



DAEMON INVESTMENT AND ASSET MANAGEMENT, LLC

1111 Brickell Avenue, Suite 2646
Miami, FL 33131
Phone: (786) 577-3074

www.daemoninvestments.com

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This firm brochure (the “**Brochure**”) provides information about the qualifications and business practices of Daemon Investment and Asset Management, LLC (“**DIAM**” or “**we**” or the “**Firm**”). If you have any questions regarding the contents of this Brochure, please contact our Chief Compliance Officer (“CCO”), Vitor Rhein Schirato at (786) 577-3074 or via e-mail at vitor.schirato@daemoninvestments.com, or General Counsel and Deputy Compliance Officer Giuliana Soldi at (786) 577-3076 or via e-mail at giuliana.soldi@daemoninvestments.com. The information in this Brochure has not been approved or verified by the Securities and Exchange Commission (“SEC”) or by any state securities authority. Additional information about Daemon IAM is also available on the SEC’s website at www.adviserinfo.sec.gov.

Daemon IAM is registered as an investment adviser with the SEC under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). Registration as an investment adviser does not in any way constitute an endorsement by the SEC of an investment adviser’s skill or expertise, nor does it imply a certain level of skill or training.

ITEM 2 | MATERIAL CHANGES

This is DIAM's Annual Amendment to FORM ADV for the fiscal year ending December 31, 2023. Since the most recent Form ADV annual amendment filed on March 23, 2022, there have been no material changes to this Brochure.

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ITEM 4 | ADVISORY BUSINESS

Item 4.A.

Daemon Investment and Asset Management, LLC ("**DIAM**" or "**we**" or the "**Firm**") is a Florida Limited Liability Company based in Miami, Florida that was organized in May 2016 for the purpose of providing investment advice to its Clients. The controlling member of DIAM is Sergio Rhein Schirato. Mr. Schirato owns 50% of the membership interests in DIAM.

Item 4.B.

DIAM is an investment management firm that provides advisory services to privately offered pooled investment vehicles (each a "**Fund**" and collectively, the "**Funds**" or the "**Clients**") including Daemon Investment Fund ("**DIF**"), Daemon Kratos Master Fund (the "**Master Fund**"), Daemon Kratos International Feeder Fund (the "**Offshore Fund**"), Daemon Kratos US Feeder LP ("**the Onshore Fund**"), Daemon Nous-Kratos Fund (the "**Nous-Kratos Fund**" and together with the Master Fund, Offshore Fund and Onshore Fund, the "**Kratos Funds**"). For the avoidance of doubt, while the Nous-Kratos Fund deploys the same strategy of the Master Fund, the Nous-Kratos Fund is a standalone fund and not part of the master/feeder structure.

DIF, a fund incorporated in the Cayman Islands, is an investment management strategy that focuses primarily on instruments relating to Brazilian export finance and Brazilian public debt. In particular, as described in more detail in "Methods of Analysis, Investment Strategies and Risk of Loss" in Item 8 below, DIAM provides investment advice to DIF in connection with *Programa de Financiamento às Exportações*, also known as the Export Financing Program ("**PROEX**"), a Brazilian government program designed to stimulate investment in the export of Brazilian products. The PROEX program, managed by Banco do Brasil, seeks to equalize interest rates available to importers of Brazilian capital goods such that they receive financing with similar terms to those provided by Export Credit Agencies of other exporting countries. This interest rate equalization is carried out by the Brazilian Government by delivering certain Brazilian government bonds denominated in US Dollars to lenders that finance Brazilian exports.

With respect to the Kratos Funds, DIAM's investment strategy is based on years of proprietary research in quantitative investing. The strategy aims to systematically capture phenomena that delivers superior risk-adjusted returns using a variety of proprietary models. According to proprietary research, investing using auto-correlation, cross-sectional momentum, futures carry, volatility relative-value, and statistical arbitrage models can deliver superior risk-adjusted returns. These models generate strategies that trade highly liquid futures instruments, single-stock

equities, and fixed-strike options. The investment strategies that DIAM applies to the Kratos Funds are explained in further detail in Item 8 below.

Each Fund is intended for investment by certain investors (collectively the **"Investors"** and each an **"Investor"**) that meet the definition of "accredited investor" as defined under Regulation D of the securities Act of 1933, as amended, "qualified clients" as defined under Section 205-3 of the Investment Company Act of 1940, as amended (the **"Company Act"**) and/or "qualified purchasers" under Section 2(a)(51) of the Company Act so as to comply with the exemptions under Section 3(c)(1) or Section 3(c)(7) of the Company Act, as applicable to each Client.

Item 4.C.

DIAM tailors specific investment advice to its Clients based on the Clients' investment objectives, characteristics and any Client-imposed investment restrictions, as established by DIAM and the Clients and generally set out in a separate investment management agreement, limited liability company agreement, offering memorandum and/or other governing documents (collectively, the **"Governing Documents"**). Additional information regarding DIAM's investment process and how it addresses the needs of its Clients is contained throughout this Brochure.

Item 4.D.

DIAM does not participate in any wrap fee programs.

Item 4.E

As of December 31, 2023, DIAM manages approximately \$5,225,972,097 in regulatory assets under management on a discretionary basis. DIAM does not intend to manage any Advisory Client assets on a non-discretionary basis.

ITEM 5 | FEES AND COMPENSATION

Item 5.A.

Daemon Investment Fund (DIF)

DIF pays DIAM a quarterly management fee of US\$2,000,000, payable in advance on the first business day at the beginning of each quarter; and an annual

performance fee equal to 10% of the Net Profits generated by DIF during the calendar year.

DIF pays additional fees to an administrator under an administration agreement.

The Kratos Funds

The Onshore Fund and Offshore Fund will pay DIAM an annual Management Fee of 2% for Class A shares, 1.5% for Class B Shares and no management fee for Class C Shares. The Management Fee will be paid quarterly in arrears based on the final Net Asset Value of each calendar quarter. A pro-rated portion of the Management Fee shall be due upon the redemption of any Participating Shares based upon the number of days elapsed in such quarter.

In addition, for the Onshore Fund and Offshore Fund, the General Partner will be owed a Performance Fee equal to 20%, for Class A Shares, 17.5%, for Class B Shares, or 15%, for Class C Shares, of the increase in net asset value, determined after the Management Fee and all Fund Expenses are taken into account, of each outstanding series of the Master Fund's shares during the calendar year, after taking into account any loss carryforwards applicable to each such series, will be reallocated from the Net Asset Value of each series of the Master Fund shares to the new asset value of Class M, which are held by the General Partner.

The General Partner, in its sole discretion may redeem its Class M Shares, upon at least 65 days' prior written notice to the Master Fund, as of the last day of any calendar month. Any unredeemed Class M Shares will remain subject to the risks of the Master Fund's portfolio. The Net Asset Value of each series within each class of Master Fund Shares and, consequently, the Net Asset Value of the corresponding series within each Class of Participating Shares, will be reduced in turn as a result of the Incentive Allocation deducted from the value of the Master Fund Shares. All or part of the Incentive Allocation may be waived, reduced or discounted by the General Partner from time to time in its sole discretion, with respect to one or more classes of Master Fund Shares. A high-water mark will be employed so that no Incentive Allocation will be allocated with respect to any series of Master Fund Shares until any decline in the Net Asset Value of such series of Master Fund Shares in any prior calendar year (a "loss carryforward") is offset by subsequent increases in the Net Asset Value of such series of Master Fund Shares. An additional reallocation of the net asset value of the Master Fund's shares for purposes of calculating the Incentive Allocation will be made as of each date, if any, prior to the close of a calendar year when any Master Fund Shares are redeemed (as if such date were the close of a calendar year).

For purposes of calculating net capital appreciation or net capital depreciation and determining allocations, including calculating the Incentive Allocation, any Investor-Related Taxes (as defined below) related to a Shareholder will be

deemed distributed from the series of Shares related to such person only and will not be deemed to be expenses of such person or of the Fund generally.

There will be no Management or Performance Fees charged by DIAM to the Master Fund or the Nous-Kratos Fund.

Item 5.B.

DIAM will indirectly deduct management fees and performance from the Clients through the fund administrator.

Item 5.C.

In addition to the fees above, each Client generally must bear all of its administration and operating expenses, which may include:

- i. postage, telephone and facsimile expenses;
- ii. organizational expenses;
- iii. the costs of initial and ongoing filing requirements relating to DIF;
- iv. legal, auditing and accounting fees and expenses (including costs of reports to the Client, financial statements, and tax returns);
- v. director's fees;
- vi. travel expenses related to the administration and affairs of the Client ;
- vii. bank and custodial fees related to the Client's accounts;
- viii. transaction and currency costs related to the management of Client's assets;
- ix. all extraordinary expenses (such as litigation);
- x. interest on and fees and expenses arising out of all permitted borrowings made on behalf of the Client;
- xi. any taxes, fees or other governmental charges levied against the Client and all expenses incurred in connection with any tax audit, investigation, settlement or review of Client's account; and
- xii. other administrative expenses associated with the Client that are not part of the administration fee.

