

# **Prudential Select Strategies LLC**

## **Form ADV Part 2A**

### **Firm Brochure**

Prudential Select Strategies  
655 Broad Street  
Newark, NJ 07102, USA

March 25, 2024

This Investment Adviser Brochure (“Brochure”) provides information about the qualifications and business practices of Prudential Select Strategies LLC (“Prudential Select Strategies,” or “PSS” or the “Investment Adviser”). If you have any questions about the contents of this Brochure, please contact us.

PSS is registered as an investment adviser with the United States Securities and Exchange Commission (“SEC”) under the Investment Advisers Act of 1940 (the “Advisers Act”). The information in this Brochure has not been approved or verified by the SEC or by any state securities authority. Registration as an investment adviser with the SEC does not imply a certain level of skill or training.

Additional information about Prudential Select Securities is also available on the SEC’s web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2—Material Changes

*This Brochure dated March 25, 2024, updates our prior Brochure dated March 31, 2023. Changes related to the investment advisory services that we provide have been made to exclude hedge management services. The removal of these services more accurately reflects the services offered by Prudential Select Strategies. Prospective and current clients should review the Brochure in its entirety.*

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## Item 4—Advisory Business

### Overview of Our Firm

PSS (formerly, Prudential Customer Solutions LLC) was formed in October 2016 as a Delaware limited liability company, is registered as an investment adviser under the Advisers Act and is a wholly owned subsidiary of The Prudential Insurance Company of America (“PICA”). PSS, along with its affiliates referenced herein, are wholly owned subsidiaries of Prudential Financial, Inc. (“PFI”), a publicly listed company (NYSE :PRU) headquartered in the State of New Jersey, U.S.A.

When we use the terms “we,” “us,” or “our” in this Brochure, we are referring to PSS, and in some cases, these references include personnel in legal entities other than PSS. PSS is headquartered in Newark, New Jersey, U.S.A. In addition, operations, and other services with respect to certain client accounts are performed by affiliates. Depending on the client relationship and applicable investment management agreement, we could delegate services to our affiliates, or vice versa.

### Our Advisory Services

We provide investment advisory services related to alternative and traditional asset classes. PSS’s business objective is to provide bespoke investment solutions. Unlike other asset management firms targeting insurance company capital to grow their commingled products, PSS offers its expertise only through advisory relationships or separately managed accounts tailored to the investor’s specific requirements. We manage our strategies in separately managed accounts. PSS does not manage commingled funds for unaffiliated clients.

### **Alternative Assets**

We construct and provide ongoing management of customized and diversified multi-manager portfolios for clients consisting of private fund limited partnerships in alternative investment vehicles (e.g., private equity funds, real estate funds, hedge funds and co-investments), tailored to each client’s desired risk and return profile.

### **Manager of Managers**

We source, conduct due diligence on, engage, and monitor investment managers of traditional assets and private credit mandates tailored to each client’s investment objectives.

We seek to accommodate the individual needs of our clients in providing our advisory services. Our investment management or similar agreements with clients, which include investment guidelines, are negotiated to incorporate mutually acceptable terms.

As of December 31, 2023, we had approximately \$ 15,007,505,471 in regulatory assets under management on a discretionary basis and \$ 4,727,031,661 in non-discretionary regulatory assets under management.<sup>1</sup>

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<sup>1</sup>

Asset values for December 31, 2023 are estimates as of March 20, 2024 and are subject to change. The reported values currently represent 76% of the discretionary RAUM and 24% of the non-discretionary RAUM.

## Side-by-Side Management of Accounts and Related Conflicts of Interest

Side-by-side management of accounts can create conflicts of interest. Examples of such conflicts, which are not exhaustive, are detailed below, followed by a discussion of how we address such conflicts related to side-by-side management.

- *Allocation of investment opportunities* – we may manage accounts on behalf of our affiliates as well as unaffiliated accounts that, depending on the strategy, are seeking the same type of investment opportunities. We have an incentive to favor accounts of affiliates over others.
- *Affiliated relationships* –PSS investment professionals manage general account assets for PICA and its domestic and international insurance affiliates. Such investment professionals could have an incentive to favor the general account over unaffiliated accounts or certain affiliates over others.
- *Larger accounts* – larger accounts and clients typically generate more revenue than do smaller accounts or clients. As a result, we could have an incentive to favor accounts that pay a higher fee or generate more income for us (or that we believe would generate more revenue in the future).
- *Financial interests of affiliates* – we or our affiliates could have direct or indirect interests in accounts that we manage. Certain affiliated clients could receive preferential terms that are different from those received by other affiliated clients. As a result, there could be an incentive to favor these accounts over others.
- PSS currently has no unaffiliated clients.

## How We Address These Conflicts of Interest

We have developed policies and procedures reasonably designed to address the conflicts of interest with respect to our different types of side-by-side management described above.

- PSS's Conflicts of Interest Policy as well as Prudential's Institutional Conflicts of Interest and Personal Conflicts of Interest programs set forth procedures for all PSS employees to identify, review, and fairly manage actual, potential, and apparent conflicts of interest involving PSS. PSS is committed to the highest levels of integrity. Employees of PSS are expected to conduct their relationships with each other, the company, and outside organizations with objectivity and honesty. Employees are obligated to identify, avoid, mitigate, and disclose ethical, legal, financial, or other conflicts of interests involving PSS and remove themselves from a position of decision-making authority with respect to any conflict situation. Conflicts of interest, either institutional or personal, must be promptly disclosed for PSS Compliance review.
- In keeping with our fiduciary obligations, our policy with respect to trade aggregation and allocation is to treat all of our client accounts fairly and equitably over time.

## Item 5—Fees and Compensation

### Advisory Fees

PSS's fees are negotiated on a client-by-client basis. A client's circumstances and needs will be considered in determining the fee schedule. These circumstances and needs can include, among other things, the complexity of the client; the assets to be placed under management; anticipated additional

assets; related accounts; account composition; and reporting requirements. The specific annual fee schedule will be identified in the advisory agreement between PSS and each client.

PSS will generally charge a management fee, at a negotiated annual rate, that could be based on capital committed or funded by the client, the fair market value of the investments or aggregate exposure. Some agreements could provide for additional payments to PSS for additional services or special projects. All fees are negotiated on a client-by-client basis and are generally payable quarterly in arrears or as otherwise negotiated. For purposes of determining fees, the value of the assets is based on information provided by the recordkeeper of the assets. Any partial period fees will generally be prorated for the number of days of service provided. Clients are invoiced for fees.

Clients will generally be able to terminate the contractual relationship upon written notice given within certain specified time periods. In such a case, the fees will generally be adjusted pro rata for the number of days of service provided, unless otherwise agreed by the client in writing. In certain instances, a termination fee will be payable.

PSS currently provides its services only to affiliates, and charges fees on a cost basis.

### Other Amounts Payable by Clients

Our advisory fees are the only amounts payable by clients to PSS. Clients are generally responsible for other fees and expenses related to their accounts, including custodial fees, brokerage fees, and other transaction costs. (See Item 12 below for a discussion of our policies regarding the selection of broker-dealers.) In addition, clients could incur withholding and other taxes in connection with investments in their account.

In addition to any fees paid to us, clients invested in private funds will pay their pro rata portion of the management fees, and any incentive fees or allocations with respect to each private fund investment.

Clients invested in private funds could also bear such private funds' organizational and operating expenses. These expenses are set forth in detail in each private fund's governing documents.

### Other Compensation

PSS does not receive any compensation related to the sale of securities or other investment products. Our employees do not receive any compensation directly related to the sale of securities or other investment products.

**Compensation Arrangements with Investment Managers.** The investment managers retained in conjunction with Alternative Assets and Manager of Managers ("MoM") advisory services could receive compensation based on the performance of their investments. Such compensation arrangements could create an incentive to make investments that are riskier or more speculative than would be the case if such arrangements were not in effect. In addition, because performance-based compensation is calculated on a basis which includes unrealized appreciation of a fund's or client's assets, such performance-based compensation could be greater than if such compensation were based solely on realized gains. Investment managers generally receive incentive compensation based on the performance of their portfolios. Therefore, it is possible that certain fund and separate account managers could receive incentive compensation, even though a portfolio in total does not have net capital appreciation.

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

We do not charge any performance-based fees, but we manage accounts with side-by-side management conflicts described above in Item 4.

## Item 7—Types of Clients

We provide investment advisory services to affiliated clients. Our clients are generally insurance companies, including general accounts, separate accounts, and corporate entities. For an unaffiliated client to open or maintain an account, they are required to sign an investment advisory agreement that details the terms under which we are authorized to act on behalf of the client to manage the assets listed in the agreement.

## Item 8—Methods of Analysis, Investment Strategies and Risk of Loss

### Our Methods of Analysis and Investment Strategies

#### ***Alternative Assets***

The overarching investment strategy related to alternative assets is to assess the risk/reward relationship of existing and emerging investment opportunities and then construct multi-manager portfolios that will benefit from the best opportunities. Assessment of the opportunity set considers potential returns, as well as the size and duration of the opportunity, while the risk assessment spans political, market, legal and tax risks. Potential returns are assessed on both an absolute and relative basis.

On a micro level, we first work with clients to develop client-appropriate long-term return and volatility targets; these targets, as well as diversification and other portfolio attributes, are incorporated into client investment policy statements. We then construct multi-manager portfolios to meet the stated targets, leveraging our name and reputation; our broad and deep network of contacts across the alternatives industry; and the aggregate capital we manage on behalf of our clients to gain access to hard-closed and capacity-constrained funds and negotiate lower fees.

#### ***Manager of Managers***

We conduct rigorous and extensive analysis to source, due diligence, and monitor third-party managers of traditional assets and private credit mandates. Our services also include the engagement and termination of managers.

### Primary Risks Associated with Our Methodology and Strategies

Investing in securities and other financial instruments involves risk of loss that clients should be prepared to bear. Investment strategies may not achieve their performance objectives and could result in losses, including loss of principal.

We have summarized below certain important risks for clients and prospective clients to consider. Not all of the risks listed below will pertain to every client. Where applicable, clients and prospective clients should also carefully review the governing documents related to their investment for additional risk disclosures.

## **General Risks**

**General Economic and Market Conditions.** The success of a portfolio's activities will be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation), trade barriers, currency exchange controls and national and international political circumstances (including wars, terrorist acts or security operations). These factors could affect the level and volatility of financial instruments' prices and the liquidity of a portfolio's investments.

Volatility or illiquidity could impair a portfolio's profitability or result in losses. A portfolio could maintain substantial trading positions that can be adversely affected by the level of volatility in the financial markets — the larger the positions, the greater the potential for loss. The economies of non-U.S. countries could differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, currency depreciation, asset reinvestment, resource self-sufficiency and balance of payments position. Further, certain non-U.S. economies are heavily dependent upon international trade and, accordingly, have been and could continue to be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. The economies of certain non-U.S. countries could be based, predominantly, on only a few industries and could be vulnerable to changes in trade conditions and could have higher levels of debt or inflation.

**Systemic Risk.** Credit risk could arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs. A default by one institution causes a series of defaults by the other institutions. This is sometimes referred to as a "systemic risk" and could adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms, and exchanges, with which a portfolio's investments could interact daily.

**Investment and Trading Risks in General.** All investments risk the loss of capital. No guarantee or representation is made that a portfolio will succeed in achieving its investment objectives. A portfolio's investment program will include investments in partnerships and investment vehicles and the selection of fund managers. These managers could utilize such investment techniques as short sales, substantial leverage, securities lending, investments in non-marketable securities, uncovered option transactions, forward transactions, futures and options on futures transactions, non-U.S. currency transactions, and highly concentrated portfolios, among others, which could under certain circumstances magnify the impact of any negative market or investment developments. More specifically, the Investment Adviser seeks out fund managers who have demonstrated the ability, under certain conditions, to generate returns well in excess of those available from traditional investment opportunities. Some of these fund managers have also experienced substantial losses in the past over relatively short periods of time.

**Regulatory Changes.** Periodic market disruptions have led to increased governmental scrutiny of the "alternatives", derivative, and securitization industries, as well as proposals to increase regulation of certain markets, instruments, and participants. As a result, the regulatory environment for private investment funds is evolving and the effect of any regulatory or tax changes currently being implemented or which could be implemented in the future on funds, the markets, or the instruments in which funds invest or the counterparties with whom funds conduct business is difficult to predict. Such changes could have a material adverse impact on the profit potential of funds or could require increased transparency as to the identity of limited partners.

The SEC and the CFTC and other regulatory agencies have broad authority pursuant to other statutes, regulations, and directives to intervene, directly and by regulation, in certain markets, and could restrict or prohibit market practices or impose reporting, registration, or other requirements. The scope of any such measures could vary from country to country and could significantly affect the value of a fund's holdings. The Investment Adviser will continue to monitor enacted and proposed laws and regulations and will seek to comply with all applicable laws and regulations.

Laws and regulations could require funds to verify both the identity of any person submitting a completed subscription agreement, the source of each person's investment, and the bank accounts remitting



subscription monies or receiving withdrawal proceeds. Entity investors could also be required to produce certain information to a fund confirming other information already required by the fund in its subscription agreement.

**Increased Regulatory Oversight.** The financial services industry generally, and the activities of private investment funds and their managers particularly, have been subject to intense and increasing regulatory scrutiny. Such scrutiny could increase a portfolio's, the Investment Adviser's, or a fund's exposure to potential liabilities and to legal, compliance and other related costs.

Increased regulatory oversight can also impose administrative burdens on the Investment Adviser and/or fund managers, including, without limitation, responding to investigations and implementing new policies and procedures. Such burdens could divert the Investment Adviser's and/or a fund manager's time, attention, and resources from portfolio management activities. In addition, it is anticipated that, in the normal course of business, the Investment Adviser's and/or fund manager's officers will have contact with governmental authorities, and/or be subjected to responding to questionnaires or examinations.

The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is expected to be subject to modification by governmental and judicial actions. The regulatory environment for private funds and capital markets is evolving, and changes in the regulation of private funds, their managers, and their trading activities and capital markets could adversely affect the ability of a portfolio to pursue its investment strategy and the value of its investments. There has been an increase in governmental, as well as self-regulatory, scrutiny of the alternative investment industry in general. It is impossible to predict what, if any, changes in regulations could occur. Any regulations which restrict the ability of the funds to trade in securities or the ability of the funds to employ, or brokers and other counterparties to extend, credit in their trading (as well as other regulatory changes that result) could have a material adverse impact on the funds' performance and, consequently, on a portfolio's performance.

