

Item 1: Cover Page

Form ADV Part 2A: Firm Brochure

March 2024

Jones Road Capital Management, L.P.

757 Third Avenue
Suite 1801
New York, NY 10017

This “**Brochure**” provides information about the qualifications and business practices of Jones Road Capital Management, L.P. (hereinafter “**Jones Road**”, “**we**”, “**us**”, “**our**” or the “**Firm**”). If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer (“**CCO**”), Robert Renda, by email at compliance@jonesroad.com. Information in this Brochure has not been approved or verified by the U.S. Securities and Exchange Commission (“**SEC**”) or by any state securities authority.

Registration as an investment adviser does not imply that Jones Road or any of its principals or employees possesses a particular level of skill or training in the investment advisory business or any other business.

Additional information about Jones Road Capital Management, L.P. is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2: Material Changes

This Brochure is Jones Road's updated Form ADV Part 2A from its most recent filing made on March 30-, 2023.

There have been no material changes made to the Brochure since the most recent filing.

Clients, investors and prospective clients and investors should review this brochure carefully.

Item 3: Table of Contents

Item 2: Material Changes	- 2 -
Item 4: Advisory Business	4
Item 5: Fees and Compensation	5
Item 6: Performance-Based Fees and Side-By-Side Management.....	7
Item 7: Types of Clients	8
Item 8: Methods of Analysis, Investment Strategies, and Risk of Loss.....	8
Item 9: Disciplinary Information.....	59
Item 10: Other Financial Industry Activities and Affiliations	59
Item 11: Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading	60
Item 12: Brokerage Practices.....	63
Item 13: Review of Accounts.....	65
Item 14: Client Referrals and Other Compensation.....	66
Item 15: Custody.....	66
Item 16: Investment Discretion.....	66
Item 17: Voting Client Securities	66
Item 18: Financial Information.....	67

Item 4: Advisory Business

Jones Road Capital Management, L.P. (hereinafter “**Jones Road**”, “**we**”, “**us**”, “**our**” or the “**Firm**”), a New York based alternative asset management firm, was founded by Aaron Wertentheil (the “Principal”). The Principal leads an experienced investment team that seeks opportunistic special situations and traditional investments that may arise in credit markets, equities, derivatives, hard assets and other financial instruments or structures. Prior to founding the Firm, the Principal was a Partner of Eton Park Capital Management, a multi strategy investment firm.

Jones Road is organized as a Delaware limited partnership with a principal place of business in New York, New York. The Firm is a registered investment adviser as of November 15, 2018.

The Principal, as the managing member of Jones Road Management, L.L.C., (the “**General Partner**”) a Delaware limited liability company that serves as the general partner of the Firm, controls Jones Road.

We serve as the investment adviser, with discretionary trading authority, to private, pooled investment vehicles (the “**Jones Road Funds**” or “**Funds**”) the securities of which are generally offered through a private placement memorandum to accredited investors, as defined under the Securities Act of 1933 (the “**Securities Act**”). We also provide investment advisory services to a separately managed institutional account, a pooled investment vehicle which is not a private fund, (and may do so with other Clients (as defined below) in the future) (“**SMA**s”) through an applicable investment management agreement (“**Investment Management Agreement(s)**”). Hereafter the **Funds** and **SMA**s managed by the Firm collectively are referred to as the “**Clients**”.

*This Brochure does not constitute an offer to sell or a solicitation of an offer to buy any securities. The Funds’ securities are offered and sold on a private placement basis under exemptions promulgated under the “**Securities Act**” of 1933 and other applicable state, federal or non-U.S. laws. Significant suitability requirements apply to prospective investors in the Funds, including requirements that they be “accredited investors” as defined in Securities Act and “qualified purchasers” as defined in the Investment Company Act of 1940. Persons reviewing this Brochure should not construe this as an offer to sell or a solicitation of an offer to buy the securities of any of the Funds described herein. Any such offer or solicitation will be made only by means of a confidential private placement memorandum.*

Our investment decisions and advice with respect to the Jones Road Funds are subject to each fund’s investment objectives and guidelines, as set forth in its respective “**Offering Documents**.” The investment objectives and guidelines of an SMA would be determined in conjunction with the applicable Client.

We do not currently participate in any Wrap Fee Programs.

Determined as of December 31, 2023, we have regulatory assets under management of \$569.5 million, rounded to the nearest \$100,000 managed on a discretionary basis and no assets under management on a non-discretionary basis.

Jones Road has entered into an arrangement with a strategic investor (the “**Strategic Investor**”), whereby the Strategic Investor provided significant capital contributions in respect of certain funds managed, or to be managed, by Jones Road, subject to certain terms and conditions. In consideration for such capital contributions, the Strategic Investor is entitled to, among other things, receive a minority share of the revenues generated by Jones Road, but otherwise has no ownership in or control over Jones Road.

Item 5: Fees and Compensation

Jones Road will be compensated in the form of management fees, performance fees, carried interest and other fees.

The fees applicable to each Client are set forth in detail in the corresponding Offering Documents for the Jones Road Funds, or for any SMAs in the Investment Management Agreement; a brief summary of such fees is provided below.

It is important that Clients refer to the respective Offering Documents and other governing documents (including, any Investment Management Agreement) for a complete understanding of fees and other forms of compensation. The information contained herein is a summary only and is qualified in its entirety by such materials.

Management Fees

Jones Road is paid an investment management fee (“**Management Fee**”) based upon the terms of the of the applicable Offering Documents corresponding to the Fund. The Management Fee is normally deducted from the assets of such Clients on the first day of each calendar quarter, and is paid in advance based upon the Fund’s net asset value on the first day of the quarter. The Management Fee payable for any period other than a full calendar quarter will be adjusted on a *pro rata* basis according to the actual number of days in such period. Management Fee rates will typically not be more than 1.5% per annum of net asset value. Investors that subscribe for interests in a Fund for the first closing(s) and/or above certain investment amount thresholds will obtain reduced Management Fee rates. Furthermore, investors in certain bespoke co-investment vehicles may benefit from lower Management Fee rates in those instances. Jones Road earns a Management Fee (the mechanics of which are generally consistent with the above) in connection with its SMAs and any such fee would be as set forth in the applicable Investment Management Agreement.

Performance Fees or Carried Interest

Jones Road (or an affiliate) may receive “**Performance Fees**” or **Carried Interest**” from Clients. Jones Road earns a Performance Fee (or incentive allocation) of an agreed percentage (generally up to 20%) of a Client’s net asset value appreciation (realized as well as unrealized) in connection with a Fund and any SMA it advises. Any such Performance Fee would be as set forth in the applicable Client’s offering documents or Investment Management Agreement and may be subject to applicable hurdles and/or high-water marks. Such Performance Fees are typically based on calendar year performance. Investors that subscribe for interests for the first closing(s) and / or above certain investment amount thresholds will obtain reduced Performance Fee rates. Carried Interest may be received in connection with distributions to underlying closed-end fund investors provided certain agreed upon return of capital and preferred returns have been achieved. The maximum Carried Interest rates will generally be up to 20% after returning 100% of investor capital contributions and exceeding the preferred return (typically 8%). As a result, Carried Interest is not expected to be received on a regularly scheduled basis. Investors that subscribe for interests in a Fund for the first closing(s) and/or above certain investment amount thresholds will obtain reduced Carried Interest rates.

Expenses

Expenses Generally

The Firm is responsible for and shall pay, or cause to be paid, all of their own ordinary administrative and overhead expenses, including, without limitation, all costs and expenses related to rent, salaries, office equipment, supplies, wages, bonuses, and other employee benefits.

Jones Road is authorized to incur and pay in the name and on behalf of a Client all expenses which they deem necessary or advisable. Jones Road seeks to allocate expenses among applicable Clients and the applicable investments of each Client in a fair and reasonable manner and in accordance with applicable internal policies.

Organizational Expenses

Clients pay for certain expenses related to their organization and reorganization, such as legal expenses, accounting expenses, filing expenses and fees incurred in connection with organizing and establishing the Fund and its affiliates and expenses incurred in connection with offering of interests in the Fund; *provided, however*, that if any amounts due to any placement agent are paid by the Fund, such amounts will reduce the Management Fee, Performance Fee (or incentive allocation), Carried Interest and/or similar amounts, as applicable.

Operational Expenses

Clients generally bear all of their operational expenses, including without limitation, the following: (i) expenses related to the research, due diligence and monitoring of actual and prospective investments (whether or not consummated) and the consummation of investments, including, without limitation, the following: third-party investment sourcing fees; fees and expenses related to obtaining research and market data; due diligence expenses including, without limitation, consulting and appraisal fees; travel expenses; brokerage, prime brokerage and futures commission merchant fees, commissions and expenses; expenses relating to reorganizations, restructurings and workouts; expenses relating to short sales; clearing and settlement charges; custodial fees and expenses; bank service fees; interest expenses and fees related to financings or refinancings; fees and expenses of proxy research and voting services; and fees and expenses of third-party professionals, including, without limitation, consultants, investment bankers, attorneys and accountants; (ii) reorganizational and certain operational expenses of affiliated entities necessary for operation of a Fund; and (iii) fees and expenses relating to information technology hardware, software or other technology (including, without limitation, costs of software licensing, implementation, data management and recovery services and custom development) used to research investments, evaluate and manage risk, facilitate valuations, facilitate accounting functions, facilitate compliance with the rules of any self-regulatory organization or applicable law (including, without limitation, reporting obligations), facilitate and manage the order execution of securities, such as front office Bloomberg terminals and order management systems; fees and expenses of third-party risk management products, models and services; third-party administrative fees and expenses (including the fees and expenses of any “shadow” administrator or provider of similar services); fees and expenses of third-party professionals, including, without limitation, consultants, valuation service providers, attorneys and accountants; the costs of any litigation or investigation involving activities of the Client; third-party audit and tax preparation expenses; insurance expenses, including, without limitation, the purchase of a fidelity bond satisfying the requirements of Section 412 of ERISA, premiums for cybersecurity insurance and liability insurance covering Jones Road, its affiliates and the members, partners, officers, employees and agents of any of them; fees and expenses of any Client advisory board or of a trading subsidiary's board of directors or advisory board; costs of preparing and distributing reports and notices; taxes; fees and expenses related to compliance with the

rules of any self-regulatory organization or applicable law in connection with the activities of the Client, including, without limitation, any governmental, regulatory, licensing, filing or registration fees or taxes (including, without limitation, fees and expenses incurred in connection with the preparation and filing of Form PF, Section 13 filings, Section 16 filings and other similar regulatory filings), fees and expenses of officers (including any AML officers; and any fees and expenses of any paying agents or distribution agents incurred due to regulatory or legal requirements applicable to either a particular investor or a particular country in which interests were offered; extraordinary expenses, including, without limitation, the following: indemnification expenses; fees and expenses incurred in connection with any tax audit by any taxing authority, including, without limitation, any related administrative settlement and judicial review; and fees and expenses incurred in connection with the reorganization, dissolution, winding-up or termination of a Fund or related entities.