Clients also incur brokerage and other transaction costs, as discussed more fully under “Brokerage Practices” in Item 12 below.

Item 5.D.

As noted in Item 5.A. above, DIF's management fee is paid in advance of services provided. In the event DIF terminates its relationship with DIAM, fees will be pro-rated for the number of days the account was under management and DIAM will issue a refund to DIF. Pursuant to the investment management agreement, 30 days notification is required before the effective date of termination. No penalty will be charged for termination.

Item 5.E.

Neither DIAM nor any of DIAM's supervised persons accept commissions or markups or other compensation for the sale of investment products that DIAM recommends to its Clients in addition to its advisory fees.

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

As of the date of this Brochure, all Clients and each investor in a DIAM Client are deemed to be a “qualified client” under Rule 205-3 of the Advisers Act. Performance-based fees are only charged if the Client and the investors in the Client, at the time of entering into a Governing Document with DIAM, are each deemed to be a “qualified client” under Rule 205-3 of the Advisers Act.

There are inherent conflicts of interest in the side-by-side management of the Clients. Performance-based fee arrangements create an incentive for an adviser to take risks in managing assets that would not otherwise be taken in the absence of such arrangements. Similarly, DIAM may have an incentive to favor larger or higher fee-paying accounts because they can generate more revenue for DIAM. Due to the differing strategies of the Clients, allocation of investment opportunities is not currently deemed to be a risk or conflict. For additional discussion of potential conflicts of interest, please see Item 10 | Other Financial Industry Activities and Affiliations.

ITEM 7 | TYPES OF CLIENTS

DIAM currently provides discretionary investment management services to privately offered pooled investment vehicles as described in Item 4.B. In the future, DIAM may provide additional discretionary portfolio management services as an investment adviser or sub-adviser to offshore accounts, private funds, and/or private accounts for certain institutional clients.

ITEM 8 | METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

An investment in any of the Funds is speculative and involves significant risks not associated with other investment vehicles and is suitable only for persons of adequate financial means who have no need for liquidity in this investment and can afford to lose the entirety of their investments. There can be no assurances or guarantees that (i) a fund's investment objectives will prove successful, or (ii) investors will not lose any portion or all of their investment in a fund.

The methods of analysis, investment strategies and risks related to DIF and the Kratos Funds are separately described below:

Daemon Investment Fund (DIF)

(a) Investment Strategy

DIAM's strategy for DIF focuses primarily on Brazilian export finance, and in particular, the Brazilian PROEX program. Accordingly, DIAM provides investment advice to DIF on originating and managing: (i) securities or credit instruments representing credit transactions related to the financing of export transactions of Brazilian companies; (ii) debt securities or financing transactions in which DIF may act as a direct lender to Brazilian export companies, or importers of Brazilian goods; and (iii) Brazilian sovereign debt securities. DIAM may also advise DIF on acquiring securities or credit instruments from other lenders participating in the PROEX program. Given the investment objectives and restrictions of DIF, DIAM primarily seeks to pursue the three investment strategies described below.

(i) *Credit instruments related to the financing of export transactions of Brazilian producers of capital goods*

DIF's primary objective is to structure and finance exports of Brazilian capital goods. DIF typically enters into a Note Purchase agreement with a debtor involved in an export transaction, under which DIF assumes the commitment of financing a series of these transactions for a period of time or up to a certain US Dollar amount. In connection with this agreement, DIF requires the debtor to post cash collateral in an amount not less than the total outstanding exposure of DIF, at any time. By financing exports of capital goods, DIF is eligible to request and receive an interest rate equalization under the Brazilian Government's PROEX program, in the form of Brazilian government bonds.

DIAM is responsible for identifying companies that:

- A. are eligible to participate in the PROEX program;
- B. are willing to comply with international trading regulations;

- C. have export transactions meeting the criteria set by the Brazilian government in the PROEX program; and
- D. have a volume of exports that supports the costs involved in the transaction.

DIAM relies on the expertise of its principals to identify target companies and evaluates a number of factors in conducting research and diligence.

(ii) *Rights of equalization and NTN-I Bonds*

As a result of the credit transactions described above, DIF is eligible to receive certain US Dollar-indexed Brazilian sovereign debt from the Brazilian National Treasury, known as NTN-I bonds. In addition to the bonds received in connection to exports directly financed by DIF, DIF also purchases NTN-I bonds or rights to receive NTN-I bonds linked to transactions financed by third parties.

(iii) *Other Brazilian Sovereign Bonds*

The Client may hold other Brazilian bonds in connection with the sale of NTN-I bonds. In those cases, DIAM seeks to minimize DIF's market exposures by selling the bonds as soon as practicable, or completely hedging the currency and rates exposures of these instruments.

(b) Material Risks of Key Investment Strategies

Investing in securities involves a risk of loss that clients should be prepared to bear. The list below includes some material risks relating to DIAM's key investment strategies. This does not purport to be a complete list of risks applicable to DIAM's investment strategy. The risks below should be read in conjunction with DIF's offering documentation.

(i) *Changes in Applicable Law and the PROEX Program*

DIAM's investment strategy is currently focused on the Brazilian PROEX program. Consequently, any changes to applicable law or the operation of the PROEX Program could materially affect DIAM's investment strategy.

(ii) *Currency Risk*

DIAM provides investment advice relating to securities denominated in various currencies. Currency fluctuations may materially affect the net asset value of DIF's investments.

(iii) *Credit Risk*

Brazilian government bonds carry the risk of default. In addition, bonds carry the risk of being downgraded by the rating agencies which could have implications on price. A change in economic conditions in Brazil could adversely affect these factors, which could affect D IAM's ability to use the NTN-I Bonds to equalize interest rates in lending to Brazilian export companies.

(iv) *PROEX Operational Risk*

The PROEX program requires DIAM to comply with a number of operational procedures, from booking promissory notes to executing foreign exchange trades in a particular manner. Errors or omissions in performing these tasks may lead to undesirable market exposure, both of which can affect the net asset value of DIF's investments.

(v) *Restrictions on Transfer and Lack of Liquidity*

Investors should be fully aware of the restrictions on transfer of Participating Shares in the Fund (please see the section headed "Transfer and Transmission of Participating Shares" above). Participating Shares are not readily transferable as any transfer is subject to the prior approval of the Directors of the Fund. Generally, redemption will be the only means by which an investor will be able to realize their investment. Furthermore, Participating Shares will not be registered under the securities laws of any jurisdiction, and there may be no recognized market for Participating Shares. Therefore, Participating Shares may have limited or no liquidity.

(vi) *Management Participation*

Investors have no voting rights and therefore no legal right to participate in the management of the Fund or in the conduct of its business. The Board of Directors and the voting shareholder may, at their discretion, consult with investors regarding any management decisions.

(vii) *Early Termination*

In the event of a premature termination of the Fund's activities, the Fund would have to distribute to the Shareholders their pro rata interest in the assets of the Fund. At the time of such sale or distribution, certain securities held by the Fund may be illiquid and could therefore be worth less than the initial cost of such securities, resulting in loss to Shareholders.

(viii) *Short Selling*

The Fund may not utilize short-selling. Short selling involves trading on margin and accordingly can involve greater risk than investments based on a long position.

(ix) *Use of Leverage*

The Fund does not intend to, but may utilize leveraging through borrowings, trading on margin or the use of derivatives.

(x) *Illiquidity of Investments*

At various times, the markets for securities or instruments purchased or sold by the Fund may be "thin" or illiquid, making purchases or sales at desired prices or in desired quantities difficult or impossible. The fund may additionally invest in private placements and other unlisted securities for which there may be no market, making a sale at any price impossible for indeterminable periods of time. This may make it impractical or impossible for the Fund to liquidate such positions thereby presenting liquidity problems for the Fund.

(xi) *Suspensions of Trading*

Each securities exchange typically has the right to suspend or limit trading in all securities that it lists. Such a suspension would render it impossible for the Fund to liquidate positions of listed securities and, accordingly, could expose the Fund to losses.

(xii) *Concentration of Investments*

The Fund may at certain times hold relatively few positions, with the result that a loss in any such position could have an adverse impact on the Fund's capital.

(xiii) *Discretionary Dividend Income*

Because the objective of the Fund is to achieve capital appreciation, the Fund does not intend to pay dividends. Any dividend payments will be made at the discretion of the Directors. Therefore, an investment in the Fund is not suitable for investors seeking current income for financial or tax planning purposes.

The Kratos Funds

(a) *Investment Strategy*

The investment objective the Kratos Funds is capital appreciation while seeking to deliver 10% volatility per year. Accordingly, DIAM will use a multi-strategy portfolio of quantitative strategies (including, but not limited to, auto-correlation, value,

futures carry, statistical relative value, volatility relative value, quantitative equity investing), and statistical arbitrage to achieve the objective (the "**Portfolio**").

The Portfolio has the flexibility to invest in a wide range of instruments. Consequently, it has not imposed any particular investment restrictions with regard to the assets of the Portfolio.