Funds and fund managers could also be subject to regulation in jurisdictions in which the funds engage in business, that, in turn, could have a material adverse impact on the value of the investments of a portfolio. Clients should understand that the funds' business is dynamic and is expected to change over time. Therefore, the funds could be subject to new or additional regulatory constraints in the future.

The Investment Adviser cannot address or anticipate every possible current or future regulation that could affect the Investment Adviser, the funds or their businesses. Such regulations could have a significant impact on the limited partners or the operations of the funds, including, without limitation, restricting the types of investments the funds could make, preventing the funds from exercising their voting rights pertaining to certain financial instruments, requiring the funds to disclose the identity of their investors or otherwise.

### ***Risks Related to Alternative Assets***

**Risk of Capital Loss.** A portfolio of alternative fund investments is long-term in nature and with no guarantee of return. The value of a portfolio, and distributions in respect of it, can fluctuate down as well as up and a client could get back less than it contributed to the portfolio or lose its entire investment.

**Duplicative Payments and Expenses.** A portfolio bears a management fee for the Investment Adviser in addition to its pro rata share of the asset-based fees and performance-based allocations or fees payable to the portfolio's fund managers. Each fund manager generally charges an asset-based fee, generally expected to be in a range from 1% to 3%, and receives performance-based allocations or fees, generally expected to range from 10% to 30% of net capital appreciation, frequently over a return hurdle.

**Diversification.** A portfolio's diversification guidelines are client driven, based on the investment guidelines provided by each client. If a portfolio's assets are concentrated in a particular fund, asset category, trading style or financial or economic market, the portfolio will be more susceptible to

fluctuations in value resulting from adverse economic conditions affecting the performance of that particular fund, asset category, trading style or financial or economic market.

There is no assurance as to the degree of diversification by sector or geography that will be achieved in a portfolio. Given the time it could take to source appropriate investments, a portfolio may not initially be diversified. One risk of a portfolio not being fully diversified is that the aggregate return realized by the client could be materially adversely affected by the unfavorable performance of a small number of investments.

**Concentration of Funds' Portfolios.** Market conditions could create opportunities within certain investment strategies which could cause fund managers to increase the concentration of certain investment strategies. Because a fund could have the ability to concentrate its investments by investing an unlimited amount of its assets in a single issuer, sector, market, industry, strategy, country or geographic region, the overall adverse impact on the fund, and correspondingly on a portfolio, of adverse movements in the value of the securities of a single issuer, sector, market, industry, strategy, country or geographic region will be considerably greater than if the fund were not permitted to concentrate its investments to such an extent. By concentrating in a specific issuer, sector, market, industry, strategy, country or geographic region, a fund will be subject to the risks of that issuer, sector, market, industry, strategy, country or geographic region, such as rapid obsolescence of technology, sensitivity to regulatory changes, minimal barriers to entry and sensitivity to overall market swings, and could be more susceptible to risks associated with a single economic, political or regulatory circumstance or event than a more diversified portfolio might be.

**Style Drift.** The Investment Adviser conducts a robust investment due diligence process which focuses on selecting funds with well-defined investment objectives, risk parameters and investment guidelines. Notwithstanding this process, a portfolio could be affected by "style drift" (i.e., the risk that a fund could deviate from its stated or expected investment strategy) or the failure of a fund manager to adhere to the investment guidelines established for the fund. The Investment Adviser relies primarily on information provided by fund managers in assessing a fund's defined investment strategy and whether or not, and to what extent, the Investment Adviser will allocate/commit a portfolio's assets to particular funds. Style drift can occur abruptly if, for example, a fund manager believes it has identified a particular investment opportunity that could produce higher returns than investments within its stated strategy or gradually, if, for example, a value-oriented fund manager gradually increases a fund's investments in growth stocks. Style drift poses a particular risk for multiple-manager portfolios since a portfolio could be exposed to particular markets or strategies to a greater extent than was anticipated by the Investment Adviser due to resulting overlap of investment strategies among various funds. In addition, style drift could affect the investment categorization of a fund's strategy, impacting the Investment Adviser's monitoring of a portfolio's diversification guidelines. Although the Investment Adviser has established procedures that are designed to mitigate the likelihood of style drift situations, there can be no assurance that a portfolio will not be impacted by a particular fund's style drift or failure to adhere to its investment guidelines.

**Other Activities of the Investment Adviser and its Affiliates.** The Investment Adviser is required to devote such time as could be reasonably required to fulfill a portfolio's activities. The Investment Adviser, its affiliates and any of their respective partners, directors, members, officers, and employees are not precluded from engaging directly or indirectly in any other business or other activity, including, but not limited to, exercising investment advisory and management responsibility, and buying, selling or otherwise dealing with securities for their own accounts, for the accounts of family members, and for the accounts of individual and institutional clients. The Investment Adviser and each of its affiliates are permitted to perform, among other things, investment advisory and management services for accounts other than a client's portfolio and to give advice and take action in the performance of their duties to those accounts which could differ from the timing and nature of action taken with respect to a client's portfolio. The Investment Adviser has no obligation to purchase or sell for a client's portfolio any investment which the Investment Adviser or its affiliates could purchase or sell, or recommend for purchase or sale, for its or their own accounts, or for the account of any other portfolio.

**Financial Interests in Funds.** Although a portfolio generally will invest in independent funds, it could also invest in funds in which the Investment Adviser's affiliates have an ownership or other economic interest, including PGIM Funds, which give rise to potential conflicts of interest. The Investment Adviser and its affiliates will endeavor to manage these conflicts.

**Tax Consequences.** Any change in the tax rate or the tax basis or the creation of new taxes applicable at the investment level because of a change in relevant tax laws could have adverse consequences on investments' value or yield projections. Audits by tax authorities could also lead to the challenge of the retained structure or other anticipated tax consequences for the investments, thus possibly leading to unexpected adverse tax consequences.

Each prospective client is advised to consult its own tax counsel as to the tax consequences of an investment in alternatives funds and as to applicable foreign, state, and local taxes. Because of timing differences between allocations of gain and income and distributions, there can be no assurance that fund limited partners subject to income tax will receive distributions sufficient to fully satisfy their tax liabilities. Tax rules and their interpretation in relation to interests in the fund could change during the life of a portfolio.

**Tax Considerations.** A fund could take positions with respect to certain tax issues which depend on legal conclusions not yet addressed by the courts. Should any such positions be successfully challenged by a taxing authority, there could be a material adverse effect on a fund or one or more investors. The taxation of investment funds and investors is complex. Potential investors are strongly urged to consult their own tax advisors.

**Delayed Schedules K-1.** It is likely that some funds in a portfolio will be unable to provide final Schedules K-1 (where applicable) to limited partners for any given fiscal year until significantly after April 15 of the following year. A client could be required to obtain extensions of the filing date for its income tax returns at the Federal, state, and local levels.

**Exculpation and Indemnification.** Certain exculpation and indemnification provisions contained in limited partnership agreements could limit the rights of action otherwise available to limited partners and other parties against general partners, managers, advisers, sub-advisers and members of limited partner advisory boards or their respective affiliates, employees, members, partners, or stockholders.

**Competitive Market for Investment Opportunities; Allocation of Investment Opportunities.** The activity of identifying and completing attractive investments is highly competitive and involves a high degree of uncertainty. The Investment Adviser will be competing for partnership interests with other institutional investors, as well as funds, individuals, and financial institutions, depending on the type of opportunity. It is possible that competition for appropriate investment opportunities could increase, thus reducing the number of investment opportunities available to the Investment Adviser and adversely affecting the terms upon which investments can be made. There can be no assurance that the Investment Adviser will be able to identify and complete sufficiently attractive investments to meet its clients' investment objectives.

The Investment Adviser invests in private funds managed by third-party investment managers who could frequently impose limits on the amount of capital or number of investors they accept. As a result, the Investment Adviser could be required to choose among multiple clients' portfolios, including affiliated clients' portfolios, when allocating capital to such third-party investment managers. In such cases, the Investment Adviser intends to allocate such opportunities in a fair and equitable manner and in accordance with the Investment Adviser's written allocation policy, taking into consideration various investment criteria, such as the relative amounts of capital available for investments, the relative assets under management of the portfolios seeking to participate, relative exposure to market trends, investment objectives, liquidity, diversification, contractual restrictions and similar factors.

**Portfolio Valuation.** The Investment Adviser will value a portfolio's investments in accordance with the Investment Adviser's valuation policies. These policies are intended to establish a good faith estimate of

the fair market value of the portfolio's investments in accordance with United States Generally Accepted Accounting Principles ("US GAAP"); in other words, in relation to each investment, the price which could reasonably be expected to be received to sell an asset, or paid to transfer a liability, in an orderly transaction at the valuation date.

Interests in funds will be valued at the valuations given in the latest financial reports of the fund, unless the Investment Adviser shall in good faith determine that such a valuation does not reflect the fair market value of a fund, in which case adjustments shall be made by reference to fair market value principles and the valuation methods for non-marketable securities. Valuation methodologies will depend on the nature of an investment or a fund's investments and will be adapted to each investment or fund's investments characteristics. A valuation committee has been established and will be comprised of persons who possess the requisite competence to carry out the valuations.

Private equity and real estate funds utilize divergent reporting standards that could make it difficult for the Investment Adviser to accurately assess the prior performance of a fund manager. In addition, such reporting variances could affect the ability of the Investment Adviser to accurately value and monitor investments. Portfolio investments will also be difficult to value because it could be relatively difficult for the Investment Adviser to obtain reliable valuations of the portfolio's investments. In most cases, the Investment Adviser will rely on a fund's valuation of its underlying investments. Clients should be aware that uncertainties as to the valuations of investments held by a fund could have an adverse effect on the returns of a portfolio.

The legal and regulatory environment and the disclosure, accounting, auditing, and reporting standards in certain of the countries in which investments could be made by the Investment Adviser could, in many respects, be less stringent and not provide the same degree of protection or information to clients as would result from US GAAP. The assets, liabilities, profits, and losses appearing in published financial statements of funds or companies in which investments are made could differ in the way their financial position or results of operations are reflected compared to the way they would be reflected had such financial statements been prepared in accordance with US GAAP. The foregoing means that the value of any portfolio investment could be less than that stated in financial or other statements prepared or published by the relevant fund or company, which in turn would mean that the net assets of the portfolio reported from time to time could inaccurately reflect the realistic value of all or any of the portfolio's investments.

Interests in funds generally are valued in accordance with the methods provided by the instruments governing such funds. These valuations could be provided by the manager of the fund based on the interim unaudited financial records of the fund, and, therefore, are subject to adjustment (upward or downward) upon the receipt of new or revised information by the fund manager. If a client makes a withdrawal from its portfolio, subsequent adjustments to valuations of one or more funds could occur and there is a risk that such client could receive an amount upon withdrawal which is greater or less than the amount such client would have been entitled to receive on the basis of the adjusted valuation.

In some cases, fund managers will not endeavor to assess the value of each position held by a fund, instead carrying such positions at cost. Where an investment is carried at cost by an open-ended fund and a participating investor, withdraws from the fund prior to the time that such investment has been sold or a "fair value" has otherwise been established, the investor will generally not receive the actual value of its interest in that investment. Furthermore, the net asset values received by an administrator or a portfolio from fund managers typically are estimates only, subject to revision at any time until each fund's annual audit. The value of a portfolio's interest in a fund will be valued based on the latest financial statements or interim net asset value report of the fund. Accordingly, the net asset value of a partnership reported by a fund cannot be considered final until the fund's annual audits are completed. Situations involving uncertainties as to the valuation of the investments of a fund could have an adverse effect on the net asset value of a portfolio if the judgments of the fund managers regarding appropriate valuations should prove incorrect. Absent bad faith or manifest error, such net asset value determinations are conclusive and binding on all limited partners.

**Reliance on the Investment Adviser.** Portfolios will be managed and advised by the Investment Adviser. A portfolio's ability to achieve its objectives is substantially dependent on the Investment Adviser and certain key individuals. Should one or more of these individuals become incapacitated or in some way cease to participate in the management of the Investment Adviser, its performance could be adversely affected. A client will also not have the opportunity to evaluate the relevant economic, financial, and other information which will be utilized by the Investment Adviser in its selection, structuring, monitoring and disposition of investments.

**Control of Invested Funds.** The Investment Adviser generally will not have the right to participate in the day-to-day management, control, or operations of the funds in which it is invested, nor will it have the right to remove the managers thereof. The Investment Adviser will also not necessarily have the opportunity to evaluate the relevant economic, financial and other information which will be utilized by the underlying funds in which they are investing in their selection, structuring, monitoring and disposition of investments. However, an underlying fund (alone, or together with other investors) could be deemed to have a control position with respect to some portfolio companies which could expose it to liabilities not normally associated with minority equity investments, such as additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability in which the limited liability generally characteristic of business operations could be ignored.

**Distressed Investments.** A portfolio could invest in funds that purchase distressed real properties or securities of distressed business enterprises involved in workouts, liquidations, reorganizations, bankruptcies, and similar situations. Since there is substantial uncertainty concerning the outcome of transactions involving such investments, there is a high degree of risk of loss, including loss of the entire investment.

In bankruptcy, there can be considerable delay in reaching accord on a restructuring plan acceptable to a bankrupt company's or property's lenders and other creditors and then obtaining the approval of the bankruptcy court. Such delays could result in substantial losses to a fund holding such a company's or property's obligations. Moreover, there is no assurance that a plan favorable to the claims held by a fund will be adopted or that, in the case of a company, it might not eventually be liquidated rather than reorganized.

In liquidations (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful, will be delayed, or will result in a distribution of cash or a new security which will have a value less than the security's purchase price. It could be difficult to obtain accurate information concerning a company in financial distress, with the result that the analysis and valuation are especially difficult. The market for securities of such companies tends to be illiquid and sales could be possible only at substantial discounts.