The Fund(s) do not have a pre-determined limit on the applicable ordinary or extraordinary operating expenses. The Fund's actual annual operating expenses are disclosed in the Fund's year-end audited financial statements, which are provided to each investor.

The SMA(s) may have a pre-determined limit on certain types of expenses and any such arrangement with respect to operational and other expenses would be set forth in the applicable Investment Management Agreement.

To the extent that expenses to be borne by the Client are paid by the Firm or its affiliates, the Client will reimburse the Firm or its affiliates for such expenses, subject to the above. Jones Road may waive any such reimbursement with respect to any Client expenses. Any waiver by us for reimbursement of any Client expenses shall not serve as a waiver of reimbursement for any future Client expenses to be paid by us or our affiliates.

Neither the Firm nor its employees accept compensation, including sales charges or service fees, from any person for the sale of securities or other investment products.

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

Performance-based fees and allocations are described in the Offering Documents or Investment Management Agreement for the relevant Client and have been described generally in the preceding section, Item 5 – Fees and Compensation.

We and our affiliates are entitled to performance-based compensation from each of the Funds and SMAs based upon the terms described in the Offering Documents or Investment Management Agreement, as applicable. As of the date of this filing, all of our Clients are subject to performance-based compensation fees. As a result, we are not subject to certain conflicts of interest that could arise if we and/or our affiliates accepted performance-based fees from some Clients, but not from other Clients, however at times conflicts arise because the performance-based compensation charged for some Clients is greater than the performance-based compensation charged to other Clients.

Performance-based compensation arrangements at times creates an incentive for us to recommend investments which may be riskier or more speculative than those which we would recommend under a different arrangement. Jones Road will review the allocation of investment opportunities across Clients in such cases where a conflict may arise and follow the Firm's policies and procedures regarding the allocation of investment opportunities.

Item 7: Types of Clients

Currently, our Clients are the Funds and an SMA, as described above. We may in the future provide investment advice to additional SMAs or Funds for institutional and high net worth investors.

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

The descriptions set forth in this Brochure of specific advisory services that we offer to Clients, and investment strategies pursued, and investments made by us on behalf of our Clients, should not be understood to limit in any way our investment activities. We may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that we consider appropriate, subject to each Client's investment objectives and guidelines.

The current investment strategy is to seek opportunistic special situations and traditional investments that may arise in credit markets, equities, derivatives, hard assets and other financial instruments or structures. The Firm pursues situations across a variety of asset classes that the Firm believes are overlooked or misunderstood by the market due to structural impediments, behavioral tendencies, or other factors that may create attractive transaction dynamics. Among these opportunities, the focus is on situations that the Firm believes can have a catalyst that could cause the market to appropriately realize the true value of the securities.

The investment strategy may include (without limitation and in no particular order) investments in both liquid and illiquid financial instruments and assets (i) that have partially or fully lost sponsorship from their intended buyer base, (ii) whose form wholly or partially conceals the potential value of their underlying assets from market participants, (iii) where the potential gain under a positive scenario is a multiple of the expected loss under a negative scenario, (iv) that have recently faced, or anticipate facing, a material event, (v) in issuers that are difficult to value because their current financial reporting and underlying economics are less relevant given a shift in the industry or (vi) that market participants are investing in or divesting from for what we believe are non-economic reasons.

Further investment strategies may involve investments made on the basis of (i) securities that are viewed as over or undervalued in an absolute or relative-value comparison, (ii) derivative, credit curve, basis and capital structure strategies, (iii) events or catalysts that are expected to unfold over a period of time, (iv) the outcome of legal processes (including bankruptcies and litigation) and regulatory processes, (v) corporate restructuring and recapitalization processes (including equity spin-outs, mergers, levered equity investments, post-reorganization equity listings, holding company-related transactions, the utilization or distribution of corporate financial assets (including cash), activist investor-led situations and entity liquidations), or (vi) other special situations.

Such investments may involve taking long or short positions in a wide variety of financial instruments and other assets including but not limited to bonds, notes, loans, preferred equity, equities, derivatives, currencies, credit facilities (including wholly or partially undrawn credit facilities), other forms of borrowed money, contingent capital, trade or vendor claims, residential and commercial mortgage-backed securities, collateralized loan obligations, collateralized debt obligations, asset-backed securities, other structured obligations, single name and index credit default swaps, options thereon, and other credit derivatives, including individually negotiated credit derivatives, participations and total return swaps thereon, and other types of real and personal property including equipment, real estate, land, mineral rights, litigation rights, insurance, and intellectual property. Investments may be made directly or indirectly.

The investment strategies we pursue are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any Client will be achieved.

The following risk factors listed below are not all inclusive, additional language regarding risk factors can be found in the applicable Fund's Offering Documents or as otherwise disclosed to a Client in connection with an SMA.

Risks Relating to Management

Limited Operating History

The Firm has a limited operating history upon which prospective and current investors can evaluate their anticipated performance. The investment professionals of the Firm have been using investment strategies similar to some of the investment strategies utilized by the Firm in other private investment funds for several years. However, such other private investment funds were managed by a multi strategy firm that did not focus its investments specifically in special situations and similar investment areas. There can be no assurance that the Firm be successful.

Retention and Motivation of Employees

The success of the Client accounts is dependent upon the talents and efforts of highly skilled individuals employed by the Firm and the Firm's ability to identify and willingness to provide acceptable compensation to attract, retain and motivate talented investment professionals and other employees. There can be no assurance that the Firm's investment professionals will continue to be associated with Jones Road throughout the life of any Client investment program, and the failure to attract or retain such investment professionals could have a material adverse effect on the Client investments. Competition in the financial services industry for qualified employees is intense and there is no guarantee that, if lost, the talents of the Firm's investment professionals could be replaced.

Investment and Due Diligence Process

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

Increased Regulatory Oversight

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

Effect of Substantial Losses or Withdrawals

If, due to extraordinary market conditions or other reasons, Client accounts were to incur substantial losses or were subject to an unusually high level of withdrawals, the revenues of the Firm may decline substantially. Such losses and/or withdrawals may hamper the Firm's ability to (i) retain employees, (ii) provide the same level of service to Clients as it has in the past, and (iii) continue operations.

Increasing Assets Under Management

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

Risks Relating to the Structure of a Fund or Client Account

Strategic Investor

The Firm and its affiliates have entered into an arrangement with the Strategic Investor. The Strategic Investor's investment in a Fund should not be construed as a recommendation to other prospective investors. The Strategic Investor and its affiliates will not be responsible for the performance of a Fund, nor is the Strategic Investor or its affiliates responsible for the content, accuracy or completeness of the private placement memorandum or any other marketing materials of the Fund or the Firm. The Strategic Investor is entitled to receive a minority share of the revenues generated by Jones Road. Due to these arrangements, the Strategic Investor may have access to information not available to the other investors, and to the extent that the Firm establishes classes of interests with different liquidity rights in a Fund, the Strategic Investor may be able to act on information before any investor that has less frequent liquidity rights (and in certain limited circumstances, the Strategic Investor has the ability to withdraw from a Fund without being subject to the applicable investor level gate). The Strategic Investor will have no obligation to disclose such information to the investors or to use such information for the benefit of the Fund.

Risk Relating to Operations and Investment Activities

Systems and Operational Risks Generally

Clients depend on the Firm to develop and implement appropriate systems for the Client's activities. Clients rely heavily on financial, accounting and other data processing systems to execute, clear and settle transactions across numerous and diverse markets and to evaluate certain financial instruments, to monitor its portfolio and capital, and to generate risk management and other reports that are critical to oversight of their activities. In addition, Clients rely on information systems to store sensitive information about Clients, the Firm, their affiliates and investors. Certain of the Client's and the Firm's activities will be dependent upon systems operated by third parties, including the prime brokers, the administrator, market counterparties and other service providers, and the Firm may not be in a position to verify the risks or reliability of such third-party systems. Failures in the systems employed by the Firm, prime brokers, the administrator, counterparties, exchanges and similar clearance and settlement facilities and other parties could result in mistakes made in the confirmation or settlement of transactions, or in transactions not being properly booked, evaluated or accounted for. Disruptions in the Client's operations may cause the Client to suffer, among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing failures or disruptions could have a material adverse effect on a Client.

Cybersecurity Risk

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

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

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

Valuation of Assets and Liabilities

A Client's assets and liabilities are valued in accordance with the Firm's valuation policy and procedures. The valuation of any asset or liability involves inherent uncertainty. The value of a financial instrument determined in accordance with the Firm's valuation policy may differ materially from the value that could have been realized in an actual sale or transfer for a variety of reasons, including the timing of the transaction and liquidity in the market. Uncertainties as to the valuation of portfolio positions could have an impact on the net asset value of the Client account if the judgments of the Firm, in its capacity as general partner of the Client, regarding the appropriate valuation should prove to be incorrect.

Counterparty Risk

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

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

If there is a default by a counterparty, the Client under most normal circumstances will have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the net asset value of the Client being less than if the Client 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. In such case, the recovery of the Client's financial instruments from such counterparty or the payment of claims therefor may be significantly delayed and the Client may recover substantially less than the full value of the financial instruments entrusted to such counterparty.

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

In addition, the Client may use counterparties located in jurisdictions outside the United States. Such local counterparties usually are subject to laws and regulations in non-U.S. jurisdictions that are designed to protect customers in the event of their insolvency. However, the practical effect of these laws and their application to the Client's assets are subject to substantial limitations and uncertainties. Because of the range of possible factual scenarios involving the insolvency of a counterparty and the potentially large number of entities and jurisdictions that may be involved, it is impossible to generalize about the effect of such an insolvency on the Client and its assets. Investors should assume that the insolvency of any such counterparty would result in significant delays in recovering the Client's financial instruments from or the payment of claims therefor by such counterparty and a loss to the Client, which could be material.