When deemed appropriate, the Portfolio may employ leverage for working capital and/or as part of the investment strategies. Such leverage may include, without limitation, borrowing cash, securities and other instruments, purchasing futures and entering into derivative transactions and repurchase agreements. The Kratos Funds may pledge assets of the Portfolio as security for borrowings. The use of leverage will increase the risk of an investment in the Portfolio.

DIAM may seek to hedge the currency exposure of the Portfolio to currencies other than the US Dollar. DIAM may also seek to hedge the currency exposure between the Dealing Currency of any Class and the US Dollar. DIAM may use spot and forward foreign exchange contracts or other methods of reducing exposure to currency fluctuations.

DIAM may also take speculative positions in currencies for the benefit of the Portfolio as a whole.

The investment objective, investment strategies, investment restrictions and limits on leverage summarized above represent the current intentions and may change. Shareholders will be given prior written notice of the proposed changes and will either be asked to consent to the proposed changes or will be given an opportunity to redeem their Participating Shares prior to the changes taking effect.

(b) Material Risks of Key Investment Strategies

As explained in Item 4 "Advisory Business," DIAM's investment philosophy as it relates to the Kratos Funds is focused on providing an innovative approach to portfolio management by applying quantitative methods to portfolio construction. Material risks associated with DIAM's quantitative investment selection process include, but are not limited to the following:

(i) *Risk of Loss*

There are inherent risks associated with investing in securities markets. Investing in securities involves risk of loss that clients should be prepared to bear. The risks will vary based on the nature and attributes of the relevant investment strategy and the specific securities and other instruments held. There is no performance guarantee associated with investing in the investment strategy.

(ii) *Asset-Backed Debt Securities*

Asset-backed securities are securities primarily serviced or secured by the cash flows of a pool of fixed or revolving receivables. Underlying assets may include residential and commercial mortgages, leases and credit card receivables as well as consumer and corporate debt. Asset-backed securities can be structured in different ways, including "true sale" structures, where the underlying assets are transferred to a special purpose vehicle, which in turn issues the asset-backed securities, and "synthetic" structures in which the credit risks associated with the underlying assets are transferred to the special purpose vehicle through the use of derivatives. Asset-backed securities are usually issued in different tranches. Any losses realized in relation to the underlying asset pool are allocated first to the securities of the most junior tranche, until the principal of such securities is reduced to zero, then to the principal of the next lowest tranche, and so on. Accordingly, in the event that the underlying asset pool does not perform the value of the relevant asset-backed securities and any amounts paid on such securities will be adversely affected. In addition the value of such securities may be adversely affected by macro-economic factors such as adverse changes affecting the sector to which the underlying assets belong, economic downturns in the respective countries or globally, as well as circumstances related to the nature of the individual assets. The implications of such negative effects thus depend heavily on the geographic, sector- specific and type-related concentration of the underlying assets. The degree to which any particular asset-backed security is affected by such events will depend on the tranche to which such security relates; junior tranches, even having received investment grade rating, can therefore be subject to substantial risks.

(iii) *Availability of Investment Strategies*

The success of the investment strategies will depend on the ability of DIAM to identify overvalued and undervalued investment opportunities and to exploit price discrepancies in the financial markets, as well as to assess the import of news and events that may affect the financial markets. Identification and exploitation of the investment opportunities to be pursued involves a high degree of uncertainty. No assurance can be given that DIAM will be able to locate suitable investment opportunities in which to deploy all of the assets of the Master Fund or to exploit discrepancies in the securities and derivatives markets. Market factors including a reduction in market liquidity or the pricing inefficiency of the markets

in which the assets of the Master Fund are invested, may reduce investment opportunities.

(iv) *Collateralized Debt Obligations*

Assets may include long and short positions in collateralized debt obligations ("CDOs"). CDOs are a type of asset-backed security with cash flows linked to the performance of an underlying pool of debt instruments. The types of debt instrument may include corporate debt (both investment grade and high yield), bank loans, government debt, mortgages and derivatives on such debt instruments. In addition to the risks associated with debt securities and derivatives, due to the leveraged nature of CDOs such investments may be subject to more acute credit, liquidity and interest rate risks than the underlying component debt instruments and/or derivative instruments.

(v) *Combination Transactions*

DIAM may engage in spreads or other combination options transactions involving the purchase and sale of related options and futures contracts. These transactions are considerably more complex than the purchase or writing of a single option. They involve the risk that executing simultaneously two or more buy or sell orders at the desired prices may be difficult or impossible and the possibility that a loss could be incurred on both sides of a multiple options transaction. Also, the transaction costs of combination options transactions can be especially significant because separate costs are incurred on each component of the combination.

(vi) *Commodity Futures Trading*

Commodity futures trading is speculative and commodity futures prices can be highly volatile. Price movements of commodity futures contracts are influenced by, among other things, changing supply and demand relationships, governmental trade programs and policies, and national and international political and economic events. Changing prospects occasioned by unexpected events make it difficult to forecast supplies of commodities. Similarly, demand is also difficult to forecast due to such factors as variable world production patterns, unexpected purchases by countries and continued changes in domestic needs. Because of the low margin deposits normally required in commodity futures trading, an extremely high degree of leverage is typical of a futures trading account. As a result, a relatively small price movement in a commodity futures

contract may result in substantial losses. Like other leveraged investments, a futures transaction may result in losses in excess of the amount invested.

(vii) *Concentration of Investments*

DIAM is not subject to any requirement to diversify the assets of the Fund or the Master Fund and consequently such assets may at any time be heavily concentrated in a limited number of positions. Substantially all of the assets of the Fund will be invested into the Master Fund. In attempting to maximize returns, the investments of the Master Fund may be concentrated in those countries, sectors, markets, asset classes, instruments or issuers which, in the judgment of DIAM, provide the best profit opportunity in view of the investment objective. Such concentration increases the risk of an investment in the Fund by increasing the relative impact of changes in the market, economic or political environment affecting particular countries, sectors, markets and issuers. The Fund could be subject to significant losses if it holds a large position in a particular investment that declines in value or is otherwise adversely affected (including as a result of default by the issuer).

(viii) *Convertible Securities*

Assets may be invested in convertible securities. Convertible securities are preferred stocks or debt obligations that are convertible into common stock and consequently have both equity and fixed income risk characteristics. Like all fixed income securities, the value of convertible securities will tend to decline as interest rates increase. If the market price of the underlying stock approaches or exceeds the conversion price of the convertible security, the convertible security will tend to reflect the market price of the underlying stock. If the value of the underlying stock then falls below the conversion price the convertible security may lose much or all of its value. As the market price of the underlying stock declines, a convertible security will tend to trade increasingly based on its fixed income characteristics and so may not decline in price as much as the underlying stock. Generally, convertible securities offer lower interest or dividend yields than non-convertible securities of similar quality and have less potential for gains or capital appreciation in a rising stock market than other equity securities. They tend to be more volatile than other fixed income securities and the markets for convertible securities may be less liquid than markets for common stocks or bonds. Additionally, an issuer may have the right to buy back convertible securities at a time and price that is unfavorable.

(ix) *Corporate Debt Obligations*

Investment in debt obligations issued by companies and other entities, is subject to the risk that a particular issuer may not fulfil its payment or other obligations in respect of such debt obligations. Additionally, an issuer may experience an

adverse change in its financial condition due to, for example, economic conditions, increased competition or corporate events. Any such adverse change may in turn result in a decrease in the credit rating assigned to such issuer and its debt obligations, possibly below investment grade. Such adverse change in financial condition or decrease in credit rating(s) may result in increased volatility in the price of an issuer's debt obligations and negatively affect liquidity, making any such debt obligation more difficult to sell.

(x) *Correlation Risk*

Correlation risk is the risk that the expected correlation of a set of investments may differ from the realized correlation of such investments. If the Fund's strategies were to be more correlated to each other than expected (i.e., they increase or decrease in value more in tandem than expected), the Fund's returns could be more volatile than if the strategies were less correlated. Likewise, within a particular investment strategy, if the investments were more correlated than expected, that particular strategy could be more volatile than if the investments were less correlated. This risk may be increased during periods of market stress, such as during economic downturns or disruptions. If the Fund's strategies were to be highly correlated to each other, especially, during a period of market stress, they could decrease in value at the same time, which could result in increased losses to the Fund.

(xi) *Counterparty Risk*

Counterparty risk is the risk that any counterparty (including any prime brokers and custodians) will not be able to meet their obligations, whether due to insolvency, bankruptcy or other circumstances. In the event of any counterparty entering an insolvency procedure, DIAM could experience delays in liquidating positions and significant losses could be incurred, including the loss of that portion of the assets financed through such a transaction, a decline in value of the relevant investment during the period in which DIAM seeks to enforce the contract, an inability to realize any gains on its investment during such period and fees and expenses incurred in enforcing the contract. During an insolvency procedure (which may last many years) the use of assets held by or on behalf of the relevant counterparty may be restricted and accordingly (a) the ability of DIAM to fulfil the investment objective may be severely constrained, (b) the Directors may be required to suspend the calculation of the Net Asset Values and as a result subscriptions for and redemptions of Participating Shares. During such a procedure, the Master Fund is likely to be an unsecured creditor in relation to certain assets (including those in respect of which it had previously been a

secured creditor) and accordingly it may not be possible to recover such assets from the insolvent estate of the relevant counterparty in full, or at all.