**Emerging Market Investments.** Private fund managers PSS selects could invest in properties in emerging countries or in securities issued by companies or governments in emerging countries. Investing in emerging countries involves certain considerations not usually associated with investing in developed countries, including political and economic considerations, such as greater risks of expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains, other income or gross sale or disposition proceeds, limitations on the removal of funds, nationalization and general social, political and economic instability; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; certain governmental policies that could restrict a fund manager's investment opportunities; and problems that could arise in connection with the clearance and settlement of trades. In addition, accounting and financial reporting standards that prevail in certain emerging countries generally are not equivalent to standards in more developed countries and, consequently, less information is available to investors in companies or properties located in these countries than is available to investors in more developed countries. There is also less regulation, generally, of the markets in emerging countries than there is in more developed countries.

**Project Finance Investments.** Certain fund managers could make investments in securities issued to finance the development of infrastructure in the U.S. and outside of the U.S., including, for example, highways, airports, water and sewerage facilities, and energy distribution and telecommunication networks, schools, universities, hospitals, public housing, and prisons. Investments in infrastructure are highly regulated and a failure by a fund manager to comply with all applicable regulations could result in a substantial loss on investment. Some infrastructure projects could be in unstable political environments, which could impact the efficiency of an operation or prevent the continued operation of an asset in extreme circumstances.

Although the liquidity of infrastructure investments varies by project, generally the market for these assets is not liquid and a fund manager may not be able to readily liquidate an investment. There are varying levels of liability and liability protection incorporated in infrastructure investments. Governmental liability shields are prohibited from transferring to new operators.

### ***Risks Related to Closed-ended Funds***

**Illiquidity of the Investments.** Clients should be aware of the long-term nature of these types of investments. Interests in funds cannot be sold or otherwise transferred without the consent of the funds' general partners, as well as compliance with the funds' limited partnership agreements. There is no liquid market for fund interests, so a client isn't allowed to liquidate its fund interests for any reason, and its fund interests may not be acceptable as collateral for loans. Such limitations could also adversely affect the price that a client will be able to obtain for fund interests if it is able to sell.

Portfolios are invested in closed-ended funds and investors will not normally have rights to redeem their fund interests or withdraw capital. Portfolios' principal liquidity requirement is to meet capital calls under commitments to funds.

**Unpredictability of Distributions.** The return of capital and realization of gains, if any, will generally occur only upon the distribution or other disposition by a portfolio's funds of portfolio company securities, which could take several years after a fund's initial investment or a portfolio's acquisition of such fund interests. Such distributions are likely to be unpredictable and could occur earlier or later than anticipated by the fund's managers. A client should not expect significant returns for a period of years after its investment is made.

**Risk of Default by Limited Partners.** Any default by another limited partner in meeting commitments to a fund held by a portfolio could have an impact on the portfolio's exposure to the fund relative to the exposures of other limited partners in that fund.

A client's commitments will be drawn down over time. Failure to meet such payment obligations when called could result in sanctions against the client as set out in the limited partnership agreement and could include significant financial penalties.

**Borrowing by Funds.** Funds could employ leverage. While the circumstances in which funds could borrow is limited, the extent to which funds use leverage could have consequences to the client, including, but not limited to: (i) fluctuations in a portfolio's net assets; (ii) use of contributions called from the client for debt service and related costs and expenses; and (iii) limitations on funds' ability to make distributions or sell assets that are pledged to secure the funds' indebtedness. Funds have the power to secure borrowing on limited partners' undrawn commitments, potentially allowing lenders to issue drawdown notices to limited partners and to take direct enforcement action against a defaulting limited partner.

**Dilution from Additional Closings.** Limited partners that are admitted or increase their commitments at any subsequent fund closing will participate in that fund's existing investments, diluting the interests of existing limited partners therein. Although such limited partners will contribute their pro rata share of all previously drawn commitments (plus an interest equivalent thereon), there can be no assurance that this payment will reflect the fair value of a fund's existing investments.

**Liability for Return of Distributions.** If a fund is otherwise unable to meet its obligations, the limited partners could, under applicable law, be obligated to return cash distributions previously received by them if such distributions are deemed to be a return of their capital contributions or a wrongful payment to them. In addition, certain provisions in limited partnership agreements could permit general partners to require each limited partner to return distributions made to such limited partner for the purpose of meeting such limited partner's pro rata share of a fund's expenses (including any indemnification obligations).

**Illiquidity of Funds' Investments.** The securities or other financial instruments or obligations of portfolio companies in which a fund invests could, at any given time, be very thinly traded, have no public market, or be restricted as to their transferability under the laws of the applicable jurisdiction. In some cases, a fund could also be prohibited by contract from selling securities of portfolio companies or other assets for a period of time or otherwise be restricted from disposing of such securities or other assets. In other cases, the investments of a fund could require a substantial amount of time to liquidate. Consequently, there is a significant risk that a fund will be unable to realize its investment objectives by sale or other disposition of its securities or other assets at attractive prices or will otherwise be unable to complete any exit strategy with respect to its portfolio companies. These risks can be further increased by changes in the financial condition or business prospects of the portfolio companies, changes in national or international economic conditions, and changes in laws, regulations, fiscal policies, or political conditions of countries in which portfolio companies are located or in which they conduct their business. In addition, a fund could distribute its investments "in-kind" to its investors, which could, in certain circumstances, include illiquid securities. There can be no assurance that a client will be able to dispose of these investments or that the value of these investments will ultimately be realized.

### ***Risks Inherent in Private Equity Investing***

**Risks Vary by Strategy.** Private equity investments are subject to the risks associated with their underlying businesses, including market conditions, changes in regulatory requirements, reliance on management at the investment fund and portfolio company levels, interest rate and currency fluctuations, general economic conditions, domestic or foreign political developments, capital market conditions and other factors. There can be no assurance that the future performance of the portfolio companies in which a portfolio and its investment funds invest will be positive or result in rates of return that are consistent with historical performance.

Investments of leveraged buy-out funds involve risks associated with the substantial indebtedness incurred in connection with such transactions. Accordingly, the profitability of a fund's portfolio companies, as well as appreciation of the investments in such companies, will depend in part upon the ability of these companies to attract capital, which in turn depends on the general economic climate, prevailing interest rates and other factors beyond their control. The viability of highly leveraged portfolio companies is determined by their ability to meet interest payments arising under their debt obligations.

Investment of venture capital funds involve risks associated with companies operating at a loss or with substantial variation in operating results from period to period, companies with the need for substantial additional capital to support expansion or to maintain a competitive position, or companies with significant financial leverage.

**Expedited Transactions.** Investment analyses and decisions by the Investment Adviser could frequently be required to be undertaken on an expedited basis to take advantage of investment opportunities. In such cases, the information available to the Investment Adviser at the time an investment decision is made could be limited. Therefore, no assurance can be given that the Investment Adviser will have knowledge of all circumstances that could adversely affect a portfolio's investment.

**Risk Upon Disposition of Funds' Investments.** In connection with the disposition of a portfolio company, a fund could be required to make representations about the business and financial affairs of such portfolio company and/or such fund typical of those made in connection with the sale of any business or could be responsible for the contents of disclosure documents under applicable securities laws. Such fund could also be required to indemnify the purchasers of such portfolio company or

underwriters to the extent that any such representations or disclosure documents turn out to be incorrect, inaccurate, or misleading. These arrangements could result in contingent liabilities for the limited partners, which might ultimately have to be funded by the client, which could require the client to return distributions previously received by them, subject to certain limitations.

**Risks Upon Disposition of Funds.** In connection with the disposition of funds, a client could be required to indemnify the purchasers of funds or underwriters to the extent that any representations or disclosure documents turn out to be incorrect, inaccurate, or misleading.

**Early Termination of Portfolio Partnerships.** If a fund in which a client invests terminates its investment programs earlier than anticipated, the client will not invest as much capital as planned, which could have a negative effect on the client's returns.

**Termination of a Client's Interest in a Fund.** A fund could, among other things, terminate a client's interest in that fund if the client fails to satisfy any capital call by that fund or if the general partner of that fund determines that the continued participation of the client in such fund would have a material adverse effect on such fund or its assets.

**Portfolio Company Risks.** A fund could invest in portfolio companies that involve a high degree of business or financial risk. The portfolio companies could be start-ups or in an early stage of development, could be distressed or have operating losses or significant variations in operating results and could be engaged in a rapidly changing business with products subject to a substantial risk of obsolescence. The portfolio companies could also include companies that are experiencing or are expected to experience financial difficulties. In addition, they could require substantial additional capital to support their operations, to finance expansion or to maintain their competitive position, or could otherwise have a weak financial condition. Portfolio companies could face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and other capabilities and a larger number of qualified managerial and technical personnel.

Many portfolio companies could be highly leveraged, which could impair their ability to finance their future operations and capital needs, and which could result in restrictive financial and operating covenants. As a result, these companies' flexibility to respond to changing business and economic conditions could be limited. In addition, if a portfolio company does not perform as anticipated or incurs unanticipated liabilities, high leverage will magnify the adverse effect on the value of its equity and could result in substantial diminution in, or the total loss of, an equity investment in the portfolio company. The return generated by portfolio companies will also depend on the level of interest charged under such debt and, consequently, could vary as a function of changes in interest rates.

**Need for Follow-On Investments.** Following the initial investment in a portfolio company, a fund could be called upon to provide additional funds or could have the opportunity to increase its investment in such company. There is no assurance that the fund will make follow-on investments or that the fund will have access to sufficient funds to make such an investment at that time. The fund's decision not to make a follow-on investment or its inability to do so could have a substantial negative impact on the fund and, therefore, the returns to the portfolio from the fund.

**Leverage Risk.** The funds in which a portfolio will invest could invest in companies or entities whose capital structures could have significant leverage. While investments in leveraged companies offer the opportunity for capital appreciation, such investments could also involve a high degree of risk. Although the Investment Adviser believes that fund managers will seek to use leverage in an appropriate manner, the leveraged nature of those portfolio companies will increase their exposure to adverse economic factors such as rising interest rates or downturns in the economy, which could impair such portfolio companies' ability to finance their future operations and capital needs and result in restrictive financial and operations covenants. These restrictive financial covenants could limit such portfolio companies' flexibility to respond to changing business and economic conditions. The value of such portfolio companies could be reduced.

### ***Risks Related to Investing in Hedge Funds***



**Limited Liquidity and Information Rights.** Investments in hedge funds offer limited liquidity since the interests are not freely transferable. Funds could have the right to suspend withdrawals or redemptions under certain unusual circumstances or make distributions in kind to a client in satisfaction of withdrawal requests. Investments in hedge funds are suitable only for sophisticated investors who have no need for liquidity in the investment. Further, distributions of proceeds upon a limited partner's withdrawal could be limited, in the discretion of the general partner, because of restrictions imposed upon withdrawals under the terms of the fund or pursuant to how a fund's assets are invested, or where, in the view of the general partner, the disposal of all or a part of a fund's assets to meet withdrawal requests would be prejudicial to the non-withdrawing limited partners. Furthermore, until such time as it is distributed to a withdrawing partner, the portion of the withdrawal request that is not yet satisfied as of a withdrawal date will remain invested in, and therefore still be subject to, the risks of the fund. In addition, the general partner, by written notice to any limited partner, could suspend the payment of withdrawal proceeds payable to such limited partner if the general partner reasonably deems it necessary to do so to comply with anti-money laundering regulations applicable to the fund, the general partner, the investment manager, the administrator, the sub-administrator and their affiliates, subsidiaries, or associates or any of the fund's other service providers. Also, certain limited partners could invest on different terms that, among other things, provide access to information that is not generally available to other limited partners of the fund and, as a result, could be able to act on such additional information (i.e., withdraw their capital accounts) that other limited partners do not receive.

**Gates, Suspensions and Withdrawal Fees.** Funds' terms could permit distribution of assets in kind rather than in cash, the suspension of withdrawals or the imposition of limiting "gates," any of which could preclude a client from liquidating all or a portion of its interest in such fund as anticipated. Accordingly, a limited partner seeking to withdraw all, or a portion of its capital account could be subject to the market risks of a fund until such time as the fund has established the applicable withdrawal date(s) for fixing the fund's net asset value. A fund also could charge withdrawal fees which would diminish the proceeds otherwise payable to the client.

Events in the world financial markets could materially adversely affect funds, potentially limiting a client's ability to fully exercise its withdrawal rights from funds due to "gates," suspensions, and distributions in kind. In some cases, fund managers could also suspend the determination of the net asset value of all or a portion of their portfolios. The absence of such valuations will make it more difficult for the Investment Adviser to accurately value a portfolio.

**Withdrawals In Kind.** A fund could, in certain circumstances, pay withdrawal proceeds in kind. Such withdrawal proceeds could include, without limitation, interests in a special purpose vehicle or some other method (or combination thereof), which the general partner determines to be equitable under the circumstances.

Determinations as to what form of withdrawal proceeds will be paid could be made at any time, including before or after the effective date of a withdrawal. The costs and expenses attributable to such method will be allocated among limited partners as determined in good faith by the general partner. To the extent a fund meets a withdrawal request with a distribution in kind of interests in one or more investments, such limited partner will continue to be subject to the investment risks associated with such investments and will be subject to any limitations or notice requirements imposed by the terms of such investments on withdrawal or liquidation. In addition, the terms of such investments could prohibit or impose significant limitations on the investment holder's ability to sell or otherwise transfer interests in such investments. Consequently, although a fund's obligation to meet a limited partner's withdrawal request is fulfilled on the date the fund distributes investments with a value as of the withdrawal date equal to the withdrawal value owed to such limited partner, the investments distributed in kind to such limited partner will continue to fluctuate in value after withdrawal and will be subject to any applicable management fees or performance-based allocations or fees and expenses of such investment and the limited partner's ability to realize the cash value of such investments could be significantly delayed or limited. Distributions in kind of investments are subject to the valuation risks associated with such investments.

In-kind distributions could be comprised of, among other things, participations or other derivative

instruments referring to certain assets of a fund, interests in special purpose vehicles or trading vehicles holding financial instruments also being held or that were held by the fund.

**Performance Estimates.** The Investment Adviser has limited ability to assess the accuracy of the valuations received from the fund managers. Furthermore, the net asset values received by the Investment Adviser from such fund managers typically are estimates only, subject to revision through the end of each fund's annual audit.