Competition; Availability of Investments

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

Volatility Risk

The investment strategies may involve the purchase and sale of relatively volatile financial instruments and/or investments in volatile markets. Fluctuations or prolonged changes in the volatility of such financial instruments and/or markets can adversely affect the value of investments held by the Client.

Credit Ratings

In general, the credit rating assigned by a nationally recognized rating agency to a financial instrument represents such rating agency's opinion of the safety of the principal and interest payments of the rated instrument based on available information. Such ratings are relative and subjective; they are not absolute

standards of quality and do not evaluate the market value risk of such financial instruments. Such ratings also do not reflect macroeconomic or systemic risk, including the risk of increased illiquidity in the credit markets. Further, credit ratings may change over time due to various factors, including changes in the creditworthiness of the issuer and/or changes in the rating agency's analytics and processes. It is possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events and, as a result, outstanding ratings may not reflect the issuer's current credit standing. The Client may incur losses if it makes investments based on credit ratings that subsequently change in a way not favorable to the Client's investment objective.

Co-Investments with Third Parties

Clients may co-invest with third parties through joint ventures or other entities. Third-party involvement with an investment may negatively impact the returns of such investment if, for example, the third-party co-venturer has financial difficulties, has economic or business interests or goals that are inconsistent with those of the Client or is in a position to take (or block) action in a manner contrary to the Client's investment objective. In circumstances where such third parties involve a management group, such third parties may enter into compensation arrangements relating to such investments, including incentive compensation arrangements. Such compensation arrangements will reduce the returns to participants in the investments.

Significant Positions in Securities; Regulatory Requirements

In the event a Client acquires a significant stake in certain issuers of securities and such stake exceeds certain percentage or value limits, the Client may be subject to regulation and regulatory oversight that may impose notification and filing requirements or other administrative burdens on the Client and the Firm. Any such requirements may impose additional costs on the Client and may delay the acquisition or disposition of the securities or the Client's ability to respond in a timely manner to changes in the markets with respect to such securities.

In addition, "position limits" may be imposed by various regulators that may limit the Client's ability to effect desired trades. Position limits are the maximum amounts of gross, net long or net short positions that any one person or entity may own or control in a particular issuer's securities. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. To the extent that a Client's position limits were aggregated with an affiliate's or another account's position limits, the effect on the Client and resulting restriction on its investment activities may be significant. If at any time positions managed by the Firm were to exceed applicable position limits, the Firm would be required to liquidate positions, which might include positions of a Client, to the extent necessary to come within those limits. Further, to avoid exceeding any position limits, the Client might have to forego or modify certain of its contemplated trades.

In addition, if a Client, acting alone or as part of a group, acquires beneficial ownership of more than 10% of a certain class of securities of a public company or places a director on the board of directors of such a company, under Section 16 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Client may be subject to certain additional reporting requirements and may be required to disgorge certain short-swing profits arising from purchases and sales of such securities. Furthermore, in such circumstances the Client will be prohibited from entering into a short position in such issuer's securities, and therefore limited in its ability to hedge such investments. Similar restrictions and requirements may apply in non-U.S. jurisdictions.

Commodity Interest Trading Limit

The Firm currently operates the Clients subject to the CFTC Rule 4.13(a)(3) *de minimis* exemption (the “**4.13(a)(3) Exemption**”). While the 4.13(a)(3) Exemption provides relief from certain CFTC reporting and recordkeeping requirements, it requires the Client to, among other things, have *de minimis* levels of commodity interest trading. Accordingly, the Client will operate with significant restrictions upon its trading of the instruments that are restricted under the 4.13(a)(3) Exemption, such as commodity futures, security futures options thereon and certain swaps. As a substitute for such instruments, the Client may trade other instruments that are not restricted under the 4.13(a)(3) Exemption. As a result, the Client may incur higher transaction costs or effect a less optimal hedge than it would otherwise be able to if it were not operated subject to the 4.13(a)(3) Exemption.

Litigation Risk

Some of the tactics that the Firm may use involve litigation. Clients could be a party to lawsuits either initiated by it, or by a company in which the Client invests, other shareholders of such company, or U.S. federal, state and non-U.S. governmental bodies. There can be no assurance that any such litigation, once begun, would be resolved in favor of the Client. Any such litigation could be prolonged and expensive. In addition, it is by no means unusual for participants in reorganizations to use the threat of, as well as actual, litigation as a negotiating technique. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by the Client and would reduce net assets.

Exposure to Material Non-Public Information

From time to time, the Firm may receive material non-public information with respect to an issuer of publicly traded securities. In such circumstances, the Client may be prohibited, by law, policy or contract, for a period of time from (i) unwinding a position in such issuer, (ii) establishing an initial position or taking any greater position in such issuer, and (iii) pursuing other investment opportunities related to such issuer.

Currency Exchange Exposure

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

Risks Relating to Investment Strategies

Risk of Loss

No guarantee or representation is made that the Firm’s investment strategies will be successful. Investment results may vary substantially over time.

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

Long/Short

The success of the Firm's long/short investment strategy depends upon the Firm's ability to identify and purchase financial instruments that are undervalued and identify and sell short financial instruments that are overvalued. The identification of investment opportunities in the implementation of the Client's long/short investment strategies is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. In the event that the perceived opportunities underlying the Client's positions were to fail to converge toward, or were to diverge further from values expected by the Firm, the Client may incur a loss. In the event of market disruptions, significant losses can be incurred which may force the Client to close out one or more positions. Furthermore, the valuation models used to determine whether a position presents an attractive opportunity consistent with the Firm's long/short strategies may become outdated and inaccurate as market conditions change.

Short Selling

The success of the Firm's short selling investment strategy depends upon the Firm's ability to identify and sell short financial instruments that are overvalued. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying financial instrument could theoretically increase without limit, thus increasing the cost to the Client of buying those financial instruments to cover the short position. There can be no assurance that the Client will be able to maintain the ability to borrow financial instruments sold short. In such cases, the Client can be "bought in" (i.e., forced to repurchase financial instruments in the open market to return to the lender). There also can be no assurance that the financial instruments necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing financial instruments to close out a short position can itself cause the price of the financial instruments to rise further, thereby exacerbating the loss. Short strategies can also be implemented synthetically through various instruments and be used with respect to indices or in the over-the-counter market and with respect to futures and other instruments. In some cases of synthetic short sales, there is no floating supply of an underlying instrument with which to cover or close out a short position and the Client may be entirely dependent on the willingness of over-the-counter market makers to quote prices at which the synthetic short position may be unwound. There can be no assurance that such market makers will be willing to make such quotes. Short strategies can also be implemented on a leveraged basis. Lastly, even though the Client secures a "good borrow" of the financial instrument sold short at the time of execution, the lending institution may recall the lent financial instrument at any time, thereby forcing the Client to purchase the financial instrument at the then-prevailing market price, which may be higher than the price at which such financial instrument was originally sold short by the Client.

Capital Structure Arbitrage

The success of the Firm's capital structure arbitrage strategy depends upon the Firm's ability to identify and exploit the relationships between movements in different securities within an issuer's capital structure (including, bank debt, convertible and non-convertible senior and subordinated debt, and preferred and common stock). Identification and exploitation of these opportunities involve uncertainty. There can be no assurance that the Firm will be able to locate investment opportunities or to correctly exploit price discrepancies. A reduction in the pricing inefficiency of the markets in which the Client will seek to invest will reduce the scope for the Client's investment strategies. In the

event that the perceived mispricings underlying the Client's positions fail to materialize, these investment strategies could be unsuccessful or result in losses.

Long-Term

The success of the Firm's long-term investment strategy depends upon the Firm's ability to identify and purchase financial instruments that are undervalued and hold such investments so as to maximize value on a long-term basis. In pursuing any long-term strategy, a Client may forego value in the short-term or temporary investments in order to be able to avail itself of additional and/or longer-term opportunities in the future. Consequently, the Client may not capture maximum available value in the short term, which may be disadvantageous.

Risks of Investments in Physical Assets

The Firm may make investments that are collateralized by hard assets such as rail cars, commercial airplanes, marine vessels, other types of equipment and related assets. These investments are subject to risks that include, among others, destruction, loss, terrorist attacks, industry-specific regulation (e.g., pollution control regulation), operating failures and labor relations. Prices of physical assets are affected by factors such as global supply and demand, investors' expectations with respect to the rate of inflation, currency exchange rates, interest rates, investment and trading activities of hedge funds and commodity funds, and global or regional political, economic or financial events and situations. Markets can be volatile at times, and there may be sharp fluctuations in prices even during periods of rising prices.

Relative Value

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

Event-Driven

The success of the Firm's event-driven investment strategy depends upon the Firm's ability to make predictions about (i) the likelihood that an event will occur and (ii) the impact such event will have on the value of a company's securities. If the event fails to occur or it does not have the effect foreseen, losses can result. For example, the adoption of new business strategies or completion of asset dispositions or debt reduction programs by a company may not be valued as highly by the market as the Client had anticipated, resulting in losses. In addition, a company may announce a plan of restructuring which promises to enhance value, but fail to implement it, which can result in losses to investors. In liquidations and other forms of corporate reorganization, the risk exists that the reorganization either will be unsuccessful, will be delayed or will result in a distribution of cash or a new security, the value of which will be less than the purchase price to the Client of the security in

respect of which such distribution was made. The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors, including: (i) opposition of the management or stockholders of the target company, which will often result in litigation to enjoin the proposed transaction; (ii) intervention of a U.S. federal or state regulatory agency; (iii) efforts by the target company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) in the case of a merger, failure to obtain the necessary stockholder approvals; (v) market conditions resulting in material changes in securities prices; (vi) compliance with any applicable U.S. federal or state securities laws; and (vii) inability to obtain adequate financing. Because of the inherently speculative nature of event-driven investing, the results of the Client's operations may be expected to fluctuate from period to period.