(xii) *Credit Default Swaps*

Assets may include long and short positions in credit default swaps. A credit default swap is a type of credit derivative contract which allows one party (the protection buyer) to transfer the credit risk of an entity (the reference entity) to one or more other parties (the protection seller). The protection buyer pays a periodic fee to the protection seller in return for protection against the occurrence of certain specified credit events experienced by the reference entity. Credit default swaps carry specific risks including high levels of gearing, the possibility that premiums are paid for credit default swaps which expire worthless, wide bid/offer spreads and documentation risks. In addition, there can be no assurance that the counterparty to a credit default swap will be able to fulfil its obligations under the swap if a credit event occurs in respect of the reference entity. Further, the counterparty to a credit default swap may seek to avoid payment following an alleged credit event by claiming that there is a lack of clarity in, or an alternative meaning of, language used in the contract, most notably the language specifying what would amount to a credit event.

(xiii) *Credit Risk*

Investment in debt securities is subject to the credit risk of the issuers, which may be unable or unwilling to make timely payments of principal and/or interest. In general, debt instruments that have a lower credit rating, or that are unrated, are subject to a higher degree of credit risk. The credit rating of a security represents a rating agency's opinions regarding the issuer's credit quality and is not a guarantee of the future credit performance of such issuer. Rating agencies attempt to evaluate an issuer's credit worthiness by determining its ability to pay back a loan. They do not evaluate the risks of fluctuation in the market value of the issued security but fluctuations in the market value of a security may be affected by the ratings assigned to the issuer. In particular, if the credit rating of an issuer is downgraded the market value of the securities of such issuer may be adversely affected. In the event of a default or a downgrading in the credit rating of the issuer of any fixed income instrument, the Net Asset Value of the Fund may be adversely affected. Debt securities are offered on an unsecured basis without collateral, and will rank equally with other unsecured debts of the relevant issuer. As a result, if the issuer becomes bankrupt, proceeds from the liquidation of the issuer's assets will be paid to holders of debt securities only after all secured claims have been satisfied in full. The Fund and the Master Fund are therefore exposed

to the credit risk of the issuers of the debt securities as the Master Fund would be an unsecured creditor.

(xiv) *Currency Exposure*

Assets may be invested in securities and other investments which are denominated in currencies other than the currency or currencies in which Participating Shares are denominated. Accordingly, the value of such assets may be affected favorably or unfavorably by fluctuations in currency rates. DIAM may seek to hedge the foreign currency exposure but overall performance will necessarily be subject to foreign exchange risks and there can be no assurance that any hedges which are put in place will be effective. Prospective investors whose assets and liabilities are predominantly in currencies other than the currency in which their Participating Shares will be denominated should take into account the potential risk of loss arising from fluctuations in value between the currency in which their Participating Shares will be denominated, the currency of investment and the currencies of their assets and liabilities.

(xv) *Daily Price Fluctuation Limits*

Commodity exchanges limit daily price fluctuations in certain commodity futures contracts. For contracts that have a price limit, no trades may be executed at prices beyond the "daily limit" during the trading day. Once the price of a futures contract for a particular commodity has increased or decreased by an amount equal to the daily limit, positions in the commodity can be neither initiated nor liquidated unless traders are willing to effect trades at or within the limit. Futures prices have occasionally moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent DIAM from promptly liquidating unfavorable positions and subject the Fund to substantial losses.

(xvi) *Debt Securities*

Assets may be invested in fixed income securities which may be unrated by a recognized credit-rating agency or below investment grade and which are subject to greater risk of loss of principal and interest than rated or higher-rated debt securities. As there are generally perceived to be greater risks associated with unrated and below investment grade securities, the yields and prices of such securities may fluctuate more than those for higher-rated securities. The market for non-investment grade securities may be smaller and less active than that for higher-rated securities, which may adversely affect the prices at which these securities can be sold and result in losses. Assets may be invested in debt securities which rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of which may be secured on substantially all of that issuer's assets. Assets may be invested in debt securities which are not protected by financial covenants or limitations on additional indebtedness. The issuers of debt

securities may default on their obligations, whether due to insolvency, bankruptcy, fraud or other causes and their failure to make the scheduled payments could cause significant losses. The Fund will therefore be subject to credit, liquidity and interest rate risks. In addition, evaluating credit risk for debt securities involves uncertainty because credit rating agencies throughout the world have different standards, making comparison across countries difficult. Also, the market for credit spreads is often inefficient and illiquid, making it difficult to accurately calculate discounting spreads for valuing financial instruments.

(xvii) *Derivative Instruments*

DIAM may make extensive use of both exchange-traded and over-the-counter derivative instruments such as futures, forwards, swaps, options and contracts for differences. Derivative instruments typically have a high degree of leverage embedded in them and consequently a relatively small movement in the price of an instrument may result in a profit or a loss which is high in proportion to the margin deposited. In the event that a call for further margin exceeds the amount of cash available, DIAM will be required to close out the relevant contract. The derivatives market is often characterized by limited liquidity and daily limits on price fluctuations and speculative position limits on exchanges may prevent prompt liquidation of positions resulting in potentially greater losses. When used for hedging purposes there may be an imperfect correlation between derivatives and the investments or market sectors being hedged. The pricing relationships between derivatives and the underlying instruments on which they are based may not conform to anticipated or historical correlation patterns, resulting in unanticipated losses.

Transactions in over-the-counter derivative instruments may involve additional risk as there is no exchange market on which to close out a position. It may be impossible to liquidate an existing position, to assess the value of a position or to assess the exposure to risk. Furthermore, "bid-ask" spreads may be unusually wide in the substantially unregulated over-the-counter markets. Certain counterparties may require collateral in connection with over-the-counter transactions. Although DIAM will principally engage in such transactions with money centre financial institutions, the Fund and the Master Fund will still be subject to counterparty risk including the risk of loss of such collateral. The risk of counterparty non-performance can be significantly greater in the case of these over-the-counter instruments as opposed to exchange-traded derivative instruments.

(xviii) *Equity Securities Generally*

Numerous inter-related and difficult to quantify economic factors, as well as market sentiment and subjective political factors can influence the price of equities. Common stock and similar equity securities generally represent the most

junior position in an issuer's capital structure and, as such, generally only entitle holders to an interest in the remaining assets of the issuer after all more senior claims to such assets have been satisfied. Holders of equity securities are generally entitled to dividends only if and to the extent declared by the issuer out of income or other assets available after making interest, dividend and any other required payments on more senior securities of the issuer. Equity prices are directly affected by issuer-specific events, whether actual or perceived, as well as general market and economic conditions. Market prices of equity securities as a group have dropped dramatically in a short period of time on several occasions in the past, and they may do so again in the future. Warrants and stock purchase rights are securities permitting, but not obligating, their holders to subscribe for other equity securities, and they do not represent any rights in the assets of the issuer. As a result, warrants and stock purchase rights may be considered more speculative than other types of equity investments.

(xix) *Exchange Traded Funds (ETFs)*

ETFs are investment companies are bought and sold on a securities exchange. An ETF will aim to track an underlying index either by acquiring the constituent securities of the relevant underlying index (or a representative sample of such securities) or by synthetically replicating the constituent securities of the relevant underlying index. If assets are invested in an ETF, the Master Fund will bear additional expenses based on its pro rata share of the ETF's operating expenses. In addition, the Master Fund will incur brokerage costs when purchasing and selling shares of ETFs. The risk of owning shares in an ETF generally reflects the risks of the underlying securities held by the ETF and the investment strategies employed by the ETF (such as the use of leverage).

ETFs are passively managed in that they do not try to beat or perform better than the relevant underlying index. An ETF will invest (either directly or indirectly) in the securities included in or representative of its underlying index regardless of their investment merit. Any fall in the relevant underlying index is therefore expected to result in corresponding fall in the value of the ETF. For synthetic ETFs investments are not made directly in the securities included in or representative of its underlying index. Instead such ETFs invest in derivative instruments which aim to replicate the economic benefit of such securities. As such, these ETFs would be subject to the risks of owning derivative instruments. If the performance of a synthetic ETF is affected by these risks, the performance of the Fund will also be adversely affected. Also, synthetic ETFs may have higher tracking error as compared to physical ETFs due to factors including costs of acquiring and holding

derivative instruments, availability of derivative instruments and foreign ownership restrictions.