**Volatility.** Some of the fund managers selected by the Investment Adviser could hold a relatively limited number of investments. Thus, the aggregate returns realized by a portfolio could be adversely affected by a small number of investments. Further, while the Investment Adviser could allocate a portfolio's assets among fund managers with differing styles and techniques, there are no fixed allocation percentages. There is the risk that a disproportionate share of a portfolio's assets could be committed to one or more strategies or techniques. The Investment Adviser does not seek to manage correlation risk. This is the risk that different fund managers could invest in the same securities or sectors. This would result in less diversification than would be suggested by the number of fund managers being employed. A portfolio is subject to the risk that the funds, their underlying investments or the portfolio will incur volatile changes in value resulting from the rapid and/or unanticipated incurrence of profit and loss.

The allocation of a portfolio's assets to new or emerging fund managers or fund managers who utilize unusual investment strategies or asset classes could subject a portfolio to greater volatility due to the greater difficulty in assessing the track records or analyzing the investment strategies and relevant risks of such fund managers than fund managers with longer track records or more conventional strategies.

The allocation of a portfolio's assets to fund managers in response to particular market conditions could increase volatility and potential for loss if such market conditions change unexpectedly.

**Investment and Trading Risks in General.** All investments made by a portfolio risk the loss of capital. Fund managers could utilize such investment techniques as margin transactions, short sales, option transactions and forward and futures contracts, which practices can, in certain circumstances, increase the adverse impact to which a portfolio could be subject. No guarantee or representation is made that a portfolio's investment program will be successful and investment results could vary substantially over time.

**Withdrawals from Investment Vehicles; Re-Allocation of Investments.** In addition to the risks associated with "Limited Liquidity and Information Rights" described above, a portfolio could have limited rights pursuant to which it could withdraw, transfer, or otherwise liquidate its investments in funds. Under a fund's governing documents' terms, the ability of a portfolio to withdraw any amount invested in a fund could be subject to certain restrictions and conditions, including restrictions on the withdrawal of capital for an initial period, restrictions on the amount of withdrawals and the frequency with which withdrawals can be made, and investment minimums which must be maintained. Additionally, the funds typically reserve the right to reduce or suspend withdrawals and to satisfy withdrawals by making distributions in-kind, under certain circumstances. The ability of limited partners to withdraw all or any portion of their capital accounts could be adversely affected to varying degrees by such restrictions depending on, among other things, the length of any restricted periods imposed by the funds, the amount and timing of a requested withdrawal by a limited partner in relation to the time remaining of any restricted periods imposed by related funds, the aggregate amount of withdrawal requests, the next regularly scheduled withdrawal dates of such funds, the imposition of suspensions, the decision by a fund to satisfy withdrawals in kind, and the satisfaction of other conditions.

Events in the world financial markets could materially adversely affect funds, potentially limiting a portfolio's ability to fully exercise its withdrawal rights from funds due to suspensions and distributions in kind. Additionally, in some cases, fund managers could also suspend the determination of the net asset value of all or a portion of their portfolios. The absence of such valuations will make it more difficult for the Investment Adviser to accurately value a portfolio.

**Turnover.** Certain fund managers could invest based on short-term market considerations. Their turnover rate is expected to be significant, potentially involving substantial brokerage commissions and fees. The Investment Adviser has no direct control over this turnover. Furthermore, if a fund manager is terminated by the Investment Adviser, it is expected that such investment would be liquidated, and the cash proceeds would be reinvested with a replacement fund manager or invested in another fund.

**Proxy Contests and Unfriendly Transactions.** Funds in which a portfolio invests could purchase securities of a company which is the subject of a proxy contest in the expectation that new management will be able to improve the company's performance or effect a sale or liquidation of its assets so that the price of the company's securities will increase. If the incumbent management of the company is not defeated or if new management is unable to improve the company's performance or sell or liquidate the company, the market price of the company's securities will typically fall, which could cause the fund (and, therefore, the portfolio) to suffer a loss.

In addition, where an acquisition or restructuring transaction or proxy fight is opposed by the subject company's management, the transaction often becomes the subject of litigation. Such litigation involves substantial uncertainties and could impose substantial cost and expense on a fund participating in the transaction.

**Trading in Securities and Other Investments That Could be Illiquid.** Certain investment positions in which funds and, therefore, a portfolio have a direct or indirect interest could be illiquid. Fund managers could invest in restricted or non-publicly traded securities, securities on non-U.S. exchanges, securities that the funds are contractually prohibited from disposing of and securities for which no readily available market exists. These investments could prevent fund managers from liquidating unfavorable positions promptly and subject a portfolio to substantial losses. Furthermore, the valuation of illiquid investments is complex and uncertain, and there can be no assurance that a fund manager's valuation will accurately reflect the value that will be realized by a fund upon the eventual disposition of such investment. Disposition of such illiquid investments could also result in distributions in kind to a portfolio. Such investments could also impair a portfolio's ability to distribute withdrawal proceeds to a withdrawing limited partner in a timely manner.

**Futures and Derivative Instruments.** Fund managers could invest in certain futures contracts, including stock index futures contracts, futures contracts on government securities, interest rates, non-U.S. currencies, metals and energy products, and such fund managers could trade options on such futures contracts, including purchasing call options, writing (selling) naked or covered call options and purchasing or selling put options on such futures contracts. Such fund managers could also purchase or sell options on securities and securities indices.

In addition, such fund managers could enter into forward contracts, currency transactions and various swap and swap-like arrangements. Futures contracts markets are highly volatile and are influenced by a variety of factors, including national and international political and economic developments. The profitability of such an investment depends on the ability of the fund manager to analyze the commodity markets correctly, which are influenced by, among other things, changing supply and demand relationships, weather, governmental, agricultural, commercial and trade programs and policies designed to influence commodity prices, world political and economic events, and changes in interest rates. Fund managers have no control over the factors that affect the price of commodities. Accordingly, the value of a fund could change substantially and in a rapid and unpredictable manner, which could adversely affect the performance of a portfolio.

In addition, because of the low margin deposits normally required in futures trading, a high degree of leverage is typical in a futures trading account (as margin is usually only 5%-15% of the face value of the contract and exposure can be nearly unlimited). As a result, a relatively small price movement in a futures contract could result in substantial losses to the trader. Moreover, futures positions are marked to market each day and variation margin payments must be paid to or by a trader.

Positions in futures contracts could be closed out only on the exchange on which they were entered into or through a linked exchange, and no secondary market exists for such contracts. Although the fund managers typically enter into futures contracts only if an active market exists for the contracts, no assurance can be given that an active market will exist for the contracts at any given time. Certain futures exchanges do not permit trading in particular futures contracts at prices that represent a fluctuation in price during a single day's trading beyond certain set limits. If prices fluctuate during a single day's trading beyond those limits, a fund manager could be prevented from promptly liquidating unfavorable positions and thus be subjected to substantial losses.

In addition, the Commodity Futures Trading Commission (the "CFTC") and futures exchanges have established limits referred to as "speculative position limits" on the maximum net long or net short position which any person could hold or control in particular commodity or financial futures contracts. For purposes of complying with speculative position limits, a fund manager's outright positions (i.e., those that are not bona fide hedge positions or spread positions specifically exempted from speculative limits) held by all accounts owned or controlled by a fund and its fund manager will be aggregated for the purposes of determining compliance with position limits, and, as a result, a fund manager could be unable to take positions in particular futures contracts or could be forced to liquidate positions in particular futures contracts. Such modification or liquidation, if required, could adversely affect the operations and profitability of the fund.

When used for hedging purposes, an imperfect or variable degree of correlation between price movements of the futures contracts and the underlying investment sought to be hedged could prevent a fund manager from achieving the intended hedging effect or expose such fund manager (and, therefore, a portfolio) to the risk of loss.

Unlike trading on U.S. futures exchanges, trading on non-U.S. futures exchanges is not regulated by the CFTC and could be subject to greater risks than trading on U.S. exchanges. For example, some non-U.S. exchanges are principal markets, with no common clearing facility, and a trader could look only to the broker for performance of the contract. In addition, unless a fund manager hedges against fluctuations in the exchange rate between the U.S. dollar and the currencies in which trading is done on non-U.S. exchanges, any profits that a fund manager (and, therefore, a portfolio) might realize in trading could be eliminated by adverse changes in the exchange rate, or the fund manager (and, therefore, a portfolio) could incur losses as a result of those changes.

Use of other derivative instruments presents many of the same risks as those discussed above regarding futures contracts, including those risks relating to volatility, liquidity, hedging and non-U.S. trading.

**Options.** An option is a derivative contract that grants the holder the right, but not the obligation, to buy or sell a security or other financial asset at an agreed upon price either during a specific period of time or on a specific date. Options trading involves certain specific risks. Specific market movements of the option and the instruments underlying an option cannot be predicted. No assurance can be given that a liquid offset market will exist for a particular option or at a particular time. If no liquid offset market exists, a fund manager might not be able to effect an offsetting transaction in a particular option. To realize any profit in the case of an option, therefore, the option holder would need to exercise the option and comply with margin requirements for the underlying instrument. A writer could not terminate the obligation until the option expired or the writer was assigned an exercise notice. The purchaser of an option is subject to the risk of losing the entire purchase price of the option. The writer of an option is subject to the risk of loss resulting from the difference between the premium received for the option and the price of the futures contract underlying the option that the writer must purchase or deliver upon exercise of the option. The writer of a naked option could have to purchase the underlying contract in the market for substantially more than the exercise price of the option to satisfy his delivery obligations. This could result in a large net loss.

Stock or index options that could be purchased or sold by a fund manager could include options not traded on a securities exchange. The risk of nonperformance by the obligor on such an option could be

greater and the ease with which a fund manager can dispose of or enter into closing transactions with respect to such an option could be less than in the case of an exchange traded option.

**Non-U.S. Securities.** A portfolio could invest with fund managers that in turn invest in non-U.S. securities. Non-U.S. securities involve certain risk factors not typically associated with investing in U.S. securities, including risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar and the various non-U.S. currencies in which a fund's portfolio securities are denominated, and costs associated with conversion of investment principal and income from one currency into another; (ii) differences between the U.S. and non-U.S. securities markets, including potential price volatility in and relative illiquidity of some non-U.S. securities markets, the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation; (iii) certain economic and political risks, including potential exchange control regulations and potential restrictions on non-U.S. investment and repatriation of capital; and (iv) with respect to certain countries, there is a possibility of expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains, other income or gross sale or disposition proceeds, limitations on the removal of funds or other assets of a portfolio, political or social instability or diplomatic developments that could affect investments in those countries.

**Forward Trading.** A portfolio could invest with fund managers that in turn could enter into forward contracts and options thereon. Forward contracts and options thereon, including non-deliverable forwards, are currently not traded through clearinghouses, although this is expected to change. The principals who deal in the forward contract market are not required to continue to make markets in such contracts and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with a spread between the price at which they were prepared to buy and that at which they were prepared to sell that was unusually wide. Disruptions can occur in any market traded by the fund managers due to unusually high trading volume or price risk limitations, political intervention, or other factors. The imposition of controls by governmental authorities might also limit such forward (and futures) trading to less than that which the fund managers would otherwise recommend, to the possible detriment of a fund. Market illiquidity or disruption could result in major losses to a portfolio. In addition, funds in which a portfolio is invested could be exposed to the credit risks of counterparties with whom the fund managers trade, as well as risks relating to settlement default. Such risks could result in substantial losses to a portfolio. To the extent possible, the Investment Adviser endeavors to select fund managers that it believes will deal only with counterparties that are creditworthy and reputable institutions, but such counterparties may not be rated investment grade.

**Currency Trading.** A portion of a portfolio's assets could be invested with fund managers in debt and listed and unlisted equity securities denominated in various currencies and in other financial instruments, the price of which is determined with reference to such currencies. A portfolio, however, values its investments and other assets in U.S. dollars. To the extent unhedged, the value of a portfolio's net assets will fluctuate with U.S. dollar exchange rates as well as with price changes of a fund manager's investments in the various local markets and currencies. Forward currency contracts and options could be utilized by fund managers to hedge against currency fluctuations, but fund managers are not required to hedge and there can be no assurance that such hedging transactions, even if undertaken, will be effective.

**Risk of Counterparty Default.** The stability and liquidity of repurchase agreements, swap transactions, forward transactions and other over-the-counter derivative transactions depend in large part on the creditworthiness of the parties to the transactions. It is expected that a fund manager will monitor on an ongoing basis the creditworthiness of firms with which it enters into repurchase agreements, interest rate swaps, caps, floors, collars or other over-the-counter derivatives. If there is a default by the counterparty to such a transaction, the fund manager will, under most normal circumstances, have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights could involve delays or costs which could result in the net asset value of the fund being less than if the fund had not entered into the transaction. Furthermore, there is a risk that any of such counterparties

could become insolvent and/or the subject of insolvency proceedings. If one or more of a fund's counterparties were to become insolvent or the subject of insolvency proceedings in the United States (either under SIPA or the United States Bankruptcy Code), there exists the risk that the recovery of such fund's securities and other assets from such prime broker or broker-dealer will be delayed or be of a value less than the value of the securities or assets originally entrusted to such prime broker or broker-dealer.

In addition, a fund could use counterparties, located in jurisdictions outside the United States. Such local counterparties are subject to the laws and regulations in non-U.S. jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to a fund's assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of their insolvency on a portfolio or fund and their assets. A client should assume that the insolvency of any counterparty would result in a loss to its portfolio through the funds, which could be material.

**Highly Volatile Markets.** The risk of volatility is inherent in all investments. In particular, the prices of commodities contracts and all derivative instruments, including futures and options prices, are highly volatile. Price movements of forward contracts, futures contracts, and other derivative contracts in which a fund's assets could be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies and interest rate related futures and options. Such intervention often is intended directly to influence prices and could, together with other factors, cause all such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. Fund managers also are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses.

**Short Selling.** Fund managers could engage in short sales. Selling securities short creates the risk of losing an amount greater than the amount invested. Short selling is subject to the theoretically unlimited risk of loss because there is no limit on how much the price of a stock could appreciate before the short position is closed out. A short sale could result in a sudden and substantial loss if, for example, an acquisition proposal is made for the subject company at a substantial premium over the market price. Irrespective of the risk control objectives of a fund, such a high degree of leverage necessarily entails a high degree of risk.