Short-Term Market Considerations

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

Leverage and Borrowing

Leverage for Investment Purposes

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

Borrowing for Cash Management Purposes

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

Collateral

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

Costs

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

Lending of Portfolio Securities

The Client may lend securities on a collateralized and an uncollateralized basis from its portfolio to creditworthy securities firms and financial institutions. While a securities loan is outstanding, the Client will continue to receive the equivalent of the interest or dividends paid by the issuer on the securities, as well as interest on the investment of the collateral or a fee from the borrower. The risks in lending securities, as with other extensions of secured credit, if any, consist of possible delay in receiving additional collateral, if any, or in recovery of the securities or possible loss of rights in the collateral, if any, should the borrower fail financially.

Activist Investing

The success of any activist investment strategy of depends upon, among other things: (i) the Firm's ability to properly identify portfolio companies whose securities prices can be improved through corporate and/or strategic action; (ii) the ability to acquire sufficient securities of such portfolio companies at a sufficiently attractive price; (iii) the ability to avoid triggering anti-takeover and regulatory obstacles while aggregating its position; (iv) the willingness of the management of such portfolio companies and other security holders to respond positively to the Firm's proposals; and (v) favorable movements in the market price of any such portfolio company's securities in response to any actions taken by such portfolio company. There can be no assurance that any of the foregoing will occur.

Corporate governance strategies may prove ineffective for a variety of reasons, including: (i) opposition of the management or investors of the subject company, which may result in litigation and may erode, rather than increase, the value of the subject company; (ii) intervention of a governmental agency; (iii) efforts by the subject company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) market conditions resulting in material changes in the prices of securities; (v) the presence of corporate governance mechanisms such as staggered boards, poison pills and classes of stock with increased voting rights; and (vi) the necessity for compliance with applicable securities laws. In addition, opponents of a proposed corporate governance change may seek to involve regulatory agencies in investigating the transaction or the Client and such regulatory agencies may independently investigate the participants in a transaction, including the Client, as to compliance with securities or other law. Furthermore, successful execution of a corporate governance strategy may depend on the active cooperation of investors and others with an interest in the subject company. Some investors may have interests which diverge significantly from those of the Client, and some of those parties may be indifferent to the proposed changes. Moreover, securities that the Firm believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the timeframe the Firm anticipates, even if a corporate governance strategy is successfully implemented. Even if the prices for a company's securities have increased, no guarantee can be made that there will be sufficient liquidity in the markets to allow the Client to dispose of all or any of their securities therein or to realize any increase in the price of such securities.

Proxy Contests and Unfriendly Transactions

A Client may purchase securities of a company that is the subject of a proxy contest on 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 may cause the Client 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 may impose substantial cost and expense on the company participating in the transaction.

Diversification and Concentration

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

Lack of Control

A Client may invest in debt instruments and equity securities of companies that it does not control, which the Client may acquire through market transactions or through purchases of securities directly from the issuer or other shareholders. Such financial instruments will be subject to the risk that the issuer may make business, financial or management decisions with which the Client does not agree or that the majority stakeholders or the management of the issuer may take risks or otherwise act in a manner that does not serve the Client's interests. In addition, the Client may share control over certain investments with co-investors, which may make it more difficult for the Client to implement its investment approach or exit the investment when it otherwise would. The occurrence of any of the foregoing could have a material adverse effect on the Client.

Hedging Transactions

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

Discretion of the Firm; New Strategies and Techniques

While the Firm will generally seek to employ the representative investment strategies and techniques discussed herein, the Firm has considerable discretion in the types of financial instruments the Client may trade and has the right to modify the investment strategies and techniques of the Client. New investment strategies and techniques may not be thoroughly tested in the market before being employed and may have

operational or theoretical shortcomings which could result in unsuccessful trades and, ultimately, losses to the Client. In addition, any new investment strategy or technique developed by the Client may be more speculative than earlier investment strategies and techniques and may involve material and as-yet-unanticipated risks that could increase the risk of an investment in the Client.

Risks Relating to Methods of Analysis

Fundamental Analysis

Certain trading decisions made by the Firm may be based on fundamental analysis. Data on which fundamental analysis relies may be inaccurate or may be generally available to other market participants. To the extent that any such data are inaccurate or that other market participants have developed, based on such data, trading strategies similar to the Firm's trading strategies, the Firm may not be able to realize its investment goals. In addition, fundamental market information is subject to interpretation. To the extent that the Firm misinterprets the meaning of certain data, Clients may incur losses.

Financial Projections Related to Portfolio Investments

The Firm will generally make investment decisions and establish the capital structure of companies, and/or the terms of financing for a company, on the basis of financial projections, including projections specific for such companies. There can be no assurance that financial or economic models used to determine investment decisions will be correct, accurate or appropriately reflect subsequent developments or all the other factors that could cause actual results to differ from such models or projections. Projected operating results will often be based on management judgments. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. There can be no assurance that the projected results will be obtained, and actual results may vary significantly from the projections. General economic conditions, which are not predictable, can have a material adverse impact on the reliability of such projections. Moreover, the Client's portfolio investments, particularly investments in loans or other forms of indebtedness, may be subject to early redemption features, refinancing options, pre-payment options or similar provisions which, in each case, could result in the issuer or borrower repaying the principal on an obligation held by the Client earlier than expected (which could result in the Client's investment return from such portfolio investment being less than that anticipated by the Client when it made the portfolio investment). As a consequence, the Client's ability to achieve its investment objective may be affected.

Risks Relating to Market Conditions Generally

General Economic and Market Conditions

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

Governmental Interventions

Extreme volatility and illiquidity in markets has in the past led to, and may in the future lead to, extensive governmental interventions in equity, credit and currency markets. Generally, such interventions are intended to reduce volatility and precipitous drops in value. In certain cases, governments have intervened

on an "emergency" basis, suddenly and substantially eliminating market participants' ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition, these interventions have typically been unclear in scope and application, resulting in uncertainty. It is impossible to predict when these restrictions will be imposed, what the interim or permanent restrictions will be and/or the effect of such restrictions on the Client's strategies.

Interest Rate Increases

The United States experienced a sustained period of historically low interest rate levels. Recently, however, short-term and long-term interest rates have risen. The uncertainty of the U.S. and global economy, changes in U.S. government policy, and changes in the federal funds rate, increase the risk that interest rates will remain volatile in the future. Sustained future interest rate volatility may cause the value of the fixed income securities held by the Client to decrease, which may result in substantial withdrawals from the Client that, in turn, force the Client to liquidate such securities at disadvantageous prices negatively impacting the performance of the Client.

Discontinuation of LIBOR

The U.S. dollar London Interbank Offered Rate ("LIBOR"), which was commonly used as a reference rate within various financial contracts (any such rate, a "Reference Rate"), is no longer published as of June 30, 2023 (other than certain USD LIBOR settings which will continue to be published under a synthetic methodology until September 30, 2023 for certain legacy contracts). In anticipation of the end of LIBOR, the United States and other countries have worked to replace LIBOR with alternative Reference Rates. The Secured Overnight Financing Rate ("SOFR") was the Reference Rate recommended by the Alternative Reference Rates Committee (the "ARRC") and has been used increasingly on a voluntary basis in new instruments and transactions. The ARRC and regulators have stated that any party choosing another Reference Rate should do so carefully. With respect to financial contracts to which the Client was a party, including prime brokerage agreements, corporate and municipal bonds and loans, consumer loans, bank loans, floating rate debt, certain asset-backed securities, and interest rate swaps and other derivatives, any such contract that had a maturity that extended beyond June 2023 and uses LIBOR as a Reference Rate (other than contracts that included curative fallback language or which have other curative mechanisms available, such as safe harbor legislation adopted in the State of New York to permit the replacement of LIBOR with the rates recommended by the ARRC in contracts governed by New York law) have been renegotiated. Considered in their entirety, the impacts of the discontinuation of LIBOR on financial markets generally and on the specific financial contracts to which the Client is a party is uncertain.

Rise of High-Frequency Trading

In recent years, high-frequency trading has increased, which has raised questions about the impact high frequency trading has on financial markets generally. Though the increase in high-frequency trading has been correlated with increased market liquidity, this purported liquidity may be illusory and high frequency trading may be the cause of reductions in true liquidity and certain instances of extreme volatility. Opponents of high frequency trading argue that it exploits the work of active traders, has reduced the number of active traders and has resulted in increased execution costs. The effects of high frequency trading on specific trades or markets generally may adversely affect the Client's ability to effect its trading strategy.

Alternative Investment Fund Managers Directive

The Alternative Investment Fund Managers Directive (the "AIFM Directive") regulates: (i) alternative investment fund managers (each, an "AIFM") based in the European Economic Area (the "EEA"); (ii)

the management of any alternative investment fund ("AIF") established in the EEA (irrespective of where an AIF's AIFM is based); and (iii) the marketing of any AIF to professional investors in the EEA.

Under the AIFM Directive, certain conditions must be met to permit the marketing of the interests in a client to certain persons in the EEA. Compliance with the requirements of the legal regimes may increase the costs of the administration of the Clients significantly, including the costs of regulatory reporting services for the Clients and custody and prime brokerage services provided to the Clients. As such, the Client's ability to market to persons in the EEA may be limited.

MiFID II

The package of European Union market infrastructure reforms known as "MiFID II" increased regulation of trading platforms and firms providing investment services in the European Union. Among its many market infrastructure reforms, MiFID II brought in: (i) significant changes to pre- and post-trade transparency obligations applicable to financial instruments admitted to trading on EU trading venues (including a new transparency regime for non-equity financial instruments); (ii) an obligation to execute transactions in shares and derivatives on an EU regulated trading venue; and (iii) a new focus on regulation of algorithmic and high frequency trading. These reforms may lead to a reduction in liquidity in certain financial instruments over time, as some of the sources of liquidity exit European markets, and may result in significant increases in transaction costs.

Other regulatory changes, such as an increase in the scope of commodities and commodity derivatives regulation, including position limits and regulatory position management powers could, over time, similarly lead to liquidity reduction and/or an increase in costs and spreads in the European commodities markets.

Although the full impact of these reforms is difficult to assess at present, it is possible that the resulting changes in the available trading liquidity options and increases in transactional costs may have an adverse effect on the ability of the Firm to execute the investment strategy.