(xx) *Financing Arrangements*

Borrowings by the Master Fund may include the use of securities margin, futures margin, margined option premiums, repurchase agreements, bank or dealer credit lines or the notional principal amounts of swap transactions. There can be no assurance that DIAM will be able to maintain adequate financing arrangements under all market circumstances. Banks and dealers that provide financing can typically apply essentially discretionary margin, "haircut", financing, security and collateral valuation policies. Changes by banks and dealers in one or more of these policies, or the imposition of other credit limitations or restrictions, whether due to market circumstances, government, regulatory or judicial action, may result in large margin calls, loss of financing, forced liquidations of positions, termination of swap and repurchase agreements and cross-defaults to agreements with other banks and 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 simultaneously. The imposition of any such limitations or restrictions could compel DIAM to liquidate positions at disadvantageous prices, leading to losses.

(xxi) *Forward Foreign Exchange Contracts*

A forward foreign exchange contract is a contractually binding obligation to purchase or sell a particular currency at a specified date in the future. Forward foreign exchange contracts are not uniform as to the quantity or time at which a currency is to be delivered and are not traded on exchanges. Rather, they are individually negotiated transactions. Forward foreign exchange contracts are effected through a trading system known as the interbank market. It is not a market with a specific location but rather a network of participants electronically linked. Documentation of transactions generally consists of an exchange of telex or facsimile messages. There is no limitation as to daily price movements on this market and in exceptional circumstances there have been periods during which certain banks have refused to quote prices for forward foreign exchange contracts or have quoted prices with an unusually wide spread between the price at which the bank is prepared to buy and that at which it is prepared to sell. Transactions in forward foreign exchange contracts are not regulated by any regulatory authority nor are they guaranteed by an exchange or clearing house. There is a risk that counterparties will be unable, or will refuse, to perform with respect to such contracts. Any such default would eliminate any profit potential and compel the Master Fund to cover its commitments for resale or repurchase,

if any, at the then current market price. These events could result in significant losses for the Fund.

(xxii) *General Economic and Market Conditions*

The success of DIAM will be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, trade barriers, currency exchange controls and national and international political circumstances. These factors may affect the level and volatility of securities prices and the liquidity of the investments of the Master Fund or illiquidity could impair the profitability of the Fund or result in losses.

(xxiii) *Governmental Intervention*

The global financial markets have periodically undergone pervasive and fundamental disruptions and dramatic instability which has led to extensive governmental intervention. Regulators in many jurisdictions are willing to implement emergency regulatory measures in the event of market disruption. Such intervention may be implemented on an emergency basis without much or any notice, with the consequence that some market participants' ability to continue with certain strategies or manage the risk of their outstanding positions may be suddenly and/or substantially eliminated. Given the complexities of the global financial markets and the limited time frame within which governments are able to take action, these interventions are sometimes unclear in scope and application, resulting in confusion and uncertainty which in itself is materially detrimental to the efficient functioning of such markets as well as previously successful investment strategies. It is impossible to predict with certainty what additional or future governmental restrictions may be imposed on the markets and/or the effect of such restrictions on DIAM's ability to implement the investment objective. However, DIAM believes that there is a likelihood of increased regulation of the global financial markets, and that such increased regulation could be materially detrimental to the performance of the Fund.

(xxiv) *Global Market Exposure*

Assets will be invested on a global basis in both developed and emerging markets. Consequently the Fund is subject to (i) currency exchange-rate risk, (ii) the possible imposition of withholding, income or excise taxes, (iii) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and little or potentially biased government supervision and regulation, and (iv) economic and political risks, including expropriation,

currency exchange control and potential restrictions on investment and repatriation of capital.

(xxv) *Hedging Transactions*

Although DIAM may use a variety of financial instruments, such as derivatives, options, interest rate swaps, swaptions, caps and floors, futures and forward contracts generally for risk management purposes, there can be no assurances that a particular hedge is appropriate, or that a certain risk is measured properly. Hedging against a decline in the value of a position does not eliminate fluctuations in the values of that position or prevent losses if the value of such position declines, but establishes another position designed to gain from those same developments, thus offsetting the decline in the position's value. Such hedging transactions therefore also limit the opportunity for gain if the value of the hedged positions should increase. Accordingly, while DIAM may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance and increased (rather than reduced) risk. Moreover, the Master Fund will always be exposed to certain risks, such as credit risk, that cannot be hedged.

(xxvi) *Highly Volatile Instruments*

The prices of derivative instruments, including options prices, are highly volatile. Price movements of forward contracts and other derivative contracts are influenced by, among other things, (i) interest rates, (ii) changing supply and demand relationships, (iii) trade, fiscal, monetary, and exchange control programs and policies of governments, and (iv) national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets. Such intervention is often intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. The Master Fund is also subject to the risk of the failure of any of the exchanges on which its positions trade or of their clearing houses.

(xxvii) *Interest Rate Risk*

Investment in debt securities is subject to interest rate risk. Generally, the value of debt securities is expected to be inversely correlated with changes in interest rates. As interest rates rise, the market value of debt securities tends to decrease. Long-term debt securities in general are subject to higher sensitivity to interest rate changes than short-term debt securities. DIAM may attempt to minimize exposure to interest rate changes through the use of interest rate swaps, interest rate futures

and/or interest rate options. However, there can be no expectation or guarantee that DIAM will be successful in fully mitigating the impact of interest rate changes.

(xxviii) Investing in Collective Investment Schemes

DIAM may invest into investment vehicles or collective investment schemes (collectively, Investment Entities) managed by third party managers. The risks associated with investing in Investment Entities include:

- Imperfect information. Although DIAM will attempt to monitor the performance of any Investment Entities invested in, DIAM will not receive perfect information regarding the actual investments made by the Investment Entities and must ultimately rely on (i) DIAM or sponsor of each Investment Entity to operate in accordance with the investment strategy or guidelines laid out by such investment manager or sponsor, and (ii) the accuracy of the information provided by such investment manager or sponsor.
- Independent decision making. Investment decisions are made independently at the level of Investment Entities and it is possible that some third party managers will take positions, which may be offsetting positions, in the same security, currency or commodity at the same time. Consequently, there is no guarantee that the selection of Investment Entities will result in a diversification of investment styles.
- Lack of liquidity. Although DIAM will seek to select Investment Entities which offer the opportunity to have their shares or units redeemed within a reasonable timeframe, there can be no assurance that the liquidity of the investments of an Investment Entity will always be sufficient to meet redemption requests as and when made. A lack of liquidity in an Investment Entity may also result in difficulties in determining the net asset value of the Investment Entity.
- Layering of fees. Investment Entities will typically pay management fees and may pay fees based on the performance of the investments. As a consequence of investing in Investment Entities, the Fund will bear a pro rata share of the fees and expenses incurred by the Investment Entity.
- Nature of the investments of the Investment Entities. The Investment Entities may invest in and actively trade instruments with significant risk characteristics, including risks arising from the volatility of securities, financial futures, derivatives, currency and interest rate markets, the leverage factors

associated with trading in such markets and instruments, and the potential exposure to loss resulting from counterparty defaults.

- No active role in management. DIAM will not have an active role in the day-to-day management of the Investment Entities and will not control any investment decisions made by third party managers.

(xxix) *Leverage and Borrowings*

DIAM will employ leverage, including through borrowing, for the purpose of making investments. The use of leverage creates special risks and may significantly increase the investment risk. Leverage creates an opportunity for greater yield and total return but, at the same time, will increase the exposure to capital risk and interest costs. Any investment income and gains earned on investments made through the use of borrowings that are in excess of the interest costs associated therewith may cause the Net Asset Value of the Fund to increase more rapidly than would otherwise be the case. Conversely, where the associated interest costs are greater than such income and gains, the Net Asset Value of the Fund may decrease more rapidly than would otherwise be the case. The use of leverage may expose the Fund to the risk of margin calls or interim margin requirements which may force premature liquidation of investment positions. This may cause the Fund to suffer significant losses even if the value of such investments recovers subsequently.

(xxx) *Lower-Rated and Unrated Debt Securities*

Investments may include high yield, high risk debt securities that are rated below investment grade or which are unrated by any relevant agency. Debt securities rated below investment grade are commonly referred to as "junk bonds" and are considered to be subject to greater risk of loss of principal and interest than higher-rated debt securities. Such instruments are generally considered to be speculative with respect to the issuer's capacity to pay interest and repay principal. Lower-rated securities generally are considered to be subject to greater market risk than higher-rated securities in times of deteriorating economic conditions. In addition, lower-rated securities may be more susceptible to real or perceived adverse economic and competitive industry conditions than investment grade securities, although the market values of lower-rated securities tend to react less to fluctuations in interest rate levels than do those of higher-rated securities. The market for lower-rated securities may be thinner and less active than that for higher-quality securities, which can adversely affect the prices at which these securities can be sold. To the extent that there is no regular secondary market trading for certain lower-rated securities, difficulties may be experienced in valuing such securities and, in turn, determining the Net Asset Value. In addition, adverse publicity and investor perceptions about lower-rated

securities, whether or not based on fundamental analysis, will tend to decrease the market value and liquidity of such lower-rated securities. Transaction costs with respect to lower-rated securities may be higher, and in some cases less information may be available, than is the case with investment grade securities.