**Bank Debt.** Certain fund managers invest in bank loans and participations. Risks associated with these obligations include, but are not limited to, inadequate perfection of the security interest granted under the loan documents, the possible invalidation or compromise of a loan transaction as a fraudulent conveyance or preference under relevant creditors' rights laws; the validity and seniority of bank claims and guarantees; environmental liability that may arise with respect to collateral; adverse consequences resulting from participating in such instruments with other institutions with lower credit quality; long and less certain settlement periods; limitations on the ability of the fund manager to directly enforce its rights with respect to participations and illiquidity in the market for the resale of such loans.

**Leverage.** A fund manager could choose to use leverage as part of its investment program. The use of leverage poses a significant degree of risk and enhances the possibility of a significant loss in the value of the investment portfolio. The fund manager could borrow money from time to time to purchase or carry securities. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the securities purchased or carried and will be lost in the event of a decline in the market value of such securities. Gains realized with borrowed funds could cause the fund's net asset value to increase at a faster rate than would be the case without borrowings. If, however, investment results fail to cover the cost of borrowings, the fund's net asset value could also decrease faster than if there had been no borrowings. Furthermore, there is a risk of greater loss on investments than would otherwise be the case if borrowed funds had not been used to make such investments.

The use of short-term margin borrowings subjects an investment portfolio to additional risks, including the possibility of a “margin call,” pursuant to which the fund must either deposit additional funds with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden, precipitous drop in the value of the fund’s assets, the fund might not be able to liquidate assets quickly enough to pay off its margin debt. This could result in the forced liquidation of assets of the fund at substantially depressed prices. A forced sale of assets at unfavorable prices might also occur during a period where there is an overall decline in the securities market which might reduce overall liquidity in such market and thus further accelerate a decline in the sales price of assets of the fund.

**Hedging Transactions.** The fund managers could invest in securities and utilize financial instruments, including, but not limited to, forward contracts, currency options and interest rate swaps, caps and floors both for investment purposes and hedging purposes in order to: (i) protect against possible changes in the market value of portfolio positions resulting from fluctuations in the securities markets and changes in interest rates, (ii) protect the unrealized gains in the value of portfolio positions, (iii) facilitate the sale of any such investments, (iv) enhance or preserve returns, spreads or gains on any investment in a portfolio, (v) hedge the interest rate or currency exchange rate on any liabilities or assets, (vi) protect against any increase in the price of any securities which purchase is anticipated at a later date or (vii) for any other reason that such fund manager deems appropriate.

Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the portfolio positions’ value. Such hedging transactions also limit the opportunity for gain if the value of the portfolio position should increase. Moreover, it may not be possible for the funds to hedge against an exchange rate, interest rate or security price fluctuation that is so generally anticipated that the fund is not able to enter into a hedging transaction at a price sufficient to protect its assets from the decline in value of the portfolio positions anticipated as a result of such fluctuations.

The funds are not required to attempt to hedge portfolio positions and, for various reasons, could determine not to do so. Furthermore, a fund may not anticipate a particular risk to hedge against it. While a fund could enter into hedging transactions to seek to reduce risk, such transactions could result in a poorer overall performance for such fund than if such fund had not engaged in any such hedging transactions. Moreover, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio position being hedged could vary. For a variety of reasons, a fund would perhaps not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation could prevent such fund from achieving the intended hedge or expose such fund to risk of loss. In addition, it should be noted that a portfolio will always be exposed to certain risks that cannot be hedged, such as credit risk (relating both to securities and counterparties) and liquidity risk.

**Corporate Debt Obligations.** Certain fund managers invest in corporate debt obligations and other forms of indebtedness, including commercial paper. Corporate debt obligations are subject to the risk of an issuer’s inability to meet principal and interest payments on the obligations.

**Lower-Rated Securities.** The fund managers could invest and transact in lower-rated fixed income securities and other instruments, sometimes referred to as “high yield” or “junk” bonds. Lower-rated securities could include securities that have the lowest rating or are in default. Investing in lower-rated securities involves special risks in addition to the risks associated with investments in higher-rated fixed income securities, including a high degree of credit risk. Lower-rated securities could be regarded as predominately speculative with respect to the issuer’s continuing ability to meet principal and interest payments. Analysis of the creditworthiness of issuers/issues of lower-rated securities could be more complex than for issuers/issues of higher quality debt securities. Lower-rated securities could be more susceptible to losses and real or perceived adverse economic and competitive industry conditions than higher-grade securities. Securities that are in the lowest rating category are considered to have extremely poor prospects of ever attaining any real investment standing, to have a current identifiable vulnerability

to default and to be unlikely to have the capacity to pay interest and repay principal. The secondary markets on which lower-rated securities are traded could be less liquid than the market for higher-grade securities. Less liquidity in the secondary trading markets could adversely affect and cause large fluctuations in the value of such investments. Adverse publicity and investor perceptions could decrease the values and liquidity of lower-rated securities, especially in a thinly traded market.

Furthermore, with respect to certain residential and commercial mortgage-backed securities, it is difficult to obtain current reliable information regarding delinquency rates, prepayment rates, servicing records, as well as updated cash flows.

The use of credit ratings as the sole method of evaluating lower-rated securities can involve certain risks. For example, credit ratings evaluate the safety of principal and interest payments, not the market value risk of lower-rated securities. In addition, credit rating agencies could fail to change credit ratings in a timely fashion to reflect events since the security was rated.

**U.S. Government Securities.** Certain fund managers could invest in U.S. Government securities. Generally, these securities include U.S. Treasury obligations and obligations issued or guaranteed by U.S. Government agencies, instrumentalities, or sponsored enterprises. U.S. Government securities also include Treasury receipts and other stripped U.S. Government securities, where the interest and principal components of stripped U.S. Government securities are traded independently. These securities are subject to market and interest rate risk. A fund manager could also invest in zero coupon U.S. Treasury securities and in zero coupon securities issued by financial institutions, which represent a proportionate interest in underlying U.S. Treasury securities. A zero-coupon security pays no interest to its holder during its life, and its value consists of the difference between its face value at maturity and its cost. The market prices of zero-coupon securities generally are more volatile than the market prices of securities that pay interest periodically.

**Use of Swap Agreements.** Fund managers could use equity, interest rate, index, and currency swap agreements. Swap agreements are two-party contracts entered into primarily by institutional investors for periods ranging from a few weeks to more than a year. In a standard swap transaction, two parties agree to exchange the returns earned on specified assets, such as the return on, or increase in value of, a particular dollar amount invested at a particular interest rate, in a particular non-U.S. currency, or in a “basket” of securities representing a particular index. The use of swaps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary securities transactions. Interest rate swaps, for example, do not typically involve the delivery of securities, other underlying assets, or principal. Accordingly, the market risk of loss with respect to an interest rate swap is often limited to the amount of interest payments that the fund manager is contractually obligated to make on a net basis.

**Significant Positions.** Portfolio companies in which a fund could invest could have a relatively small aggregate number of outstanding shares, so that the fund could acquire (i) more than 5% of a class of securities of a single issuer which would require the filing of a Schedule 13D or 13G statement with the SEC or (ii) more than 10% of a class of securities of a single issuer (which would impose certain limitations on the fund’s ability to trade in such securities, including the restrictions of Section 16 of the Securities Exchange Act of 1934, as amended). The accumulation of such a significant position in the shares of a single issuer could lead to litigation or disputes in the event a fund desires to influence the issuer. A fund could also seek to challenge the management of a portfolio company through a proxy contest. Such litigation or proxy contest could result in substantial expense to the fund, thus reducing the value of a portfolio’s investment in that fund. In addition, a fund manager could serve on the board of directors of one or more portfolio companies. As a result, the fund manager would become an insider and could have access to material nonpublic information affecting the portfolio company, which could preclude the fund from selling its position (or acquiring additional shares) at any time when the fund manager otherwise believes it would be appropriate to do so.

Moreover, a fund’s ability to realize value from certain of its investments could depend upon the ability of the fund manager to influence the management of a portfolio company to take certain actions, including,



for example, a recapitalization, restructuring, spin-off, sale of the business or change in management. If the fund manager is incorrect in its assessment of the impact such action will have on the value of a portfolio company, or if it is unsuccessful in persuading the portfolio company's management to take the desired action, the fund could sustain a loss on its investment in the portfolio company, resulting in a reduction of the value of a portfolio's investment in the fund.

**Independent Fund Managers; Offsetting Positions.** The fund managers invest wholly independently of one another and could at times hold economically offsetting positions. To the extent that the fund managers do, in fact, hold such positions, a portfolio, considered as a whole, cannot achieve any gain or loss despite incurring expenses.

**Interest Rate Risk.** It is expected that the fund managers will be subject to interest rate risk. Generally, the value of fixed income securities will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed income securities tends to increase. This risk will be greater for long-term securities than for short-term securities. The fund managers could attempt to minimize the exposure of the portfolios to interest rate changes by using floating rate credit instruments (such as credit default swaps), interest rate swaps, interest rate futures and/or interest rate options. In addition, offsetting long and short positions can mitigate interest rate exposure in the portfolio. However, there can be no guarantee that the fund managers will be successful in fully mitigating the impact of interest rate changes in their respective portfolios.

**Risk of Indirectly Investing in "Side Pockets".** Certain funds could invest a portion of their assets in investments that are illiquid, lack a readily assessable market value or should be held until the resolution of a special event or circumstance. In those situations, a fund manager could "side pocket" such investments by placing them in a separate class or series within the relevant fund that is subject to limited or no liquidity rights. Clients participating in a fund at the time when its manager "side pockets" such investments will bear additional risks associated with such investments because the fund may not have a mechanism to segregate such "side-pocketed" investments from the rest of its portfolio. Furthermore, funds could themselves be highly illiquid investments, including funds that are structured as private equity funds.

**Proprietary Investment Strategies.** Fund managers could use proprietary investment strategies that are based on considerations and factors that are not fully disclosed to the Investment Adviser. These strategies could involve risks under some market conditions that are not anticipated by the Investment Adviser. The fund managers generally use investment strategies that are different than those typically employed by traditional managers of portfolios of stocks and bonds. The investment niche, arbitrage opportunity or market inefficiency exploited by a fund manager could become less profitable over time as the fund manager and competing asset managers or investors manage a larger group of assets in the same or similar manner (tending to arbitrage away the profit opportunities), or market conditions change. The strategies employed by the fund managers could involve significantly more risk and higher transaction costs than more traditional investment methods.

The Investment Adviser seeks to reduce these risks by spreading the investments of a portfolio among a variety of different fund managers using investment strategies with returns that are not highly correlated with one another so that the volatility of different strategies (the profits from one fund manager and the losses from another) tends to reduce the overall fluctuation in value of a portfolio's assets. It is possible that the performance of the fund managers could be closely correlated in some market conditions, resulting (if those returns are negative) in significant losses to a portfolio.

**Risk Management Activities.** The Investment Advisor attempts to measure and monitor risks of the portfolio and the fund managers. The amount and quality of risk due diligence, measurement and monitoring is dependent on access to the portfolios and risk management systems (if any) of the fund managers. There is no assurance that the fund managers will give access to this data. When this information is unavailable, estimates of risk will be made. Efforts to measure and reduce risk could prove unsuccessful.

### ***Risks Related to Investing in Real Estate Funds***

**Risks Vary by Strategy.** The Investment Adviser will make investments in funds that invest in office, apartment, industrial, retail, and other commercial real estate properties. Accordingly, portfolios will be subject to the risks incident to the ownership and development of real estate, including risks associated with changes in the general economic climate that create vacancy or put downward pressure on rental rates, changes in the overall real estate market, local real estate conditions, the financial condition of tenants, buyers and sellers of properties, supply of or demand for competing properties in an area, accelerated construction activity, technological innovations that dramatically alter space requirements, the availability of debt and other financing, changes in interest rates, competition based on rental rates, energy and supply shortages, various uninsured and uninsurable risks (including possible terrorist activity), and government regulations. Furthermore, there can be no assurance that there will be tenants or purchasers for the office/commercial space or residential units ultimately developed. Many of the properties in a fund could be illiquid and susceptible to economic slowdowns or recessions and industry cycles. An economic slowdown or recession, in addition to other non-economic factors such as an excess supply of properties, could have a material negative impact on the values of commercial real estate properties and lead to a lack of available capital from potential lenders or investors. If commercial real estate property values decrease materially, it could cause borrowers to default on their mortgages or negotiate more favorable terms and conditions. All these factors could adversely affect the value of the assets held by funds.

Real estate development and repositioning is a highly competitive business which involves significant risks. In particular, because of the long lead-time between the inception of a project and its completion, a well-conceived project could be subject to changes in the real estate market and/or changes in economic and/or other conditions prior to its completion (including resulting from the construction of competing projects), becoming an economically unattractive investment. In addition, real estate development involves the risk that construction may not be completed within budget or on schedule because of cost overruns, unforeseen construction difficulties, work stoppages, shortages of building materials, the inability of contractors to perform their obligations under construction contracts, defects in plans and specifications, failure to obtain necessary entitlements, or other factors. Any delay in completing a project could result in increased interest and construction cost, the potential loss of purchasers or tenants, increased competition from other projects, and the possibility of defaults under project financings. In addition, the demand for quality commercial real estate projects is largely dependent upon the continued economic growth of the markets and submarkets in which these projects are located. There can be no assurance that such economic growth or demand for such projects will continue in the markets in which the Investment Adviser or the funds make their investments or that the actual occupancy and/or rental rates for the real property in the funds will not be less than the projected occupancy and/or rental rates used in determining whether to make such investments. Furthermore, increased real estate development in such markets could lead to periods of oversupply and result in vacancies, lower rentals, and lower sale prices for real estate projects.