Sanctions

The Client's operations are or may become subject to economic sanctions laws and regulations of various jurisdictions. At any given time, whether under applicable law, by contractual commitment or as a voluntary risk management measure, a Client may be required, or elect, to comply with various sanctions programs, including the Specially Designated Nationals and Blocked Persons List and Sectoral Sanctions programs administered by OFAC, the sanctions regimes administered by subsidiary organs of the United Nations Security Council, the Sanctions Orders of the Cayman Islands (including as extended to the Cayman Islands by Order of the government of the United Kingdom from time to time), and the Restrictive Measures adopted by the European Union. Some sanctions that may apply to the Client prohibit or restrict dealings with particular identified persons. Other potentially applicable sanctions programs broadly prohibit or restrict dealings in certain countries or territories or with individuals and entities located in such countries or territories. In addition to such current sanctions, additional sanctions may be imposed in the future. Such sanctions may be imposed with little or no advance warning or "safe harbour" for compliance and may be ambiguous, including as to the scope of financial activities that regulators may ultimately deem to be covered by the sanctions.

Sanctions may negatively impact a Client's ability to effectively implement its investment strategy and have a material adverse impact on the Client's investment program. Sanctions may adversely affect the Client in various ways, including by preventing or inhibiting the Client, or the Investment Manager on the Client's behalf, from making certain investments, forcing the Client to divest from investments

previously made, and leading to substantial reductions in the revenues, profits and value of companies in which the Client has invested. In addition, if the Client or the Investment Manager, were to violate or be deemed in violation of any such sanction, it could face significant legal and monetary penalties. Depending on the scope and duration of a particular sanctions program, compliance by the Client may result in a material adverse effect on the Client's investments therein.

Assumption of Catastrophe Risks

Clients may be subject to the risk of loss arising from direct or indirect exposure to various catastrophic events, including the following: hurricanes, earthquakes and other natural disasters; war, terrorism and other armed conflicts; cyberterrorism; major or prolonged power outages or network interruptions; and public health crises, including the occurrence of an infectious disease. To the extent that any such event occurs and has a material effect on global financial markets or specific markets or issuers in which Clients invest (or has a material negative impact on the operations of the Firm or its service providers) the risks of loss can be substantial and could have a material adverse effect on Clients and the investors' investments therein.

Risks Relating to Specific Investments

We do not recommend a particular type of investment instrument to our Clients, but rather, we recommend and invest in multiple investment instruments. Given the broad discretion we have in managing our Client's investments, any one or more of the risks listed in the following section may be incurred by our Clients.

However, because it may be useful in understanding our investment program, set forth below is a non-exclusive list of certain risks related to securities and other instruments that may be utilized within our Clients' portfolios:

Debt Securities

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

Market Making by Dealers

The value of fixed-income investments will be affected by general fixed income market conditions, such as the volatility and liquidity of the fixed income market, which are affected by the ability of dealers to "make a market" in fixed-income investments. In recent years, the market for bonds has significantly increased while dealer inventories have significantly decreased, relative to market size. This reduction in dealer inventories may be attributable to regulatory changes, such as capital requirements, and is expected to continue. As dealers' inventories decrease, so does their ability to make a market (and, therefore, create liquidity) in the fixed income market. Especially during periods of rising interest rates, this could result in greater volatility and illiquidity in the fixed income market, which could impair profitability or result in losses.

Interest Rate Risk

Changes in interest rates can affect the value of investments in fixed-income instruments. Clients may experience increased interest rate risk to the extent it invests, if at all, in

lower-rated instruments, debt instruments with longer maturities, debt instruments paying no interest (such as zero-coupon debt instruments) or debt instruments paying non-cash interest in the form of other debt instruments.

Prepayment Risk

The frequency at which prepayments (including voluntary prepayments by the obligors and accelerations due to defaults) occur on debt instruments will be affected by a variety of factors including the prevailing level of interest rates and spreads as well as economic, demographic, tax, social, legal and other factors. Generally, obligors tend to prepay their fixed rate obligations when prevailing interest rates fall below the coupon rates on their obligations. Similarly, floating rate issuers and borrowers tend to prepay their obligations when spreads narrow.

In general, "premium" securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since many fixed rate obligations will be discount instruments when interest rates and/or spreads are high, and will be premium instruments when interest rates and/or spreads are low, such debt instruments may be adversely affected by changes in prepayments in any interest rate environment.

The adverse effects of prepayments may impact the Client's portfolio in two ways. First, particular investments may experience outright losses, as in the case of an interest-only instrument in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that the Firm may have constructed for these investments, resulting in a loss to the Client's overall portfolio. In particular, prepayments (at par) may limit the potential upside of many instruments to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

Future Funding Obligations

Clients may from time to time incur funding obligations that may arise in the future in connection with an investment. For example, the Firm may cause the Client to purchase from a lender a revolving credit facility that has not yet been fully drawn. If the borrower subsequently draws down on the facility, the Client would be obligated to fund the amounts due. If the Client is unable to pay its obligations when due, it could face significant penalties that could materially adversely affect its returns. The Client may also enter into agreements pursuant to which it agrees to assume responsibility for default risk presented by a third party, and may, on the other hand, enter into agreements through which third parties offer default protection to the Client.

Zero-Coupon and Deferred Interest Bonds

Zero-coupon bonds and deferred interest bonds are debt obligations issued at a significant discount from face value. The original discount approximates the total amount of interest the bonds will accrue and compound over the period until maturity or the first interest accrual date at a rate of interest reflecting the market rate of the security at the time of issuance. While zero-coupon bonds do not require the periodic payment of interest, deferred interest bonds generally provide for a period of delay before

the regular payment of interest begins. Such investments experience greater volatility in market value due to changes in interest rates than debt obligations that provide for regular payments of interest.

High-Yield

Bonds or other fixed-income securities that are "higher yielding" (including non-investment grade) debt securities are generally not exchange-traded and, as a result, these securities trade in the over-the-counter marketplace, which is less transparent and has wider bid/ask spreads than the exchange-traded marketplace. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions, which could lead to the issuer's inability to meet timely interest and principal payments. High-yield securities are generally more volatile and may or may not be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured by substantially all of the issuer's assets. High-yield securities may also not be protected by financial covenants or limitations on additional indebtedness. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities may be highly leveraged and may not have available to them more traditional methods of financing.

The Firm may invest in obligations of issuers that are generally trading at significantly higher yields than had been historically typical of the applicable issuer's obligations. Such investments may include debt obligations that have a heightened probability of being in covenant or payment default in the future or that are currently in default and are generally considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments. Typically, such workout or bankruptcy proceedings result only in partial recovery of cash payments or an exchange of the defaulted security for other debt or equity securities of the issuer or its affiliates, which may in turn be illiquid or speculative. In addition, the Client may invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments.

Corporate Debt

Bonds, notes and debentures issued by corporations may pay fixed, variable or floating rates of interest, and may include zero-coupon obligations. Corporate debt instruments may be subject to credit ratings downgrades. Other instruments may have the lowest quality ratings or may be unrated. In addition, the Firm may be paid interest in kind in connection with its investments in corporate debt and related financial instruments (*e.g.*, the principal owed to the Client in connection with a debt investment may be increased by the amount of interest due on such debt investment). Such investments may experience greater market value volatility than debt obligations that provide for regular payments of interest in cash and, in the event of a default, the Client may experience substantial losses.

Mezzanine Debt

Mezzanine debt is typically junior to the obligations of a company to senior creditors, trade creditors and employees. The ability of the Firm to influence a company's affairs, especially during periods of financial distress or following an insolvency, will be substantially less than that of senior creditors. Mezzanine debt instruments are often issued in connection with leveraged acquisitions or recapitalizations in which the issuers incur a substantially higher amount of indebtedness than the level at which they had previously operated. Default rates for mezzanine debt instruments have historically been higher than for investment-grade instruments. In the event of the insolvency of a portfolio company of the Client or similar event, the debt investment therein will be subject to fraudulent conveyance, subordination and preference laws.

Stressed Debt

Stressed issuers are issuers that are not yet deemed distressed or bankrupt and whose debt securities are trading at a discount to par, but not yet at distressed levels. An example would be an issuer that is in technical default of its credit agreement, or undergoing strategic or operational changes, which results in market pricing uncertainty. The market prices of stressed and distressed instruments are highly volatile, and the spread between the bid and the ask prices of such instruments is often unusually wide.

Non-Performing Nature of Debt

Certain debt instruments may be non-performing or in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to such debt instruments.

Troubled Origination

When financial institutions or other entities that are insolvent or in serious financial difficulty originate debt, the standards by which such instruments were originated, the recourse to the selling institution, or the standards by which such instruments are being serviced or operated may be adversely affected.

Sovereign Debt

Several factors may affect (i) the ability of a government, its agencies, instrumentalities or its central bank to make payments on the debt it has issued ("**Sovereign Debt**"), including securities that the Firm believes are likely to be included in restructurings of the external debt obligations of the issuer in question, (ii) the market value of such debt and (iii) the inclusion of Sovereign Debt in future restructurings, including such issuer's (x) balance of trade and access to international financing, (y) cost of servicing such obligations, which may be affected by changes in international interest rates, and (z) level of international currency reserves, which may affect the amount of non-U.S. exchange available for external debt payments. Significant ongoing uncertainties and exposure to adverse conditions may undermine the issuer's ability to make timely payment of interest and principal, and issuers may default on their Sovereign Debt.

Equitable Subordination

Under common law principles that in some cases form the basis for lender liability claims, if a lender (i) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called "equitable subordination"). If the Client engages in such conduct, the Client may be subject to claims from creditors of an obligor that debt held by the Client should be equitably subordinated.

Loan Investments

The Firm's success in the area of loan investing will depend, in part, on its ability to obtain loans on advantageous terms. In purchasing loans, the Firm will compete with a broad spectrum of investors and institutions. Increased competition for, or a diminution in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to investors.

Leveraged Loans

"Leveraged loans" are loans made to companies with a below investment-grade rating from any nationally recognized rating agency. Such loans may be performing poorly when the Client acquires them. There is no assurance that the Firm will correctly evaluate the value of the assets collateralizing such loans or the prospects for distribution on or repayment of such loans. The Client may lose its entire investment or may be required to accept cash, property or securities with a value less than the original investment and/or may be required to accept payment over an extended period of time.