(xxxi) *Market Disruptions*

DIAM may incur major losses in the event of disrupted markets and other extraordinary events which may affect markets in a way that is not consistent with historical pricing relationships. The risk of loss from a disconnect with historical prices 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 DIAM from banks, dealers and other counterparties will typically be reduced in disrupted markets. Such a reduction may result in substantial losses to the Fund. A sudden restriction of credit by the dealer community has resulted in forced liquidations and major losses for a number of investment funds and other vehicles. Because market disruptions and losses in one sector can cause ripple effects in other sectors, many investment funds and other vehicles have suffered heavy losses even though they were not necessarily heavily invested in credit-related investments. In addition, market disruptions caused by unexpected political, military and terrorist events may from time to time cause dramatic losses for the Fund and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk. A financial exchange may from time to time suspend or limit trading. Such a suspension could render it difficult or impossible for DIAM to liquidate affected positions and thereby expose the Fund to losses. There is also no assurance that off-exchange markets will remain liquid enough for DIAM to close out positions.

(xxxii) *Market Liquidity*

Assets may be adversely affected by a decrease in market liquidity for the instruments in which DIAM invests which may impair its ability to adjust its positions. The size of the positions may magnify the effect of a decrease in market liquidity for such instruments. Changes in overall market leverage, deleveraging as a consequence of a decision by any lender not to offer credit or by other counterparties to reduce the level of leverage available, or the liquidation by other market participants of the same or similar positions may also adversely affect the Fund.

(xxxiii) *Nature of Investments*

DIAM will have broad discretion in making investments. Investments will generally consist of various instruments and other assets that may be affected by business, financial market or legal uncertainties. There can be no assurance that DIAM will

correctly evaluate the nature and magnitude of the various factors that could affect the value of and return on investments. Prices of investments may be volatile, and a variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the performance of the Fund. Among other things, performance will depend upon DIAM's ability to assess the importance of news and events, forecast macro trends, make accurate forecasts about economic and fundamental factors and their potential impact on financial markets. Unexpected movements in interest rates, foreign exchange, credit defaults and spreads, commodity prices or equity values can adversely affect the performance. No guarantee or representation is made that the investment objective of the Fund will be achieved.

(xxxiv) Options

There are inherent risks in buying and selling options. The seller of a covered call option (i.e. the seller has a long position in the underlying security) assumes the risk of a decline in the market price of the underlying security to a level below the purchase price of the security, less the premium received on the call option. The seller of a covered call option also gives up the opportunity for gain on the underlying security above the exercise price of the call. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The buyer of a call option assumes the risk of losing the premium invested in the option. The seller of a covered put option (i.e. the seller has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sales price (in establishing the short position) of the underlying security plus the premium received, and gives up the opportunity for gain on the underlying security below the exercise price of the option less the premium received on the put option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security below the exercise price of the option. The buyer of a put option assumes the risk of losing the premium it paid to purchase the put option. The options markets have the authority to prohibit the exercise of particular options, which if imposed when trading in the option has also been halted, would lock holders and writers of that option into their positions until one of the two restrictions has been lifted.

(xxxv) Overall Investment Risk

All investments will risk the loss of capital. The nature of the securities to be purchased and traded and the investment techniques and strategies to be employed in an effort to increase profits may increase this risk. Many unforeseeable events, including actions by various government agencies, and domestic and international political events, may cause sharp market fluctuations.

Changes in the macroeconomic environment, including, for example, interest rates, inflation rates, industry conditions, competition, technological developments, political events and trends, changes to tax laws, currency exchange rates, regulatory policy, employment and consumer demand and innumerable other factors, can substantially and adversely affect the performance of the Fund. None of these conditions will be within the control of DIAM and there can be no assurance that the Fund will not incur losses.

(xxxvi) *Prepayment of Debt Securities*

Many fixed-income securities, especially those issued at high interest rates, provide that the issuer may repay them early. Issuers often exercise this right when interest rates decline. Accordingly, holders of securities that may be called or prepaid may not benefit fully from the increase in value that other fixed-income securities experience when rates decline. In such a scenario DIAM may reinvest the proceeds of the payoff at then-current yields, which could be lower than those paid by the security that was paid off. Prepayments may cause losses on securities purchased at a premium, and unscheduled prepayments, which will be made at par, will cause the Fund to experience a loss equal to its pro rata share of any unamortized premium.

(xxxvii) *Repurchase and Reverse-Repurchase Agreements*

The use of repurchase and reverse-repurchase agreements involves certain risks. For example, if the seller of securities under a repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, DIAM will seek to dispose of such securities, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, the ability of DIAM to dispose of the underlying securities may be restricted. Finally, it is possible that DIAM may not be able to substantiate the Master Fund's interest in the underlying securities. If the seller fails to repurchase the securities, the Fund may suffer a loss to the extent proceeds from the sale of the underlying securities are less than the repurchase price. Similar elements of risk arise in the event of the bankruptcy or insolvency of the buyer.

(xxxviii) *Risk Management*

DIAM intends to apply a risk management approach that it believes is appropriate. The application of any risk management approach involves numerous judgments and qualitative assessments. No risk management system is fail-safe, and no assurance can be given that the risk controls adopted will achieve their objectives. From time to time, without notice to Shareholders, DIAM

may modify or change the risk management system and procedures adopted for the Fund or the Master Fund.

(xxxix) Short Selling

Short selling involves DIAM selling securities that it borrows from a securities lender and is obliged to return at a later date. DIAM will ordinarily fulfil its obligation to return the borrowed securities by acquiring them on the open market. DIAM must also pay the securities lender any dividends or interest payable on the securities during the borrowing period and may have to pay a premium to borrow the securities and/or deposit cash of marketable securities with the lender as collateral. Short selling allows DIAM to create profit from a decline in the price of the relevant securities. However if, contrary to DIAM's expectations, the price of the relevant securities increases, the Fund will suffer a loss equal to the its share of the difference between the cost of acquiring the securities and the net proceeds from the sale. A short sale theoretically creates the risk of an unlimited loss, in that there is no limit on how much the price of the security may appreciate before the short position is closed out.

There can be no assurance that the securities necessary to cover a short position will be available for purchase by DIAM. If the lender requires that the securities be returned on short notice it may be necessary to replace the borrowed securities with purchases on the open market at a disadvantageous time, possibly at prices significantly in excess of the proceeds received from originally selling the securities short. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating any loss. In addition, if a sufficient number of market participants have entered into a short position, the short position may not react in the same way as a security would with no or limited short interest. In certain circumstances it may be difficult to establish a desired short position, whether due to limited supply of the security available for borrowing, regulatory restrictions or otherwise. As a result the ability of DIAM to fulfil the investment objective may be constrained.

(xl) Sovereign Debt Obligations

By investing in debt obligations of governmental entities and supranational entities, DIAM will be exposing the Fund to the direct or indirect consequences of economic and political changes in various countries. The economic status of a country will affect the government's ability to honor its obligations whilst political changes in a country may affect the willingness of a particular government to make or provide for timely payments of its debt obligations. Investment in debt obligations of supranational entities is subject to the additional risk that one or more member governments may fail to make required capital contributions to a

particular supranational entity and, as a result, such supranational entity may be unable to meet its obligations with respect to its debt obligations.

The ability of governments to make timely payments on their debt obligations is likely to be influenced strongly by the issuer's balance of payments, including export performance, and its access to international credits and investments. To the extent that a country receives payment for its exports in currencies other than the currency of the relevant debt obligation, such country's ability to make debt payments in the currency of the relevant debt obligation could be adversely affected. To the extent that a particular country develops a trade deficit, such country will need to depend on aid payments from foreign governments or continuing loans from foreign governments, supranational entities or private commercial banks. The access of a particular country to these forms of external funding may not be certain and a withdrawal of external funding could adversely affect the capacity of such country to make payments on its debt obligations. In addition, the cost of servicing debt obligations can be affected by a change in global interest rates since the majority of these debt obligations carry interest rates that are adjusted periodically based upon global rates.

There may be a limited or no established secondary market for some sovereign debt. Reduced secondary market liquidity may have an adverse effect on the market price and the ability of DIAM to dispose of particular instruments. Reduced secondary market liquidity may also make it more difficult to obtain accurate market quotations for the purpose of determining the Net Asset Value. Market quotations for some sovereign debt may be available only from a limited number of dealers and may not necessarily represent firm bids of those dealers or prices for actual sales.

The holder of certain sovereign debt obligations may have limited legal recourse in the event of a default with respect to such obligations and any remedies may have to be pursued in the courts of the defaulting party itself. Legal recourse therefore may be significantly diminished. Bankruptcy, moratorium and other similar laws applicable to issuers of sovereign debt obligations may be substantially different from those applicable to issuers of private debt obligations.