**Risks Involved in Leases.** Investments in real estate typically receive a significant portion of their income as lease payments, and therefore their returns often depend to a large extent on the amount of rental income generated from the properties and the expenses incurred by managing the properties, as well as on changes in their market value. The market values are in turn affected by the rental incomes realizable on, and expenses associated with, the properties. Rental incomes received by funds and the value of their properties could be adversely affected by the cyclical nature of the real estate market, the perceptions of prospective tenants of the attractiveness, convenience and safety of the locations, the level of supply and demand, competition, the periodic need to repair and renovate, costs of maintenance and insurance and increased operating costs. The funds will have no control over the success or failure of tenants' business. If a lease is terminated, there can be no assurance that the property will be re-leased for the rent previously received or sell the property without incurring a loss. In addition, the funds could

acquire leasehold interests in respect of properties that are the subject of a ground lease, where third-party owners hold the fee interest in those properties (each, a "Fee Owner"). In such cases, the fund's interest in such a property will be subordinate to the Fee Owner's interest in that property, and the fund's investment in the leasehold interest will be subject not only to the potentially competing interests of the Fee Owner, but also to interests held by third parties, such as mortgages or other liens that encumber the Fee Owner's fee interest and which could be superior and potentially adverse to the interests of the fund. A default by the Fee Owner under any of these competing interests and the enforcement or foreclosure of those interests by the holders thereof could also result in the termination or impairment of the fund's leasehold interest. In addition, any bankruptcy or insolvency of the Fee Owner could potentially impair or terminate the fund's leasehold interest. This risk is increased if the fee interest were itself subject to financing liens. In the event of the Fee Owner's bankruptcy, there can be no assurance that a tenant will not acquiesce in a rejection or disaffirmance of the lease by the Fee Owner or its trustee in bankruptcy, or that the Fee Owner's bankruptcy trustee will not seek to sell the property free and clear of the lease.

**Eminent Domain.** Municipalities and other government subdivisions could, in certain circumstances, seek to acquire certain assets held by a fund through eminent domain proceedings. While the fund could seek to contest these proceedings, which could be costly and could divert the attention of the fund manager from the operation of the fund, there can be no assurance that a municipality or other government subdivision will not succeed in acquiring such assets. In such event, there is a risk that the fund will not achieve adequate compensation for the assets acquired or that the fund will not be able to recover all charges associated with divesting these assets.

**Insurance-Related Risks.** Insurance on mortgage loans, real estate and real estate securities collateral may not cover all losses. There are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes, terrorism or acts of war that could be uninsurable or not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations, and other factors, including terrorism or acts of war, also might make the insurance proceeds insufficient to repair or replace a property if it is damaged or destroyed. Further, inadequate insurance coverage against liability for personal injury and property damage in the event of accidental or other casualty events. Under these circumstances, the insurance proceeds received might not be adequate to restore their economic position with respect to the affected real property. In addition, the mortgage loans that are secured by certain properties contain customary covenants, including covenants that require a fund or its investments to maintain property insurance in an amount equal to the replacement cost of the properties. There can be no assurance that the lenders under the relevant mortgage loans will not take the position that exclusions from coverage for losses is a breach of a covenant that, if uncured, could allow the lenders to declare an event of default and accelerate repayment of the mortgage loans.

**Default and Foreclosure Risks.** A fund could be exposed to losses resulting from default and foreclosure. The liquidation proceeds upon the sale of such asset could potentially not satisfy the entire outstanding balance of principal and interest on the loan, resulting in a loss. Any costs or delays involved in the effectuation of a foreclosure of the loan, or a liquidation of the underlying property could further reduce the proceeds and thus increase the loss.

**Risks of Environmental Liabilities.** A fund's investments could be subject to various U.S. and non-U.S. environmental laws, regulations, and administrative rulings which, among other things, establish standards for the treatment, storage, and disposal of solid and hazardous waste, and which vary greatly according to the site, the site's environmental conditions and the present and former use of the site. Real estate is subject to a variety of local, state, federal and non-U.S. statutes, ordinances, rules, and regulations concerning the protection of health and the environment. Environmental laws could result in delays, could cause the fund or its investments to incur substantial compliance and other costs and could prohibit or severely restrict development in certain environmentally sensitive regions or areas. Furthermore, under various federal, state, local and non-U.S. laws, ordinances and regulations, a past or present owner of real property could be liable for the costs or removal or remediation of certain hazardous or toxic substances on or in such property. Such laws often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances.

The cost of any required remediation and the owner's liability therefore as to any property are generally not limited under such laws and could exceed the value of the property and/or the aggregate assets of the owner. The presence of such substances, or the failure to properly remediate contamination from such substances, could adversely affect the owner's ability to sell the real estate or to borrow using such property as collateral. Environmental laws could result in delays, could cause a fund or its investments to incur substantial compliance and other costs and could prohibit or severely restrict development in certain environmentally sensitive regions or areas.

### ***Risks Related to Manager of Managers***

**Dependence on Investment Managers.** PSS advises clients on the selection of investment management firms based on PSS's in-depth underwriting of those firms in tandem with the clients' stated investment objectives. Decisions made by those investment managers could cause clients to incur losses or to miss profit opportunities on which clients could have otherwise capitalized.

**Multiple Levels of Fees and Expenses.** Investment management firms recommended to clients by PSS will charge fixed management fees and, in certain instances, performance-based fees, which will be in addition to the advisory fee clients pay to PSS. Moreover, there can be mandate-specific expenses that investment managers expect clients to pay. When a manager receives a performance-based fee, it could create an incentive to make investments that are riskier than those that would have been made if such an arrangement were not in effect.

**Key Investment Professionals.** Investment management firms are sometimes dependent on the services of one or a few key individuals to deliver investment performance. The loss of those key individuals could impair an investment manager's ability to achieve targeted risk-adjusted returns.

**Investment Managers Invest Independently.** When a client allocates capital to more than one investment manager, the client must be aware that those managers will invest independently of one another and, at times, hold the same positions. Consequently, a client's desired investment outcome could possibly not be achieved on an aggregate basis and could incur transaction costs without accomplishing any net investment result. In addition, such client's portfolio turnover rate could be higher. Higher turnover will result in higher transaction costs, and a client subject to tax may be required to recognize more taxable gains than if the client had lower portfolio turnover. Furthermore, it is possible that, from time to time, investment managers compete for the same positions. Similarly, the independent investment decisions of investment managers could result in an increase, rather than decrease, in the aggregate risk of a client's portfolio.

**Past Performance.** An investment manager's past performance is not indicative of its future results. Further, our manager selection process cannot ensure that investment managers will perform as anticipated.

**Lack of Control.** Apart from the prohibitions and limitations that clients express to investment managers through investment management agreements, clients and PSS will not control the investment manager, their choice of investments or other investment decisions. In addition, clients and PSS will have no control over the day-to-day operations (including compliance with applicable laws and regulations) of any investment manager. Finally, clients and PSS will have no control over the institutions selected by the investment managers for brokerage and clearing. Fraud at or the bankruptcy filing of one of those institutions could impair the investment manager's operational capabilities or the client's invested capital.

**Monitoring Investment Managers.** The client will ultimately rely on an investment manager to operate in accordance with a mandate's guidelines, as well as to report information related to the mandate accurately. While PSS performs on-going monitoring of each investment manager, PSS also will rely on a manager's accurately reporting information; therefore, while PSS will perform on-going monitoring of investment managers, we may not necessarily become aware of undesirable activities at an investment management firm, including, without limitation, unreported risks, investment style drift or even regulatory breach or fraud.

**Fraudulent Activities.** There could be a risk that an investment manager knowingly or negligently withholds or misrepresents information regarding such investment manager's performance, including the presence or effects of any fraudulent or similar activities ("Fraudulent Activities"). Our monitoring would generally not give us the opportunity to discover such situations prior to the time the investment manager discloses (or there is public disclosure of) the presence or effects of any Fraudulent Activities. Accordingly, we can offer no assurances that an investment manager will not engage in Fraudulent Activities and cannot guarantee that we will have the opportunity or ability to protect a client from suffering a loss because of an investment manager's Fraudulent Activities.

In addition, certain service providers and consultants to investment managers could engage in Fraudulent Activities (e.g., the dissemination by "expert networks" of material, non-public information regarding issuers), and the investment managers may intentionally or negligently benefit from such Fraudulent Activities. Fraudulent Activity by investment managers or service providers and consultants to investment managers could prove difficult, if not impossible, to detect. Should we learn about the occurrence of Fraudulent Activity, we will aim to prevent significant harm to clients.

**Risk Controls.** Neither the client nor PSS will control the risk controls or compliance procedures of investment managers and we can provide no assurances that the investment managers' risk controls and procedures will be adequate to avoid adverse results.

**Due Diligence Errors.** It is possible that PSS could perhaps miss or misinterpret information during the due diligence process. We have established procedures to mitigate this risk, but there is no assurance they will be successful. An investment manager could be engaged in wrongdoing that is not uncovered during the due diligence process. Because clients could invest with investment managers unaffiliated with PSS and over which PSS has no control, an investment manager could divert or abscond with a client's assets, fail to follow its stated investment strategy, issue false reports, or engage in other misconduct.

**Cybersecurity Risks.** With the increased use of technologies to conduct business, investment managers and their service providers are susceptible to operational, information security and related risks. In general, cyber incidents can result from deliberate attacks or unintentional events and may arise from external or internal sources. Cyber incidents include, but are not limited to, gaining unauthorized access to digital systems, corrupting data, equipment, or systems, or causing network services to be unavailable to intended users (i.e., "denial of service") or other operational disruption. Cyber incidents affecting the investment managers, and their service providers have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, the release of client information or confidential business information, interference with the ability to value client portfolios, impediments to trading, destruction to equipment and systems, violations of applicable privacy and other laws, regulatory fines or penalties, reputational damage, or additional compliance costs. Similar adverse consequences could result from cyber incidents affecting issuers of financial instruments in which the investment managers invest, counterparties with which the investment managers engage in transactions, governmental and other regulatory authorities, exchange and other financial market operators, banks, brokers, dealers, insurance companies and other financial institutions or parties.

### ***Risks Related to Manager of Managers' Client Portfolios***

**Asset Class Categories and Inadvertent Concentration.** When a client allocates capital to more than one investment manager, a client must be aware that those firms will invest independently of one another and may at times hold the same positions, including accumulating large positions in the same or related securities. As a result, unfavorable performance of a small number of such investments could have a substantial adverse impact on a client's overall portfolio performance.

**Risks Related to Fixed Income Investments and Strategies of Investment Managers.** The two main risks related to fixed income instruments and strategies are interest rate risk and credit risk. Typically, during periods of falling interest rates, the value of fixed income securities rises. Conversely, during periods of rising interest rates, the value of such securities declines. Generally, all fixed income securities

are subject to credit risk, which varies depending on issuers' abilities to pay the interest and principal on their outstanding obligations.

**Loans.** Loans and interests in loans have significant liquidity and market value risks since they are not generally traded in organized exchange markets but are traded by banks and other institutional investors engaged in loan syndications. Because loans are privately syndicated and loan agreements are privately negotiated and customized, loans are not purchased or sold as easily as publicly traded securities. In addition, historically the trading volume in the loan market has been small relative to the high-yield debt securities market. A non-investment grade loan obligation or an interest in a non-investment grade loan is generally considered speculative in nature and could potentially become a defaulted obligation for a variety of reasons. A defaulted obligation may become subject to either substantial workout negotiations or restructuring, which could entail, among other things, a substantial reduction in the interest rate, a substantial write-down of principal, and a substantial change in the terms, conditions, and covenants with respect to such defaulted obligation. In addition, such negotiations or restructuring could be quite extensive and protracted over time, therefore resulting in substantial uncertainty with respect to the ultimate recovery on such defaulted obligation. Liquidity options for defaulted obligations are limited, and to the extent that defaulted obligations are sold, it is highly unlikely that the proceeds from such sale will be equal to the amount of unpaid principal and interest thereon.

**Subordinated Loans.** Subordinate loans generally are subject to similar risks as those associated with investments in loans described above. Because such loans are subordinated or unsecured and thus lower in priority of payment to senior loans, they are subject to the additional risk that the cash flow of the borrower and property securing the loan or debt. If a borrower defaults on loan or on more senior debt, or in the event of a borrower bankruptcy, the loan will be satisfied only after the senior debt is paid in full. Where debt senior to a loan exists, the presence of intercreditor arrangements limits the holder's ability to amend its loan documents, assign its loans, accept prepayments, exercise its remedies (through "standstill periods") and control decisions made in bankruptcy proceedings relating to borrowers.

**High-Yield Debt or Distressed Debt.** High-yield bonds or distressed debt instruments, and other debt securities will typically be junior to the obligations of companies to senior creditors, trade creditors, and employees. The lower rating of high-yield debt reflects a greater possibility that adverse changes in the financial condition of the issuer or in general economic, financial, competitive, regulatory, or other conditions could impair the ability of the issuer to make payments of principal and interest. High-yield debt securities have historically experienced greater default rates than investment grade securities. The ability of holders of high-yield debt to influence a company's affairs will be substantially less than that of senior creditors.

The market for lower grade debt securities is usually thinner and less active than for higher grade debt securities, and thus less liquid. This could result in an underlying manager being unable to sell such securities for an extended period, if at all.

**Convertible Bond Risk.** Convertible bonds are hybrid securities that have characteristics of both bonds and common stocks and are subject to risks associated with both debt securities and equity securities. Convertible bonds that are rated below investment grade are subject to the risks associated with high-yield investments.

### ***Risks Related to Equity Securities Strategies by Underlying Managers***

**Equity Risk.** Equity securities represent an ownership interest in an issuer rather than a right to receive a specified future payment. This makes equity securities more sensitive than debt securities to changes in an issuer's earnings and overall financial condition; as a result, equity securities are generally more volatile than debt securities. Equity securities can lose value as a result of changes relating to the issuers of those securities, such as management performance, financial leverage, changes in the actual or anticipated earnings of a company, or as a result of actual or perceived market conditions that are not specific to an issuer. Even when the securities markets are generally performing strongly, there can be no assurance that equity securities held by a client's account will increase in value. Because the rights of all

of a company's creditors are senior to those of holders of equity securities, shareholders are least likely to receive any value if an issuer files for bankruptcy.

**Small Capitalization Companies.** Securities of small capitalization companies could potentially be more volatile in price, and less liquid, than those of larger, more highly capitalized, established companies and therefore pose greater investment risks. Small capitalization companies may require substantial additional capital or borrowings. There is often less publicly available information concerning such companies, making them more difficult to value. Investments in companies with limited or no operating histories are more speculative and entail greater risk than do investments in companies with an established operating record.

**Growth Stock Risk.** Securities of growth companies could potentially be more volatile since such companies usually reinvest a high portion of earnings in their businesses, and they lack the dividends of other companies that can cushion stock prices in a falling market. In addition, earnings disappointments often lead to sharply falling prices because investors buy growth stocks in anticipation of superior earnings growth.