Hung Loans

The term "hung loan" commonly refers to a loan that has been made (or has been committed to be made), and the lender is not able to syndicate the loan on the originally anticipated terms. Hung loans are illiquid and lack readily ascertainable market values; there is no assurance that the price to be paid for hung loans by a Client will reflect a discounted price that should allow the Client to achieve a positive return on such loans or avoid losses. Since the price of the loans to be purchased is expected to continue to be significantly impacted by, in addition to the specific circumstances relating to each loan (*e.g.*, in the case of a loan relating to a leveraged buyout ("**LBO**"), the financial condition of the target), global and macroeconomic conditions (*e.g.*, monetary policy, changes to currency exchange rates, governmental intervention or changes to existing laws, international geo-political events, etc.) as well as other systemic factors, it is possible that loans purchased by the Firm will suffer significant impairments in value as a result of events not predicted. The Firm may also face difficulties in disposing of or leveraging such loans, or in doing so without incurring losses. The markets in which hung loans are purchased and sold have been volatile and are likely to continue to be volatile in the future.

Bank Loans

Bank loans are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of the holder to directly enforce its rights with respect to participations. Successful claims by third parties arising from these and other risks will be borne by the Client.

As secondary market trading volumes increase, new loans are frequently adopting standardized documentation to facilitate loan trading, which may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue.

Because of the provision to holders of such loans of confidential information relating to the borrower, the unique and customized nature of the loan agreement, and the private syndication of the loan, loans are not as easily purchased or sold as a publicly traded security, and historically the trading volume in the loan market has been small relative to the high-yield debt market.

Second Lien Loans

A Client may invest in loans that are secured by a second lien on assets. Second lien loans have been a developed market for a relatively short period of time, and there is limited historical data on the performance of second lien loans in adverse economic circumstances. In addition, second lien loan products are subject to intercreditor arrangements with the holders of first lien indebtedness, pursuant to which the second lien holders have waived many of the rights of a secured creditor, and some rights of unsecured creditors, including rights in bankruptcy that can materially affect recoveries. While there is broad market acceptance of some second lien intercreditor terms, no clear market standard has developed for certain other material intercreditor terms for second lien loan products. This variation in key intercreditor terms may result in dissimilar recoveries across otherwise similarly situated second lien loans in insolvency or distressed situations. While uncertainty of recovery in an insolvency or distressed situation is inherent in all debt instruments, second lien loan products carry more risks than certain other debt products. Beginning in August 2007, the market for many loan products, including second lien loans, contracted significantly which made virtually all leveraged loan products, particularly second lien loan products, less liquid or illiquid. Many participants ceased underwriting and purchasing certain second lien loan products. There can be no assurance that the market for second lien loans will not contract further.

Bridge Loans

It is a common practice for financial institutions to commit to providing bridge loans to facilitate acquisitions, including LBOs, where they serve as advisers to the purchaser. Bridge loans are frequently made because, for timing or market reasons, longer-term financing is not available at the time the funds are needed, which is often at the time of the closing of an acquisition. In the past, these commitments were not frequently drawn upon due to the availability of other sources of financing; however, due to market conditions affecting the availability of these other sources of financing (principally high-

yield bond transactions), bridge loan commitments have been and may be drawn upon more regularly. Since these commitments were not regularly drawn upon in the past, there is little history for investors to rely upon in evaluating investments in bridge loans. Bridge loans often have shorter maturities. Borrower and lenders typically agree to shorter maturities based on the anticipation that the bridge loans will be replaced with other forms of financing within such shorter time period. However, the source and timing of such replacement financing may be uncertain and can be affected by, among other things, market conditions and the financial condition of the borrower at the maturity date of the bridge. If the borrower is unable to obtain replacement financing and repay the bridge loan at maturity, the terms of the bridge loan may provide for the bridge loan to be converted to a longer term loan. If bridge loans are not repaid (or cannot be disposed of on favorable terms) on the dates projected by the Firm, there may be an adverse effect upon the ability of the Firm to manage the assets of the Client in accordance with its models and projections or an adverse effect upon performance and ability to make distributions.

Debtor-in-Possession ("DIP") Loans

Loans to companies that have filed for protection under Title 11 of the United States Code, as amended (the "Bankruptcy Code"), are most often asset-based, revolving working-capital facilities put into place at the outset of a Chapter 11 case to provide the debtor with both immediate cash and the ongoing working capital that will be required during the reorganization process. While such loans are generally less risky than many other types of loans as a result of their seniority in the debtor's capital structure and because their terms have been approved by a U.S. federal bankruptcy court order, it is possible that the debtor's reorganization efforts may fail and the proceeds of the ensuing liquidation of the DIP lender's collateral might be insufficient to repay in full the DIP loan.

Fraud Associated with Loans

Of paramount concern in loan investments is the possibility of material misrepresentation or omission on the part of the borrower or loan seller. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability to perfect or effectuate a lien on the collateral securing the loan. The Firm will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to the Client may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Distressed Obligations

The obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems (including companies involved in bankruptcy or other reorganization and liquidation proceedings) are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the risk that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate, recharacterize debt as equity or disenfranchise particular claims. Such

companies' obligations may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to the Client's investments in any financial instrument. Obligations in which the Client invests may be less than investment grade. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that value of the assets collateralizing the Client's investments will be sufficient or that prospects for a successful reorganization or similar action will become available. In any reorganization or liquidation proceeding relating to a company in which the Client invests, the Client may lose its entire investment, may be required to accept cash or securities with a value less than its original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Client's investments may not compensate for the risks assumed. In addition, under certain circumstances, payments and distributions may be disgorged if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new financial instrument the value of which will be less than the purchase price of the financial instrument in respect to which such distribution was made.

Bankruptcy Claims

Firm investments include debt and equity of financially distressed companies. In the event that the issuer files for bankruptcy protection, the Client will likely be unable to sell its claims without realizing a significant loss and may be unable to recover current interest on such claims during the course of the bankruptcy case. The markets in U.S. bankruptcy claims are generally not regulated by U.S. federal securities laws or the SEC. To the extent debt investment is unsecured (*i.e.*, has no collateral securing repayment), such claims may have a lower priority than secured claims (which have first recourse to the collateral securing such claim). In addition, the debt of an issuer in bankruptcy may be adversely affected by an erosion of the issuer's business and overall value. Accordingly, there can be no guarantee that a debtor will be able to satisfy all of its liabilities or that the Client will be able to recover the entire amount of its bankruptcy claim.

Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to appear and be heard, there can be no assurance that a bankruptcy court would not approve actions that may be contrary to the interests of the Client (in its role as a creditor). Furthermore, there are instances where creditors lose their priority under the Bankruptcy Code (*i.e.*, are equitably subordinated) if, for example, they have engaged in misconduct that harms other creditors. In those cases where the Client is found to have engaged in such misconduct, the Client may lose its priority.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, the approval of the plan by creditors and confirmation of the plan by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and the Client; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the issuer may not be able to reorganize and may be required to sell its assets either as a going

concern or as part of a liquidation. As a result, even in those circumstances where the Client may recover the entire amount of its bankruptcy claim, the Client may be adversely impacted by any costs incurred by the Client in representing its interests in a debtor's bankruptcy case.

U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for the purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that the Client's influence with respect to a class of securities can be lost by virtue of the size of its claim relative to the claims of the entire class. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors (for example, claims for certain taxes) may impair the recovery of an investment in a bankruptcy claim.

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

The Firm, on behalf of the Client, may elect to serve on creditors' committees, equityholders' committees or other groups to ensure preservation or enhancement of the Client's positions as a creditor or equityholder. A member of any such committee or group may owe a fiduciary duty and be subject to certain obligations to all members the committee represents and/or to other similarly situated parties. The Firm may resign from that committee or group for any reason, including, for example, if the Firm concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to the Client. In such case, the Client may not realize the benefits, if any, of participation on the committee or group. In addition, if the Client is represented on a committee or group, it may be restricted or prohibited under applicable law from disposing of or increasing its investments in such company while it continues to be represented on such committee or group.

The Client may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser. Additionally, the claim may be disallowed or subordinated if the bankruptcy court determines that the seller engaged in inequitable conduct that harmed other creditors.

Reorganizations can be contentious and adversarial, and it is by no means unusual for participants to use the threat of litigation and to engage in litigation as a negotiating technique. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by the Client.

Real Estate Debt Investments

Real estate debt investments present additional risks not necessarily present in other types of investments. In the case of certain real estate debt investments, the Firm's investment strategy may be based, in part, upon the premise that real estate loans and/or participation interests therein that are otherwise performing are from time to time available for purchase by the Client at "discounted" rates or at "undervalued" prices. Purchasing debt instruments and/or other interests at what may appear to be "undervalued" or "discounted" levels is no guarantee that these investments will generate attractive

risk-adjusted returns or will not be subject to further reductions in value. No assurance can be given that real estate loans and/or participation interests can be acquired at favorable prices or that the market for such interests will continue to improve since this depends, in part, upon events and factors outside the control of the Firm. In addition, there can be no assurance that the market conditions for investing in real estate-related debt instruments may not deteriorate further, which could have an adverse effect on the performance of these investments.

In the case of any real estate loans acquired by the Client that are non-performing at the time of their acquisition and/or become non-performing following their acquisition for a wide variety of reasons, such non-performing real estate loans may require a substantial amount of workout negotiations and/or restructuring, which can entail, among other things, a substantial reduction in the interest rate and a substantial write-down of the principal of such loan. However, even if a restructuring were successfully accomplished, a risk exists that, upon maturity of such real estate loan, replacement "takeout" financing will not be available. Purchases of participations in real estate loans raise many of the same risks as investments in real estate loans and also carry risks of illiquidity and lack of control. It is possible that the Firm and its affiliates may find it necessary or desirable to foreclose on collateral securing one or more real estate loans purchased by the Client. The foreclosure process varies jurisdiction by jurisdiction and can be lengthy and expensive. Borrowers in real estate projects often resist foreclosure actions, which often prolongs and complicates an already difficult and time-consuming process. In some states or other jurisdictions, real estate foreclosure actions can take up to several years or more to conclude. During the foreclosure proceedings, a borrower may have the ability to file for bankruptcy, potentially staying the foreclosure action and further delaying the foreclosure process. Foreclosure litigation tends to create a negative public image of the collateral property and may result in disrupting ongoing leasing and management of the property.