(xli) *Speculative Position Limits*

In the United States, the Commodity Futures Trading Commission ("CFTC") and certain exchanges have established speculative position limits on the maximum net long or short futures and options positions which any person or group of persons acting in concert may hold or control in particular futures contracts. The CFTC has adopted a rule generally requiring each domestic exchange to set speculative position limits, subject to CFTC approval, for all futures contracts and options traded on such exchanges which are not already subject to speculative

position limits established by the CFTC or such exchange. Generally, no speculative position limits are in effect with respect to the trading of forward contracts or trading on non-U.S. exchanges. All trading accounts managed by DIAM acting on behalf of the Master Fund or other funds will be combined for speculative position limit purposes. With respect to trading in futures which are subject to such limits, DIAM may reduce the size of the positions which would otherwise be taken in such futures and not trade certain futures in order to avoid exceeding such limits. Such modification, if required, could require DIAM to liquidate certain positions more rapidly than might otherwise be desirable, and could adversely affect the performance of the Fund.

(xlii) *Straddles*

In straddle writing, where the investor writes both a put and a call on the same underlying interest at the same exercise price in exchange for a combined premium on the two writing transactions, the potential risk of loss is unlimited. To the extent the price of the underlying interest is either above or below the exercise price by more than the combined premium, the writer of a straddle will incur a loss when one of the options is exercised. If the writer is assigned an exercise on one option position in the straddle and fails to close out the other position, subsequent fluctuations in the price of the underlying interest could cause the other option to be exercised as well, causing a loss on both writing positions.

(xliii) *Swap Agreements*

Swap agreements can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease exposure to long-term or short-term interest rates, foreign currency values, mortgage securities, corporate borrowing rates, or other factors such as security prices, baskets of equity securities, or inflation rates. Swap agreements can take many different forms and are known by a variety of names. DIAM is not limited to any particular form of swap agreement.

Swap agreements tend to shift investment exposure from one type of investment to another. For example, if DIAM agrees to exchange payments in U.S. Dollars for payments in another currency, the swap agreement would tend to reduce exposure to U.S. interest rates and increase its exposure to interest rates associated with the other currency. Depending on how they are used, swap agreements may increase or decrease overall volatility. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency, individual equity values or other factors that determine the amounts of payments due to and from the Master Fund. If a counterparty's

creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses.

(xlv) *Tax Considerations*

Where DIAM invests in securities that are not subject to withholding tax at the time of acquisition, there can be no assurance that tax may not be withheld in the future as a result of any change in applicable laws, treaties, rules or regulations or the interpretation thereof. DIAM may not be able to recover such withheld tax and so any such change could have an adverse effect on the Net Asset Value of the Fund. Where DIAM sells securities short that are subject to withholding tax at the time of sale, the price obtained will reflect the withholding tax liability of the purchaser. In the event that in the future such securities cease to be subject to withholding tax, the benefit thereof will accrue to the purchaser and not to the Master Fund.

(xlv) *Trading Strategies*

There can be no assurance that the specific trading strategies utilized by DIAM will produce profitable results. Profitable trading is often dependent on anticipating trends or trading patterns. Markets subject to random price fluctuations, rather than defined trends or patterns, may generate a series of losing trades. There have been periods in the past when the markets have been subject to limited and ill-defined price movements, and such periods may recur. Any factor which may lessen major price trends (such as governmental controls affecting the markets) may reduce the prospect for future trading profitability. Any factor which would make it difficult to execute trades, such as reduced liquidity or extreme market developments, could also be detrimental to profits. The best trading strategy, whether based on fundamental or technical analysis, will not be profitable if there are no trends of the kind it seeks to follow. No assurance can be given that the techniques and strategies of DIAM will be profitable.

(xlvi) *Transaction Costs*

DIAM is obligated to pay brokerage commissions and related transaction fees and costs, which can be substantial, regardless of whether its trading activities are profitable. The Fund and the Master Fund will also pay their own fees and operating and administrative expenses. It will be necessary for the Fund to achieve gains in excess of these aggregate fees and costs in order for Shareholders to realize an increase in the Net Asset Value of their Participating

Shares. There can be no assurance that the Fund will be able to achieve such, or any, appreciation of its assets.

(xlvii) *Trend Following*

DIAM may use computer pricing models to identify apparently overpriced or underpriced options in relationship to an assumed norm. In addition, models may be used which analyze price and other fluctuations over time in order to discern and predict trends. Trading based on such analyses is subject to the risks that prices will not increase or decrease as predicted by the analysis, or that trades dictated by the analysis may not be executed in time to take advantage of the price disparities. This latter risk is likely to materialize when numerous market makers use similar analyses, all of which dictate the desirability of executing identical or similar contracts. In the past, there have been periods without identifiable trends and, presumably, such periods will continue to occur. Trading models or analyses that depend upon the forecasting of trends will not be profitable if there are not identifiable trends of the kind that the models or analyses seek to follow. Any factor which would make it more difficult to execute trades in accordance with the models or analyses signals, such as a significant lessening of liquidity in a particular market, would also be detrimental to profitability.

(xlviii) *Undervalued and Overvalued Securities*

One of the strategies of DIAM will be to identify and invest in undervalued and/or overvalued securities. The identification of investment opportunities in undervalued and overvalued securities is a difficult task, and there can be no assurance that such opportunities will be successfully recognized. While investment in undervalued and overvalued securities offer opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. DIAM may make certain speculative investments in securities which it believes to be undervalued or overvalued. However, there can be no assurance that the securities purchased will in fact be undervalued or overvalued (as appropriate). In addition, DIAM may be required to maintain positions in such securities for a substantial period of time before realizing their anticipated value. During this period, a portion of the Master Fund's capital may be committed to the securities, thus possibly preventing DIAM from investing in other opportunities. In addition, such purchases may be financed with borrowed funds and the Master Fund will have to pay interest on such funds during such waiting period.

(xlix) *Use of Information Technology*

DIAM depends on information technology systems in order to assess investment opportunities, strategies and markets and to monitor and control risks. Information technology systems are also used to trade in the underlying investments of the

Master Fund. A failure of some kind which causes disruptions to these information technology systems could materially limit DIAM's ability to adequately assess and adjust the investments, formulate strategies and provide adequate risk control, any of which could harm the performance of the Fund.

ITEM 9 | DISCIPLINARY INFORMATION

DIAM and its Supervised Persons have no reportable disciplinary events to disclose.

ITEM 10 | OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Item 10.A

Neither DIAM nor any of its management personnel are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

Item 10.B

DIAM is currently registered as a commodity trading advisor and commodity pool operator with the U.S. Commodities Futures Trading Association ("CFTC") and is a member of the National Futures Association ("NFA"). In addition, certain of DIAM's personnel are considered CFTC registered associated persons and/or NFA listed principals of the Firm.

Item 10.C

DIAM is affiliated with a non-U.S. investment adviser, Daemon Investimentos, a Brazilian entity that is not regulated in the United States. Sergio Rhein Schirato controls both DIAM and Daemon Investimentos. Daemon Investimentos provides investment advice to four Brazilian investment funds (the "Brazilian Funds"). While investment opportunities arise that are appropriate for DIF and the Brazilian Funds, the fact that investors in DIF and the Kratos Funds are also investors in the Brazilian Funds operates to mitigate potential conflicts of interest. As described in Item 6 above, due to the differing investment strategy of the Kratos Funds, allocation of investment opportunities is not currently deemed to be a risk or conflict.

DIAM also has in place an allocation policy designed to further mitigate any potential conflict of interest that arises when DIF, the Kratos Funds and the Brazilian Funds are each eligible to invest in an investment opportunity. The allocation policy is designed to take a number of factors into account with neither factor being determinative. The factors include:

- (i) Available capital: The fund with the greatest mid-term excess of capital at the time an investment opportunity becomes available may be given preference in the allocation of the opportunity.
- (ii) Transaction costs: Transaction costs vary depending on how the transactions are originated because, for example, DIF and the Brazilian Funds are located in different geographic regions. The entity for which transaction costs of an investment are lower may be given preference in the allocation of the opportunity.

Any transactions involving DIF, the Kratos Funds and the Brazilian Funds will comply with the requirements of the Advisers Act and DIAM's compliance policies and procedures.

As a fiduciary, DIAM has the duty to ensure the adequacy of all of its service providers, including its affiliates; however, the founding partners' affiliation with each fund discussed above creates a potential conflict that could limit DIAM's ability to effectively evaluate or terminate a service relationship with Daemon Investimentos. We believe the contractual agreements in place between DIAM and Daemon Investimentos adequately mitigate this potential conflict.

In addition, DIAM's CCO is a Partner at the law firm of Rhein Schirato, Meireles Advogados based in Sao Paulo, Brazil. Vitor Rhein Schirato and his firm will not separately represent firms that participate in the PROEX program in any event in order to avoid any conflict of interest.

Daemon Investments GP LLC, a Delaware limited liability company, serves as the General Partner to the Onshore Fund.

Item 10.D

Not Applicable. DIAM does not recommend or select other investment advisers for its clients.

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

Item 11.A.