**Value Stock Risk.** A particular risk of a value approach is that some holdings may not recover and provide the capital growth anticipated or that a stock judged to be undervalued may actually be appropriately priced. Further, because the prices of value-oriented securities tend to correlate more closely with economic cycles than growth-oriented securities, they generally are more sensitive to changing economic conditions, such as changes in interest rates, corporate earnings, and industrial production. During the periods where the market doesn't favor value-oriented stock and equities, relative performance could suffer.

#### ***Other Risks Related to Manager of Manager Investments and Strategies***

**Currency Risk.** If a client permits a mandate to hold investments denominated in unhedged currencies, the mandate may be subject to currency exchange rate volatility, including, without limitation, fluctuations in the rate of exchange between the client's home currency and the various currencies in which the mandate can invest, as well as costs associated with conversion of investment principal and income from one currency into another. It is not possible to hedge fully, perfectly or at all against currency fluctuations affecting the value of investments, and probably not economically feasible to do so. There can be no assurance of the success of any hedging operations the investment managers implement. Changes in currency exchange rates also affect the value of distributions from, and the level of gains and losses realized on, the sale of such investments. The rates of exchange between currencies are affected by many factors, including forces of supply and demand currency exchange markets. Exchange rates also are affected by the international balance of payments and other economic and financial conditions, government intervention, speculation, and other factors.

**Non - U.S. Investments.** Non-U.S. investments involve certain risks not typically associated with investing in the United States, including risks relating to: (a) currency exchange matters including fluctuations in the rate of exchange between the U.S. dollar and the various non-U.S. currencies in which non-U.S. investments may be denominated, and costs associated with conversion of investment principal and income from one currency into another; (b) differences between the U.S. and non-U.S. markets, including potential price volatility in and relative illiquidity of some non-U.S. markets; (c) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation; (d) certain economic and political risks, including potential exchange control regulations and restrictions on non-U.S. investment and repatriation of capital and the risks of political, economic or social instability; (e) obtaining non-U.S. governmental approvals and complying with non U.S. laws; (f) the imposition of non-U.S. taxes on income and gains recognized with respect to such non-U.S. Investments; (g) differing tax structures; (h) rudimentary anti-fraud and anti-insider trading legislation; (i) limited anti-dilution protection; and (j) less developed corporate laws regarding fiduciary duties and the protection of investors. The legal systems in these countries may offer no effective means for an investor to seek to enforce contractual or other legal rights or otherwise seek legal redress. Moreover, once a judgment is obtained, enforcement or collection of that judgment could

prove difficult. In addition, investments are, to a significant degree, subject to business, economic, political, and social developments in the countries in which the investment is located. Investment managers have no control over, and cannot predict, these developments or the policies or actions a national or local government may take in the future in response to these developments.

### ***Other Risks Related to Our Business***

**Risks Related to Regulation.** We operate in a heavily regulated environment and are subject to regulation by various government entities. The laws and regulations impacting our business change from time to time; currently, we are operating in an environment of significant global regulatory reform in which such changes are frequent. New or revised laws and regulations may adversely impact [Funds'/Accounts'] abilities to pursue applicable investment strategies and may increase the costs of investing and trading activities. Further, such legal and regulatory changes may increase compliance costs, some of which could be borne by market participants. We cannot predict the effects of future legal and regulatory changes on our business or the services we provide.

**Recent European Events.** Recently in Europe, many non-governmental issuers, and even certain governments, have defaulted on, or been forced to restructure, their debts; many other issuers have faced difficulties obtaining credit or refinancing existing obligations; financial institutions have in many cases required government or central bank support, have needed to raise capital, and/or have been impaired in their ability to extend credit; and financial markets in Europe and elsewhere have experienced extreme volatility and declines in asset values and liquidity. Responses to these financial problems by European governments, central banks and others, including austerity measures and reforms, may not be effective in addressing these issues.

**Risks Associated with Global Conflict.** War, conflict, and civil disturbances around the world can have significant and negative economic effects, given the increasing interconnectedness of financial markets across the world. These events can cause significant disruptions to the global financial system and international trade; for example, they may impact supply chains and commodity prices, leading to inflation. They may impact abilities of [Funds/Accounts] to source, diligence and execute investments. Further, they may result in sanctions against impacted countries, which could lead to various negative consequences as explained under "Sanctions and Related Considerations." The ultimate impact of such events and their effects on global economic and commercial activity and conditions, and on the operations, financial condition and performance of the [Funds/Accounts] and their investments, is impossible to predict. There is no guarantee that any steps taken by us to mitigate any adverse impact of these conflicts will be successful.

In February 2022, Russian troops invaded Ukraine, and the two countries remain engaged in a full-scale military conflict. Shortly after the invasion, various countries and regulatory bodies imposed economic sanctions related to this conflict, many of which remain in effect. Among other things, these sanctions prohibit certain securities trades and business, and freeze assets. They could impair or prevent our ability to receive interest and principal payments, buy, sell, hold, receive or deliver the impacted holdings, and could impact our relationship with, and/or business operations of, third parties with whom we conduct business and/or in whom Clients have been invested. Further, since October 7, 2023, Hamas, a Palestinian group which has ruled the Gaza Strip since 2007, has been engaged in ongoing military conflict with Israel. The Hamas-Israel Conflict has increased the threat of full-scale war, cyberattacks and further regional or global conflicts. It has also caused significant disruptions to the global financial system and international trade.

**Sanctions and Related Considerations.** Economic sanction laws in the United States and other jurisdictions prohibit us, our personnel, and accounts we manage from investing in or transacting with certain countries, companies and issuers, individuals, and investments. Economic sanctions, and other related laws and regulations, could make it difficult for an account to pursue certain investment opportunities and for portfolio investments to obtain or retain certain business, which could adversely impact an account, cause increased volatility and illiquidity, and impact the accuracy of valuations.



In the United States ("U.S."), the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") administers and enforces laws, executive orders and regulations establishing U.S. economic and trade sanctions, which restrict or prohibit, among other things, direct and indirect transactions with, and the provision of services to, certain non-U.S. countries, territories, individuals, and entities. These types of sanctions could significantly restrict or completely prohibit investment activities in certain jurisdictions, and violation of any such laws or regulations, could result in significant legal and monetary penalties, as well as reputational damage. OFAC sanctions programs change frequently, which can make it more difficult for us, our affiliates, or our clients to ensure compliance. Moreover, OFAC enforcement is increasing, which increases the risk that we, our affiliates or our clients become the subject of such actual or threatened enforcement.

**Sustainability Risk.** Sustainability risk means an environmental, social, or governance event or condition, that, if it occurs, could potentially or actually cause a negative material impact on the value of investments. Sustainability risk can represent a risk on its own, and can contribute significantly to other risks, such as market risks, liquidity risks or operational risks. Sustainability risks could have a negative impact on the market price of securities, and thus on the return of a fund or account. For example, climate change could lead to increasing intensity and instances of severe weather, leaving issuers vulnerable to financial hardships such as work stoppages, decreases in revenues and increased insurance premiums (or, if the issuer is an insurer, increased claims). Thus, issuers' abilities to repay debt, and value of equity securities, could be negatively impacted. Further, if issuers underestimate or fail to adequately assess sustainability risks, negative impacts of sustainability-related events on their securities would be heightened. In addition, reputational risks caused by unsustainable acts of an issuer could adversely affect the market price of its securities.

**Operational Risk.** We rely heavily on our portfolio management, trading, financial, accounting, and other data processing systems of our affiliates to implement our strategies. Operational risks arising from failed processes and systems, human error, or external events, as part of the trading lifecycle (execution, confirmation, and settlement) as well as other activities in support of our clients, could cause financial loss, disruption to our business, liability to clients or third parties, regulatory action, or reputational harm. An increase in the volume or complexity of client transactions could increase these risks.

**Certain Risks Related to Cybersecurity and Technology.** Investment advisers, including PSS, must rely in part on digital and network technologies to conduct their businesses and to maintain substantial computerized data relating to client account activities. These technologies include those owned or managed by us as well as those owned or managed by others, such as custodians, financial intermediaries, transfer agents, and other parties to which we or they outsource the provision of services or business operations.

Like all businesses that use computerized data, we and our affiliates and the systems we use are, under some circumstances, subject to a variety of cybersecurity incidents or similar events that lead to the inadvertent disclosure of data to unintended parties or are subject to the intentional misappropriation or destruction of data by malicious hackers mounting an attack on computer systems. Various actors, such as for-profit criminal hackers, engage in cyberattacks against the financial services sector. We could experience cybersecurity attacks from numerous sources. These attacks would likely be aimed at our computers, systems, networks, and cloud operations.

We and our affiliates have implemented and maintain an information technology security policy and program that includes certain technical and physical safeguards intended to protect the integrity, availability, and confidentiality of the data we have and the systems that store it. We take other commercially reasonable precautions to limit the potential for cybersecurity incidents, and to protect data from inadvertent disclosure or wrongful misappropriation or destruction.

Nevertheless, despite reasonable precautions, cybersecurity incidents occur, and in some circumstances could result in unauthorized access to sensitive information about us or our clients. In addition, such incidents might cause damage to client accounts, data or systems or affect account management.

Furthermore, our systems may fail to operate properly or become disabled as a result of events or circumstances wholly or partly beyond our or others' control. Technology failures, whether deliberate or not, including those arising from use of third-party service providers or client usage of systems to access accounts, could have a material adverse effect on our business or our clients and could result in, among other things, financial loss, reputational damage, regulatory penalties, or the inability to transact business.

**Extraordinary Events.** Extraordinary events such as natural disasters, epidemics and pandemics, power outages, terrorism, war, conflicts and social unrest can occur that have significant impacts on issuers, industries, governments and other systems, including the financial markets. As global systems, economies and financial markets are increasingly interconnected, events that once had only local impact are now more likely to have regional or even global effects. These impacts can be exacerbated by failures of governments and societies to appropriately respond to, and by public fear of, such an event or threat. For example, any preventative or protective actions taken by governments in response to such crises or events may result in periods of regional, national or international business disruption. Clients could be negatively impacted if there are fewer investment opportunities, if there is reduced credit available to borrowers, if markets are more difficult to model reducing the accuracy of projections or valuations, if the value of their portfolio holdings decreases as a result of such events, if these events adversely impact the operations and effectiveness of the adviser or key service providers, or if these events disrupt systems and processes necessary or beneficial to the management of accounts.

**Public Health Risk.** Occurrences of epidemics and pandemics, depending on their scale, could cause different degrees of damage to the national and local economies. Global economic conditions could be disrupted by widespread outbreaks of infectious or contagious diseases, and such disruption could adversely affect investment returns, despite any relevant vaccinations or treatments. There can be no certainty as to how long effects of such outbreaks will continue, particularly as markets grapple with unintended consequences of fiscal and monetary policies designed to curb any economic impact (such as inflation). These economic disruptions could negatively impact the value and performance of investments in client accounts, and there is no way to predict the extent of any such future consequences for clients.

**Risks Related to Conflicts of Interest.** Like other investment advisers, we are subject to various conflicts of interest in the ordinary course of our business. PSS is comprised of employees who service domestic and international affiliates and who manage external unaffiliated client accounts creating a conflict of interest. We strive to identify potential risks, including conflicts of interest, that are inherent in our business, and we conduct annual conflict of interest reviews. However, it is not possible to identify every potential conflict that can arise. When actual or potential conflicts of interest are identified, we seek to address such conflicts through one or more of the following methods:

- elimination of the conflict;
- disclosure of the conflict; or
- management of the conflict through the adoption of appropriate policies, procedures or other mitigants.

Various conflicts of interest are discussed throughout this document. Please review this information carefully and contact us if you have any questions.

We follow PFI's policies on business ethics, personal securities trading, and information barriers. We have adopted a code of ethics (please also see Item 11), allocation policies and conflicts of interest policies, among others, and have adopted supervisory procedures to monitor compliance with our policies. We cannot guarantee, however, that our policies and procedures will detect and prevent, or result in the disclosure of, each and every situation in which a conflict arises or could potentially arise.

## Item 9—Disciplinary Information

There are no legal or disciplinary events that would be material to an evaluation of us or the integrity of our management.

## Item 10—Other Financial Industry Activities and Affiliations

### Our Relationships with Affiliates

As an indirect, wholly owned subsidiary of PFI, we are part of a diversified, global financial services organization. We are affiliated with many types of U.S. and non-U.S. financial service providers, including insurance companies, broker-dealers, commodity trading advisors, commodity pool operators and other investment advisers. As disclosed above in Item 4, some of our employees are officers of and/or provide services to some of these affiliates.

### Relationships with Affiliated Investment Vehicles

We provide advisory services to certain domestic and Japanese insurance company affiliates and their subsidiaries, including PICA.

Some of the insurance company separate accounts, collective trusts, and mutual funds are investment options under PFI's 401(k) plan. In addition, employees that are eligible to participate in PFI's deferred compensation plan can choose to have all or a portion of their deferred amounts generate a return equal to the return of certain of the separate accounts, collective trusts or mutual funds managed by affiliates.

### Relationships with Affiliated Insurance Companies

We provide advisory services with respect to the general accounts of some of our affiliated insurance companies. We also provide advisory services with respect to the insurance company separate accounts described above. Assets of the general accounts of affiliated insurance companies constitute a material portion of our assets under management. In addition, certain of our derivatives transactions on behalf of our affiliated insurance companies and other affiliates are executed through an affiliated counterparty with whom we share certain officers.

Because of the substantial size of the general accounts of our affiliated insurance companies, trading by these general accounts, including our trades on behalf of the accounts, could affect the market prices or limit the availability of the securities or instruments transacted. Although we do not expect that the general accounts of affiliated insurers will execute transactions that will move a market frequently, and generally only in response to unusual market or issuer events, the execution of these transactions could have an adverse effect on transactions for or positions held by other clients.

### Conflicts Related to Affiliations

#### ***Conflicts Related to Investment of Client Assets in Affiliated Funds***

We invest client assets in funds affiliates manage. These investments benefit our affiliate through increasing assets under management and fees.