Preferred Stock

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

Municipal Securities

Various factors may adversely affect the value and yield of municipal securities. These factors include political or legislative changes and uncertainties related to the tax status of municipal securities or the rights of investors in these securities. To the extent that the Firm invests heavily in a particular state's municipal securities, the Clients will be more vulnerable to factors affecting that state. The Client's investments in revenue securities, where principal and interest payments are made from the revenue of a specific project or facility, and not general tax revenues, may have increased risks. Factors affecting the project or facility, such as local business or economic conditions, could have a significant impact on the project's ability to make payments of principal and interest on these securities.

ABS and MBS Generally

The investment characteristics of asset-backed securities ("**ABS**") and mortgage-backed securities ("**MBS**") differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that the principal may be prepaid at any time because the underlying loans or other assets generally may be prepaid at any time.

ABS and MBS Subordinated Securities

Investments in subordinated MBS and ABS involve greater credit risk of default than the senior classes of the issue or series. Default risks may be further pronounced in the case of MBS and ABS secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying loans. Certain subordinated securities absorb all losses from default before any other class of securities is at risk, particularly if such securities have been issued with little or no credit enhancement or equity. Such securities, therefore, possess some of the attributes typically associated with equity investments.

Commercial MBS

Mortgage loans on commercial properties often are structured so that a substantial portion of the loan principal is not amortized over the loan term but is payable at maturity and repayment of the loan principal thus often depends upon the future availability of real estate financing from the existing or an alternative lender and/or upon the current value and salability of the real estate. Therefore, the unavailability of real estate financing may lead to default.

Most commercial mortgage loans underlying MBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related MBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of MBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed in lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks, and governmental disclosure requirements with respect to the condition of the property may make a third party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related MBS. Revenues from the assets underlying such MBS may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court appointed receiver to control collateral cash flow.

ABS

ABS are not secured by an interest in the related collateral. Credit card receivables, for example, are generally unsecured and the debtors are entitled to the protection of a number of U.S. federal and state consumer loan laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby reducing the

balance due. Most issuers of ABS backed by automobile receivables permit the servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related ABS. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the ABS may not have a proper security interest in all of the obligations backing such ABS. Therefore, there is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor.

The collateral supporting ABS is of shorter maturity than certain other types of loans and is less likely to experience substantial prepayments. ABS are often backed by pools of any variety of assets, including, for example, leases, mobile home loans and aircraft leases, which represent the obligations of a number of different parties and use credit enhancement techniques such as letters of credit, guarantees or preference rights. The value of an ABS is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement.

RMBS

Holders of residential mortgage-backed securities ("**RMBS**") bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by one to four family residential mortgage loans. Such loans may be prepaid at any time. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity, although such loans may be securitized by government agencies and the securities issued are guaranteed. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the geographic area where the mortgaged property is located, the terms of the mortgage loan, the borrower's "equity" in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

At any one time, a portfolio of RMBS may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations. In addition, the residential mortgage loans may include so called "jumbo" mortgage loans, having original principal balances that are higher than Fannie Mae and Freddie Mac loan balance limitations. As a result, such portfolio of RMBS may experience increased losses.

Each underlying residential mortgage loan in an issue of RMBS may have a balloon payment due on its maturity date. Balloon residential mortgage loans involve a greater risk to a lender than self-amortizing loans, because the ability of a borrower to pay such

amount will normally depend on its ability to obtain refinancing of the related mortgage loan or sell the related mortgaged property at a price sufficient to permit the borrower to make the balloon payment, which will depend on a number of factors prevailing at the time such refinancing or sale is required, including the strength of the residential real estate markets, tax laws, the financial situation and operating history of the underlying property, interest rates, conditions in credit markets and general economic conditions. If the borrower is unable to make such balloon payment, the related issue of RMBS may experience losses.

Prepayments on the underlying residential mortgage loans backing an issue of RMBS will be influenced by the prepayment provisions of the related mortgage notes and may also be affected by a variety of economic, geographic and other factors, including the difference between the interest rates on the underlying residential mortgage loans (giving consideration to the cost of refinancing) and prevailing mortgage rates and the availability of refinancing. In general, if prevailing interest rates fall significantly below the interest rates on the related residential mortgage loans, the rate of prepayment on the underlying residential mortgage loans would be expected to increase. Conversely, if prevailing interest rates rise to a level significantly above the interest rates on the related mortgages, the rate of prepayment would be expected to decrease. Prepayments could reduce the yield received on the related issue of RMBS. RMBS are particularly susceptible to prepayment risks, as they generally do not contain prepayment penalties and a reduction in interest rates will increase the prepayments on the RMBS, resulting in a reduction in yield to maturity for holders of such securities.

Certain mortgage loans may be of subprime credit quality (i.e., do not meet the customary credit standards of Fannie Mae and Freddie Mac). Originators of loans make subprime mortgage loans to borrowers that typically have limited access to traditional mortgage financing for a variety of reasons, including impaired or limited past credit history, lower credit scores, high loan-to-value ratios or high debt-to-income ratios. As a result of these factors, delinquencies and liquidation proceedings are more likely with subprime mortgage loans than with mortgage loans that satisfy customary credit standards. In the event mortgage loans in a mortgage pool related to a residential security become delinquent or subject to liquidation, the related collateralized debt obligations ("CDOs") may experience delays in receiving payment on such RMBS and may suffer losses if the related credit enhancements, if any, are insufficient to cover the delays and losses associated with such RMBS. The RMBS also may be backed by non-conforming mortgage loans that do not qualify for purchase by government-sponsored agencies, such as Fannie Mae and Freddie Mac, because of characteristics and size that do not satisfy Fannie Mae and Freddie Mac guidelines. Non-conforming mortgage loans are likely to experience rates of delinquency, foreclosure and loss that are higher, and that may be substantially higher, than mortgage loans originated in accordance with Fannie Mae or Freddie Mac underwriting guidelines. The principal differences between conforming mortgage loans and non-conforming mortgage loans include the applicable loan-to-value ratios, the credit and income histories of the related mortgagors, the documentation required for approval of the related mortgage loans, the types of properties securing the mortgage loans, the loan sizes and the mortgagors' occupancy status with respect to the mortgaged properties. As a result of these and other factors, the interest rates charged on non-conforming mortgage loans are often higher than those charged for conforming mortgage loans. The combination of different underwriting criteria and higher rates of interest may also lead to higher delinquency, foreclosure and losses on non-conforming mortgage loans as compared to conforming mortgage loans.

RMBS may contain certain credit enhancement features intended to enhance the likelihood that holders of such securities will receive regular payments of interest and principal. If delinquencies or defaults occur on the mortgage loans underlying such RMBS, neither the related servicers nor any other entities will advance scheduled monthly payments of interest and principal on delinquent or defaulted mortgage loans if such advances are not likely to be recovered within those transactions. There can be no assurance that the credit enhancement, if any, applicable to RMBS owned by a CDO will adequately cover any shortfalls in cash available to make payments on such RMBS as a result of such delinquencies or defaults. If substantial losses occur as a result of defaults and delinquent payments on the mortgage loans, the Client may suffer losses with respect to its ownership of such RMBS (or CDOs which own RMBS).

Another factor that may result in higher delinquency rates is the increase in monthly payments on adjustable rate mortgage loans. Borrowers with adjustable rate mortgage loans are being exposed to increased monthly payments when the related mortgage interest rate adjusts upward from the initial fixed rate or a low introductory rate. Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. A decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. Furthermore, borrowers who intend to sell their homes on or before the expiration of the fixed rate periods on their mortgage loans may find that they cannot sell their properties for an amount equal to or greater than the unpaid principal balance of their loans. These events, alone or in combination, may contribute to higher delinquency rates and, as a result, adversely affect the performance and market value of RMBS and CDOs backed by RMBS.

In addition, numerous residential mortgage loan originators that originate subprime mortgage loans have recently experienced serious financial difficulties and, in some cases, bankruptcy. Those difficulties have resulted in part from declining markets for mortgage loans as well as from claims for repurchases of mortgage loans previously sold under provisions that require repurchase in the event of early payment defaults, or for material breaches of representations and warranties made on the mortgage loans, such as fraud claims. These difficulties may adversely affect the performance and market value of RMBS originated, serviced or subserviced by these companies. As a result, the performance and market value of CDOs backed by RMBS also may be adversely affected.

The mortgage loans underlying certain of the RMBS may be structured with negative amortization features. Negative amortization arises when the mortgage payment in respect of a loan is smaller than the interest due on such loan. On any such mortgage loans, if the monthly payments are not enough to cover both the interest and principal payments on the loan, the shortfall is added to the principal balance, causing the loan balance to increase rather than decrease over time. During periods in which the outstanding principal balance of any such mortgage loan is increasing due to the addition of deferred interest, the increasing principal balance of such mortgage loan may approach or exceed the value of the related mortgage property, thus increasing the likelihood of defaults as well as the amount of any loss experienced with respect to any such mortgage loan that is required to be liquidated. Furthermore, each such mortgage loan generally provides for the payment of any remaining unamortized principal balance (due to the addition of deferred interest, if any, to the principal balance of such mortgage loan) in a single payment at the maturity of the loan. Because the related mortgagors may be required to make a larger single payment upon maturity, it is possible that the default risk

associated with such mortgage loans is greater than that associated with fully amortizing mortgage loans. If the pool of mortgage loans underlying any RMBS owned by the Client (or a CDO backed by RMBS) were to contain loans with negative amortization features, the yield on such RMBS could be adversely affected.

RMBS have structural characteristics that distinguish them from other asset-backed securities. The rate of interest payable on RMBS is often set or effectively capped at the weighted average net coupon of the underlying mortgage loans themselves, often referred to as an "available funds cap". Other factors, such as the use of interest rate derivatives, may also affect the returns on RMBS. The U.S. Servicemembers' Civil Relief Act of 2003, as amended (the "Relief Act"), provides relief to mortgagors who enter into active military service or who were on reserve status but are called to active duty after the origination of their mortgage loans. Under the Relief Act, during the period of a mortgagor's active duty, the rate of interest that may be charged on such mortgagor's loan will be capped at a rate of 6% per annum, which may be below the interest rate that would otherwise have been applicable to such mortgage loan.