DIAM has adopted a written Code of Ethics and Supervisory Procedures Manual (the "Code of Ethics") in accordance with Rule 204A-1 under the Advisers Act to seek to ensure that DIAM fulfills its role as a fiduciary to its Clients. The Code of Ethics is designed to address and avoid potential conflicts of interest. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of gifts and the

reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised employees of DIAM must acknowledge the terms of the Code of Ethics upon commencement of employment with DIAM and annually thereafter. DIAM provides a copy of its Code of Ethics to its Clients or any prospective client upon request.

Item 11.B.

DIAM's Clients may engage in principal and cross trades subject to the limitations of the Advisers Act, if applicable. A principal trade occurs when an investment adviser (or an owner, employee or affiliate of such investment adviser), acting for its own account or the account of an affiliate, buys a security from, or sells a security to, a client. A cross trade is a pre-arranged transaction between two or more different funds or accounts, each of which is managed by the same adviser and where no broker-dealer or brokerage commission is involved. DIAM has compliance policies and procedures in place that apply to such principal trades and cross trades and that are designed to address the conflicts of interests arising from such transactions.

Item 11.C. and Item 11.D.

DIAM, as a fiduciary to its clients and endeavoring to be honest and truthful to its Clients at all times, prohibits investments in the personal account of any Firm personnel or related person in a security that is currently held or intended to be held by the applicable Fund.

ITEM 12 | BROKERAGE PRACTICES

Item 12.A

DIAM is responsible for determining what securities will be purchased and sold for each Client and selecting the broker-dealer to execute transactions on behalf of Clients. Purchases and sales of securities for a Client must be made in accordance with the investment objectives, strategies and policies of such Client.

It is DIAM's policy to seek best execution on behalf of its Clients – that is, DIAM seeks to achieve the best overall qualitative execution for a Client in a particular circumstance. Best execution is not synonymous with the lowest brokerage commission. DIAM may cause a Client to pay a brokerage commission in excess of that which another broker might have charged for executing the same transaction if it determines that the commission paid was reasonable in relation to the value of the services provided by the broker.

In seeking to achieve best execution, DIAM considers the full range and quality of services a broker may provide, including (among other things), the experience and skill of the broker's securities traders; the broker's accessibility to primary markets and quotation services; for NASDAQ securities, whether a broker makes a market in that security; a broker's past history of successful, prompt and reliable execution of client trades; the financial strength and stability of the broker; the broker's administrative efficiency; commission rates; the overall net economic result to a client (involving both price paid or received and any commissions and other costs paid); the security price and its volatility; the size of the transaction, including the ability to effect the transaction at all where a large block is involved; the broker's availability to execute possibly difficult transactions in the future; and the receipt of research services. In addition, for purposes of monitoring best execution, DIAM generally performs comparisons between executed prices and volume-weighted average prices each trading day for each broker.

With respect to DIF, DIF's investments in Brazilian export-related credit instruments take the form of privately negotiated transactions that do not involve the use of a broker.

DIAM uses broker-dealers when executing purchases and sales of Brazilian government bonds. In particular, DIAM uses a broker as an intermediary in government-sponsored national auctions of Brazilian government securities. In all situations, DIAM effects transactions with those brokers and dealers which it believes provide the most favorable prices and which it believes are capable of providing efficient execution. The determinative factor is whether the transaction represents the best qualitative execution for the Clients accounts and not necessarily whether the lowest possible commission cost and price is obtained. DIAM considers the full range of quality of the broker's service in selecting brokers to meet best execution obligations and may not pay the lowest commission rates or prices available. DIAM negotiates a flat brokerage fee and, when applicable, a variable completion brokerage fee (*i.e.*, a commission) with the brokers that it uses to execute transactions. DIAM believes the following are some factors that contribute to efficient execution, although DIAM is not required to weigh any of these factors equally:

- (i) size of the order;
- (ii) the ability to effect prompt and reliable executions at favorable prices (including the applicable broker commission, if any);
- (iii) operational capabilities and facilities of the broker or dealer involved;
- (iv) the financial strength, integrity and stability of the broker; and

- (v) the prior experience of the broker or dealer in auctions sponsored by the Brazilian government and the Brazilian government bond markets.

DIAM reviews brokers based on the fund that they serve and therefore certain brokers may only service DIF. However, a broker may be used by both DIF and the Brazilian Funds. At all times, DIF and the Brazilian Funds will be subject to the same flat brokerage fee and the same variable completion brokerage fee, if applicable. If both DIF and the Brazilian Funds participate together in one auction, the fee will be pro-rated between them based on the notional value of the accepted offers.

Item 12.A.1

DIAM has no soft dollar arrangements at this time.

Item 12.A.2

DIAM does not currently consider, in selecting or recommending broker-dealers, whether it receives client referrals from a broker-dealer or third party.

Item 12.A.3

DIAM has no directed brokerage arrangements at this time.

Item 12.B

Generally, given the current investment strategies of the Clients, DIAM does not aggregate the purchases or sales or securities.

In the event investment opportunity is suitable for two or more Clients in the future, DIAM will endeavor to allocate the opportunity equitably as part of the Firm's effort to provide such Clients with access to the appropriate quality and quantity of investment opportunities. In determining such allocations, DIAM would consider a variety of factors and principles, including, but not limited to each relevant Client's relative assets under management, legal and regulatory restrictions, liquidity, competing investment opportunities, investment mandates and restrictions, immaterial or odd lot transactions that would create excessive or disproportionate transaction costs to the Client.

ITEM 13 | REVIEW OF ACCOUNTS

Item 13.A., Item 13.B. and Item 13.C.

The Clients and its investors receive the Clients' written audited annual financial reports within 3 months, for the Kratos Funds, and four months, for DIF, of the end

of the Clients' fiscal year. The Clients' audited annual financial reports are prepared in accordance with US Generally Accepted Accounting Principles. The Clients and its investors also receive monthly statements of holdings and net asset value. Vitor Rhein Schirato, as the CCO of DIAM, is responsible for the reviews of the Clients' accounts.

The Clients are subject to the supervision of the Cayman Island Monetary Authority ("**CIMA**") which may at any time instruct the Clients to have its accounts audited and to submit them to CIMA within such time as CIMA specifies.

ITEM 14 | CLIENT REFERRALS AND OTHER COMPENSATION

Item 14.A. and Item 14.B.

DIAM utilizes a placement agent. While the Firm has yet to compensate the placement agent for any referred investors, the potential placement fee is outlined in a written agreement with the placement agent. Due to the agreement the Firm has with the placement agent, the placement agent has an incentive to recommend the Firm, resulting in a material conflict of interest. These arrangements are in compliance with the new marketing rule, Rule 206(4)-1 of the Investment Advisers Act of 1940 (the "Advisers Act") as of the effective date, November 4, 2022.

ITEM 15 | CUSTODY

DIAM has custody of the Clients' assets and maintains the Clients' assets with one or more unrelated qualified custodians (generally of the Client's choice). The Clients receive account statements from the custodian(s) at least quarterly and should carefully review those statements. While DIAM will provide periodic reports to the Clients, these reports should be carefully compared to the information provided by the custodian(s) to ensure that all account transactions, holdings and values are correct and current.

Rule 206(4)-2 promulgated under the Advisers Act, as amended (the "Custody Rule") imposes certain obligations on registered investment advisers that have custody or possession of any funds or securities in which any client has any beneficial interest. An investment adviser is deemed to have custody or possession of client funds or securities if the adviser directly or indirectly holds client funds or securities or has the authority to obtain possession of them (regardless of whether the exercise of that authority or ability would be lawful). The Custody Rule imposes on advisers with custody of clients' funds or securities certain requirements concerning reports to such clients (including underlying investors) and surprise examinations relating to such clients' funds or securities. However, an adviser need not comply with such requirements with respect to limited

partnerships or pooled investment vehicles, if each limited partnership or pooled investment vehicle: (i) is audited at least annually by an independent public accountant, and (ii) distributes its audited financial statements prepared in accordance with generally accepted accounting principles to its investors within 120 days of its fiscal year-end. DIAM relies upon this audit exception with respect to the funds.

ITEM 16 | INVESTMENT DISCRETION

The Clients, and any future additional clients, may engage DIAM to provide discretionary advisory services. Clients give DIAM discretionary authority by executing an investment management agreement with DIAM and may, in certain circumstances, limit or amend DIAM's authority by giving DIAM written instructions.

ITEM 17 | VOTING CLIENT SECURITIES

At this time, DIAM will not vote proxies on behalf of Clients. In the event that a proxy is issued by a security in the Client's account, DIAM will forward to the Client all proxy solicitation and related materials, including annual and interim reports and any other issuer mailings.

ITEM 18 | FINANCIAL INFORMATION

Item 18.A.

DIAM is not required to provide financial information in this Brochure because DIAM does not require the prepayment of more than \$1,200 in fees when services cannot be rendered within 6 months.

Item 18.B.

DIAM does not have any financial condition or commitment that impairs its ability to meet contractual and fiduciary obligations to clients.

Item 18.C.

DIAM has never been the subject of a bankruptcy proceeding.