all investment instruments concentrated at one firm. The Adviser does not consider the receipt of Client referrals when selecting broker-dealers to execute transactions.

Generally, the Adviser does not permit Clients to direct brokerage to a specified broker-dealer and all brokerage transactions will be executed through the broker-dealers selected by the Adviser. Nevertheless, certain Clients may require the Adviser to direct the Adviser to a particular broker. Such Clients must note that such directed brokerage arrangements limit the Adviser's ability to seek best execution and participate in aggregated trades (as described below) and therefore may result in increased cost for such Clients.

Soft Dollars. A portion of the commissions generated on Clients' brokerage transactions may generate "soft dollar" credits that the Adviser is authorized to use to pay for research and other non-research related services and products used by the Adviser or its affiliates. Although the Adviser will use the research and services in making investment decisions for the applicable Clients, the Adviser may use such research or services for other Clients and the applicable Clients will generally pay more than the lowest available commissions for execution of these transactions. The Adviser may also enter into "soft dollar" arrangements to cover Client expenses or costs and expenses of the Adviser to the extent such arrangements are permitted by law.

The ability to utilize soft dollar credits may give the Adviser an incentive to select brokers or dealers for Client transactions, or to negotiate commission rates or other execution terms, in a manner that takes into account the soft dollar benefits received by the Adviser rather than giving exclusive consideration to the interests of the Clients. In the event that the Adviser elects to use soft dollars, it intends to limit such use to services that fall within the safe harbor afforded by Section 28(e) of the Securities Exchange Act of 1934, as amended, or such services that are otherwise reasonably related to the investment decision-making process.

The term "soft dollars" refers to the receipt by an investment adviser of products and services provided by brokers, without any cash payment by the investment adviser, based on the volume of revenues generated from brokerage commissions for transactions executed for clients of the investment adviser. The products and services available from brokers include both internally generated items (such as research reports prepared by employees of the broker) as well as items

acquired by the broker from third parties (such as quotation equipment).

- B. In general (and when applicable), the Adviser attempts to aggregate multiple orders for the purchase or sale of the same instrument into block transactions, subject to the overall obligation to achieve best price and execution for its Clients.

Item 13 - Review of Accounts

- A. The Principal of the Adviser is responsible for reviewing Client investment portfolios on a regular basis relating to, among other factors, position sizes; exposure levels; margin requirements; and investment strategy compliance.
- B. See Item 13.A. above.
- C. The Adviser provides Fund investors with audited annual financial statements, periodic reports and other communications, and all tax information relating to their investments in the Funds necessary for U.S. federal income tax purposes.

Item 14 – Client Referrals and Other Compensation

- A. The Adviser does not receive any economic benefit, including sales awards or prizes, from any third party for providing advisory services to the Funds.
- B. The Adviser may enter into agreements with persons who refer potential investors for the Funds to the Adviser. For their referral services, these persons may receive compensation from the Adviser in the form of a percentage of the Management Fee and/or Performance Allocation that the Adviser and its affiliates receive from the Funds with respect to the referred investors. All solicitation arrangements that the Adviser may enter into will be designed to be in compliance with the rules under the Advisers Act and any similar state regulations. The Funds and their underlying investors are not responsible for any of the fees paid to the referring persons.

Item 15 – Custody

The Adviser is deemed, under Rule 206(4)-2 of the Advisers Act, to have custody of the assets of the Funds by virtue of the common control of the Adviser and the General Partner of the Funds. All assets and securities of the Funds are held by qualified custodians. As noted in Item 13 above, Fund investors receive annual financial statements audited by an independent public accounting firm. Fund investors are urged to carefully review these statements.

The Adviser does not have custody of separately managed account and insurance company client assets.

Item 16 - Investment Discretion

The Adviser offers both discretionary (clients who have authorized our firm to execute transactions for their accounts without prior approval) and non-discretionary (clients who require that transactions be either traded by or authorized by them in advance) investment management services.

The Adviser exercises discretion in managing the investments of its Clients based on the applicable Clients' investment objectives, policies, and strategies disclosed in Offering Documents or Investment Manager Agreements.

The Adviser generally contractually assumes discretionary authority over the assets of its Clients under investment management agreements entered into among the Adviser and the Clients.

Item 17 - Voting Client Securities

The Adviser follows a proxy voting policy to ensure that proxies the firm votes, on behalf of each Client, are voted to further the best interest of that Client. The policy establishes a mechanism to address any conflicts of interests between the Adviser and its Clients. Further, the policy establishes how Clients' underlying investors may obtain information on how the proxies have been voted.

The Adviser determines how to vote after studying the proxy materials and any other materials that may be necessary or beneficial to voting. The Adviser votes proxies in a manner that it believes reasonably furthers the best interests of its Clients and their investors and is consistent with the investment philosophy as set forth in the relevant Clients Governing Documents.

If a proxy vote creates a material conflict between the interests of the Adviser and a Client, the Adviser will resolve the conflict before voting the proxies. The Adviser will take steps designed to ensure that a decision to vote the proxy was based on the Adviser's determination of the Client's best interest.

The Adviser maintains records of (i) all proxy votes that are made on behalf of its Clients; (ii) all written requests from each Client's underlying investors regarding voting history; and (iii) all responses (written and oral) to investors' requests. Such records are available to each Client's underlying investors upon request.

Item 18 - Financial Information

- A. The Adviser does not require or solicit prepayment of advisory fees six months or more in advance.
- B. The Adviser does not believe it has any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to the Funds.
- C. The Adviser has not been the subject of a bankruptcy petition at any time during the past ten years.