We believe that the conflicts related to our affiliations described above are mitigated by our rigorous and independent research and investment approval processes, our allocation policies and procedures, our supervisory review of accounts, and our procedures with respect to side-by-side management.

### **Conflicts Arising Out of Legal and Regulatory Restrictions**

- At times, we are restricted by law, regulation, executive order, contract, or other constraints as to how much, if any, of a particular security we can purchase or sell on behalf of a client, and as to the timing of such purchase or sale. Sometimes these restrictions apply as a result of our relationship with PFI and our other affiliates. For example, we do not purchase securities issued by PFI or our other affiliates for client accounts.
- In certain instances, our ability to buy or sell or transact will be constrained as a result of our receipt of material nonpublic information (please also see Item 11), various insider trading laws and related legal requirements. For example, we would generally be unable to (i) invest in, (ii) divest securities of or (iii) share investment analysis regarding companies for which we possess material nonpublic information, and such inability (which could last for an uncertain period of time until the information is no longer deemed material or nonpublic) can result in us being unable buy, sell or transact for one or more client accounts or to take other actions that would otherwise be to the benefit of one or more clients).
- Our holdings of a security on behalf of our clients are required, under certain regulations, to be aggregated with the holdings of that security by other PFI affiliates. These holdings could, on an aggregate basis, exceed certain reporting or ownership thresholds. These aggregated holdings are centrally tracked, and we or PFI can choose to restrict purchases, sell existing positions, or otherwise restrict, forgo, or limit the exercise of rights to avoid crossing such thresholds because of the potential consequences to us or PFI if such thresholds are exceeded.

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

### **Code of Ethics**

We have adopted a code of ethics as required by applicable SEC rules. The code of ethics requires employees to conduct business in an honest and forthright manner in accordance with the highest of ethical standards. In addition, the code of ethics requires employees to put client interests ahead of our own and disclose actual and potential meaningful conflicts of interest. The code of ethics references information barrier and personal securities trading standards that are described in greater detail below. Our employees are required to report any violation of the code of ethics promptly. (See Items 6 and 10 for a description of conflicts of interest related to our side-by-side management of accounts and to our affiliations.) We will provide you with a copy of our code of ethics upon request.

### **Receipt of Material, Non-Public Information and Information Barrier Standards**

In the ordinary course of our business, we receive material, non-public information. Material, non-public information can be received voluntarily or involuntarily and under varying circumstances, including upon execution of a non-disclosure agreement.

PSS personnel are prohibited from improperly sharing or using material, non-public information for their personal benefit or for the benefit of any other person, regardless of whether that person is a client of PSS. PFI's information barrier standards, which apply to us, and our related procedures are designed to prevent (i) the communication of material, non-public information across the various PFI asset management investment sectors, and (ii) the misuse of material, non-public information. Under the standards, an employee of one PFI asset management investment sector, including PSS, is not permitted to communicate material, non-public information to an employee of another PFI asset management investment sector without approval from each sector's compliance unit. The information barrier standards also restrict physical access to an investment sector's offices by employees of a different investment sector. In some instances, we have established (and expect to establish from time to time when

appropriate) an isolated information barrier around a small number of our employees so that material nonpublic information received by such employees is not attributed to the rest of PSS.

In addition, we maintain restricted lists of issuers and borrowers about whom we have material nonpublic information.

Under certain circumstances, contractual obligations owed by us to third parties to maintain confidentiality and legal and regulatory requirements prevent us from sharing (or could limit our ability to share) material nonpublic information, information based on material, non-public information (including, but not limited to analyses), or other confidential information with PSS clients and others.

## **Personal Securities Trading Standards**

We maintain personal securities trading standards that govern the trading activities of our employees as well as their household members and dependents. Subject to certain limited exceptions, employees are required by the standards to:

- report personal securities transactions to our corporate compliance unit.
- pre-clear personal securities transactions.
- maintain brokerage accounts with certain approved brokers who are requested to report transaction information to our corporate compliance unit; and
- annually report securities holdings to our corporate compliance unit.

We compare personal trading activity versus firm trading and restricted list content, and any matches are investigated by our compliance unit. An ethics committee meets regularly to consider possible violations and take disciplinary action where appropriate.

All employees receive routine training regarding the personal securities trading and information barrier standards. In addition, employees must annually confirm that they have read and understand the code of ethics, including the personal securities trading and information barrier standards.

## **Gift and Entertainment Policy**

Our employees could occasionally give or receive gifts, meals, or entertainment of moderate value, subject to compliance with applicable laws and regulations (including the U.S. Foreign Corrupt Practices Act) and rules of self-regulatory organizations. We have adopted policies to address the conflicts of interest related to gifts and entertainment, such as the appearance of having given or received something of value that influenced our business decisions or the business decisions of our clients. The policies require the reporting and preclearance of gifts, meals and entertainment given or received which exceed certain thresholds. In addition, our employees are prohibited from soliciting the receipt of gifts, meals, or entertainment. Senior management periodically reviews summaries of gifts and entertainment activity to detect trends of abuse, conflicts of interest, or possible violations of the policy.

## **Political Contributions**

Due to the potential for conflicts of interest, PFI has established policies and procedures relating to political contributions that are designed to comply with applicable federal, state, and local law. Under PFI's political contributions policy, all employees (including spouses and dependent children) must obtain preapproval before making any U.S. political contribution. This policy also prohibits our employees from making any political contributions with the intent of influencing a public official regarding the award of a contract to us or our affiliates.

## Participation or Interest in Client Transactions

We have certain potential conflicts of interest with respect to participation and/or interest in client transactions. We can invest client assets in funds that affiliates manage. We believe these potential conflicts of interest are mitigated by policies, procedures and oversight processes as more fully discussed in Item 10 above.

## Conflicts Related to Outside Business Activities

From time to time, certain of our employees or officers engage in outside business activities, including outside directorships. Any outside business activity is subject to prior approval pursuant to our personal conflicts of interest and outside business activities policy. Actual and potential conflicts of interest are analyzed during such approval process. We could be restricted in trading the securities of certain issuers in client portfolios in the unlikely event that an employee or officer, as a result of outside business activity, obtains material nonpublic information regarding an issuer.

## Item 12—Brokerage Practices

### Selecting or Recommending Broker-Dealers

PSS does not select or recommend broker-dealers.

### Soft Dollars and Research Services

Currently, PSS does not enter into arrangements whereby brokerage business is promised in exchange for services, information or other benefits (e.g., soft dollars or soft commissions).

### Directed Brokerage

We do not recommend, request, or require that clients direct us to execute transactions through specified broker-dealers or other counterparties.

### Trade Aggregation and Allocation

Our policy with respect to trade aggregation and allocation is to treat all client accounts fairly and equitably in the allocation of investment opportunities over time. We maintain an investment allocation policy that governs the allocation of fund investments among client accounts.

To achieve equitable allocations of investments and trades among client accounts, the allocation policy generally considers each account's risk appetite and target attributes. Target attributes include the following:

- Strategic Asset Allocation;
- Long-term (10 year) annualized net return and risk;
- Shorter-term (3-5 year) annualized net return and risk;
- Regulatory, tax and accounting requirements;
- Strategy ranges;
- Geographic, Industry and Manager diversification;
- Vintage year diversification;
- Liquidity profile;
- Cash availability, commitment appetite;
- Benchmark weight considerations, if any;

- De minimis allocation considerations based on criteria such as minimum percentage of net asset value, minimum investment/commitment size; and
- Any other portfolio construction considerations

Preference could be given to accounts whose investment guidelines limit their universe of available investments.

### ***Fund Investment Transfers***

Fund Investment transfers can occur between affiliated investors' portfolios. Transfers between unaffiliated investors' portfolios are prohibited without the written consent of both the transferor and the transferee.

### ***Cross Trades***

Occasionally, PSS will cross trades for client accounts. A cross trade occurs when PSS purchases and sells a particular security between two or more accounts. In no instance does PSS receive additional compensation when crossing trades for client accounts. PSS will seek to ensure that the terms of the transaction, including the consideration to be paid or received, are fair and reasonable, in compliance with applicable regulatory requirements and done for the sole benefit of the clients.

### ***Trade Error Policy***

We maintain a trade and operational errors corrections policy that requires all errors covered under the policy to be corrected in a manner that is fair and reasonable. In the event of a loss in a client account resulting from an error for which we have concluded we are responsible, we will determine the amount of the loss, reimburse the client, and notify the client of the error. Not all mistakes or other issues will be considered errors under the policy and not all errors will be considered compensable to the client. Please note that certain non-material settlement errors could be corrected without notice to the client.

An error could result in a gain or in a loss to an account or accounts. Unless prohibited by applicable regulation or agreement with the client, we can choose to net the client's gains and losses under circumstances that include, without limitation, where more than one transaction must be effected to correct an error or there occurs a series of related errors with the same root cause. The calculation of the amount of any net impact will depend on the facts and circumstances of an error, and the calculation methodology can vary. In some cases, the net impact will be as simple as the difference between the security purchase and sale prices. With respect to, for example, more complex errors or those continuing over a longer period of time, we can consider, among other factors, the performance during the period of the account, the account's benchmark, comparable securities, and/or the industry in which the security is included. Reimbursement is generally limited to direct losses and does not include any amounts we determine to be speculative or uncertain or that would result in an undue performance gain, or windfall.

To avoid potential errors in client accounts, our policy permits trades, where appropriate, to be cancelled or modified prior to settlement. In addition, our policy provides that a transaction in one client's account could be avoided through reallocation, prior to settlement, to another client's account, subject to certain conditions. Clients will not be notified if an error in their account is avoided through cancellation, modification, or reallocation.

From time to time, we could be required to evaluate facts and circumstances relating to our models or modeling processes. Errors can occur in the programming or implementation of investment models or other models that are applied to client accounts. When such errors are identified, we seek to understand the cause and determine the impact of the error. In certain cases, coding or other errors may not significantly impact the overall objective of the model or significantly influence an investment decision and will not be compensable to the client. Certain data received from external sources are inputs to our models and/or other investment processes. Trades resulting from inaccuracies in data received from external sources will generally not be considered errors.

## Item 13—Review of Accounts

### Periodic Review of Client Accounts

We monitor client accounts on a continuous basis through performance estimates received from underlying funds and/or quarterly data reports. PSS has a governance framework to review accounts from both a due diligence oversight standpoint as well as an Investment Oversight Committee comprised of PSS investment professionals, led by the Chair and President of PSS, who will periodically review client account asset allocation and performance.

### Reports to Clients

We provide written quarterly performance reports to clients. Our reports generally include:

- market commentary
- a list of all activity in the account during the applicable period;
- a list of positions;
- the market value of the positions in the account;
- a calculation of the account's return and the return of the applicable benchmark;
- a comparison of the characteristics of the account (such as strategy, sector, vintage year, property type, and geography) versus the applicable benchmark; and
- performance attribution.

## Item 14—Client Referrals and Other Compensation

We do not receive any economic benefit from non-clients for providing investment advice or advisory services to our clients. We also do not pay compensation to others directly or indirectly for client referrals.

## Item 15—Custody

Rule 206(4)-2 under the Advisers Act defines custody as holding client securities or assets or having any authority to obtain possession of them. We generally do not take physical custody of the securities or assets of our clients, and if we were to receive such securities or assets inadvertently, they would be returned in accordance with regulatory requirements. Client securities and assets are generally held in custodial accounts with banks, broker-dealers or other qualified custodians that have been retained by our clients under arrangements negotiated by them.

Although we or an affiliate could offer to perform certain operational tasks for clients, including facilitating capital calls and the sale of in-kind distributions pursuant to a separate service level agreement, we do not have custody since we do not have the authority to hold, directly or indirectly, client securities or assets or have the authority to obtain possession of them. All investments are made directly in private fund limited partnerships managed by private fund managers. Such private fund managers could be deemed to have custody of such limited partnership assets and could be required to comply with the requirements of Rule 206(4)-2 under the Advisers Act. The private fund manager's reporting obligations are detailed in the governing documents of each private fund.



## Item 16—Investment Discretion

We typically have discretionary authority to invest and reinvest assets for a client account. The non-discretionary portion of our reported regulatory assets under management are largely limited partnership interests in private funds which clients made directly, subsequently requesting that PSS monitor those investments for them. In the case of clients invested in private funds, we typically have discretion to: commit to, invest in and subscribe for limited partnership interests; tender full and partial redemptions; sell limited partnership interests in the secondary market; evaluate, negotiate and participate in continuation funds and other extension vehicles; evaluate, negotiate and execute amendments to limited partnership agreements, side letters and other documents; receive and sell securities that are in-kind distributions; and represent clients on fund advisory boards. This authority is granted pursuant to a written investment management or similar agreement.

Our discretionary authority to manage client accounts is in all cases subject to the stated investment objectives, guidelines and limitations set forth in the applicable investment management or similar agreement for the particular client.

## Item 17—Voting Client Securities

### In General

As a result of the investment strategies we offer, it is unlikely that we will receive any proxies. However, in the event proxies have to be voted, we have adopted a proxy voting policy and procedures, and will be responsible for voting proxies on behalf of clients.

While we do not generally vote proxies in the traditional sense, we are asked by private funds from time to time to (i) approve amendments to the partnership agreements or other charter documents, (ii) approve amendments or waivers to side letters, and (iii) vote on specific matters as a limited partner of a limited partnership. We could also be asked for other approvals or waivers in connection with client private fund investments.

As a general policy, with respect to client private fund investments, when we are required to (i) approve amendments to the partnership agreements or other charter documents, (ii) approve side letters or amendments or waivers to side letters, or (iii) vote on specific matters as a limited partner of a limited partnership, (collectively, “consents and approvals”), we will vote or approve changes, amendments, consents or resolutions relating to a private fund investment, in a manner that serves the best interests of the client. Best interest will be determined by us in our discretion, taking into account relevant factors, including, but not limited to: (i) the impact on the value of the securities of the private fund; (ii) the anticipated costs and benefits associated with the proposal; (iii) the effect on liquidity; and (iv) customary industry and business practices.

### Conflicts of Interest in the Voting Process

Occasionally, a conflict of interest could arise in connection with proxy voting. When we identify an actual or potential material conflict of interest between our firm and our clients with respect to proxy voting, the matter is presented to senior management who will resolve such issue in consultation with the compliance and legal departments.

## Item 18—Financial Information

We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to our clients.