Violations of consumer protection laws may result in losses on RMBS. Applicable state laws generally regulate interest rates and other charges, require licensing of originators and require specific disclosures. In addition, other state laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the origination, servicing and collection of the loans backing RMBS. Depending on the provisions of the applicable law and the specific facts and circumstances involved, violations of these laws, policies and principles may limit the ability of the issuer of a RMBS to collect all or part of the principal of or interest on the underlying loans, may entitle a borrower to a refund of amounts previously paid and, in addition, could subject the owner of a mortgage loan to damages and administrative enforcement.

The mortgage loans backing a RMBS also are subject to U.S. federal laws, including:

- the U.S. Truth in Lending Act and Regulation Z promulgated under the Truth in Lending Act, which require particular disclosures to the borrowers regarding the terms of the loans;
- the Equal Credit Opportunity Act and Regulation B promulgated under the Equal Credit Opportunity Act, which prohibit discrimination on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act, in the extension of credit;
- the Americans with Disabilities Act, which, among other things, prohibits discrimination on the basis of disability in the full and equal enjoyment of the goods, services, facilities, privileges, advantages or accommodations of any place of public accommodation;
- the Fair Credit Reporting Act, which regulates the use and reporting of information related to the borrower's credit experience;
- the Home Ownership and Equity Protection Act of 1994, which regulates the origination of high cost loans;

- the Depository Institutions Deregulation and Monetary Control Act of 1980, which preempts certain state usury laws; and
- the Alternative Mortgage Transaction Parity Act of 1982, which preempts certain state lending laws which regulate alternative mortgage transactions.

Violations of particular provisions of these U.S. federal laws may limit the ability of the issuer of RMBS to collect all or part of the principal of or interest on the related underlying loans and in addition could subject such issuer to damages and administrative enforcement. In this event, the issuer, as a holder of such RMBS may suffer a loss.

Some of the mortgages loans backing a RMBS may have been underwritten with, and finance the cost of, credit insurance. From time to time, originators of mortgage loans that finance the cost of credit insurance have been named in legal actions brought by U.S. federal and state regulatory authorities alleging that certain practices employed relating to the sale of credit insurance constitute violations of law. If such an action were brought against such issuer with respect to mortgage loans backing such RMBS and were successful, it is possible that the borrower could be entitled to refunds of amounts previously paid or that such issuer could be subject to damages and administrative enforcement.

In addition, numerous U.S. federal and state statutory provisions, including the U.S. federal bankruptcy laws, the Relief Act and state debtor relief laws, also may adversely affect the ability of an issuer of a RMBS to collect the principal of or interest on the loans, and holders of the affected RMBS may suffer a loss if the applicable laws result in these loans becoming uncollectible.

In addition to the U.S. federal laws described above, however, a number of legislative proposals have been introduced at the U.S. federal, state and municipal levels that are designed to discourage predatory lending practices. Some states have enacted, or may enact, laws or regulations that prohibit inclusion of some provisions in mortgage loans that have mortgage rates or origination costs in excess of prescribed levels, and require that borrowers be given certain disclosures prior to the consummation of such mortgage loans. In some cases, state law may impose requirements and restrictions greater than those in the Homeownership Act. An originator's failure to comply with these laws could subject the issuer of a RMBS to monetary penalties and could result in the borrowers rescinding the loans underlying such RMBS. Lawsuits have been brought in various states making claims against assignees of high cost loans for violations of state law. Named defendants in these cases include numerous participants within the secondary mortgage market, including some securitization trusts.

Structured Notes

Structured notes, variable rate mortgage-backed and asset-backed securities each have rates of interest that vary based on a designated floating rate formula or index. The value of these investments is closely tied to the absolute levels of such rates or indices, or the market's perception of anticipated changes in those rates or indices. The movements in specific indices or interest rates may be difficult or impossible to hedge.

Collateralized Debt Obligations

There are a variety of different types of collateralized debt obligations ("**CDOs**"), including CDOs collateralized by trust preferred securities and asset-backed securities and CDOs collateralized by corporate loans and debt securities called collateralized loan obligations ("**CLOs**"). CDOs may issue several types of securities, including CDO and CLO equity, multi-sector CDO equity, trust preferred CDO equity and CLO debt. CDOs are subject to credit, liquidity and interest rate risks, which are each discussed in greater detail above. The CDO equity may be unrated or non-investment grade. As a holder of CDO equity, the Client will have limited remedies available upon the default of the CDO. The Client may be unable to find a sufficient number of attractive opportunities to meet its investment objective or fully invest its available capital. For example, from time to time, the market for CDO transactions has been adversely affected by a decrease in the availability of senior and subordinated financing for transactions, in part in response to regulatory pressures on providers of financing to reduce or eliminate their exposure to such transactions. CDOs often invest in concentrated portfolios of assets. The concentration of an underlying portfolio in any one obligor would subject the related CDOs to a greater degree of risk with respect to defaults by such obligor and the concentration of a portfolio in any one industry would subject the related CDOs to a greater degree of risk with respect to economic downturns relating to such industry. The value of CDOs generally fluctuates with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CDO ("**CDO Collateral**"), general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. Consequently, holders of CDOs must rely solely on distributions on the CDO Collateral or proceeds thereof for payment in respect thereof. If distributions on the CDO Collateral are insufficient to make payments on the CDOs, no other assets will be available for payment of the deficiency and following realization of the CDOs, the obligations of such issuer to pay such deficiency generally will be extinguished. CDO Collateral may consist of high-yield debt securities, loans, asset-backed securities and other securities, which often are rated below investment grade (or of equivalent credit quality). High-yield debt securities generally are unsecured (and loans may be unsecured) and may be subordinated to certain other obligations of the issuer thereof. The lower ratings of high-yield securities and below investment grade loans reflect a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the related issuer or obligor to make payments of principal or interest. Such investments may be speculative.

Subordination of CDO Debt and CDO Equity

Subordinate CDO debt generally is fully subordinated to the related CDO senior tranches. CDO equity generally is fully subordinated to any related CDO debt and is not secured by any collateral. Distributions to holders of CDO equity will generally be made solely from distributions on the assets of the CDO issuer after all other payments have been made pursuant to the priority of payments of such CDO. To the extent that any losses are incurred by a CDO in respect of its related CDO Collateral, such losses will be borne first by the holders of the related CDO equity, next by the holders of any related subordinated CDO debt and finally by the holders of the related CDO senior tranches. In addition, if an event of default occurs under the governing instrument or underlying investment, as long as any CDO senior tranches are outstanding, the holders thereof generally will be entitled to determine the remedies to be exercised under the instrument governing the CDO. Remedies pursued by such holders could be adverse to the interests of the holders of any related subordinated CDO debt and/or the holders of the related CDO equity, as applicable. Subordinate CDO debt and CDO equity represent leveraged investments in the assets of the CDO. Therefore, the leveraged nature of such securities may magnify the adverse impact on the market value of such securities caused by changes

affecting the assets underlying such securities, including changes in the market value of such assets, changes in distributions on such assets, defaults and recoveries, capital gains and losses on such assets, prepayments and the availability, prices and interest rates of such assets. Accordingly, subordinate CDO debt and CDO equity may not be paid in full and may be subject to up to 100% loss.

Control by Senior CDO Debt

In a typical CDO, the most senior CDO debt (the "**Controlling Class**") will control many rights under the CDO indenture and therefore, holders of subordinate CDO debt and CDO equity will have limited rights in connection with an event of default or distributions thereunder. Remedies pursued by the holders of the Controlling Class upon an event of default could be adverse to the interests of the holders of subordinate CDO debt and CDO equity. If an event of default has occurred and is continuing, the holders of CDO equity will not have any creditors' rights against the CDO issuer and will not have the right to determine the remedies to be exercised under the CDO indenture. There is no guarantee that any funds will remain to make distributions to the holders of subordinate CDO debt and CDO equity following any liquidation of the CDO assets and the application of the proceeds from the CDO assets to pay senior classes of CDO debt and the fees, expenses, and other liabilities payable by the CDO issuer. The Controlling Class may also have consent rights in respect of amendments and CDO manager removal rights in connection with certain events.

Mandatory Redemption of CDO Senior Tranches and CDO Debt

Under certain circumstances, cash flows from CDO Collateral that otherwise would have been paid to the holders of any related CDO debt and the related CDO equity will be used to redeem the related CDO senior tranches. This could result in an elimination, deferral or reduction in the interest payments, principal repayments or other payments made to the holders of such CDO debt or such CDO equity, which could adversely impact the returns to the holders of such CDO debt or such CDO equity.

Optional Redemption of CDO Senior Tranches and CDO Debt

An optional redemption of a CDO could require the collateral or portfolio manager of the related CDO to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the realized value of the items of CDO Collateral sold (and which in turn could adversely impact the holders of any related CDO debt, and/or the holders of the related CDO equity).

Rating Agencies

Future actions of any rating agency can adversely affect the market value or liquidity of CDOs. Rating agencies rating a CDO may change their published ratings criteria or methodologies for CDOs at any time in the future. Further, such rating agencies may retroactively apply any such new standards to the ratings of the CDO securities purchased by the Client. Any such action could result in a substantial lowering (or even withdrawal) of any rating assigned to any such CDO security, despite the fact that such CDO security might still be performing fully to the specifications set forth for such CDO security in the related transaction documents. The rating assigned to any CDO may also be lowered following the occurrence of an event or circumstance despite the fact that the related rating agency previously provided confirmation that such occurrence would

not result in the rating of such CDO being lowered. Additionally, any rating agency may, at any time and without any change in its published ratings criteria or methodology, lower or withdraw any rating assigned by it to any class of CDO security. If any rating initially assigned to any CDO security is subsequently lowered or withdrawn for any reason, holders of such security may not be able to resell their security without a substantial discount. Any reduction or withdrawal to the ratings on any class of CDO security may significantly reduce the liquidity thereof and may adversely affect the CDO issuer's ability to make certain changes to the composition of the CDO assets since the CDO's indenture may contain restrictions on portfolio modifications that are tied to the ratings on the CDO's securities.

A rating agency may also revise or withdraw its ratings of a CDO security as a result of a failure by the issuer or the manager of such CDO to provide it with information requested by such rating agency or comply with any of its obligations contained in the engagement letter with such rating agency, including the posting of information provided to the rating agency on a website that is accessible by rating agencies that were not hired in connection with the issuance of the CDO securities as required by law. In addition, a CDO security may receive an unsolicited rating, which may have an adverse effect on the liquidity or the market price of such CDO security. Any such revision or withdrawal of a rating as a result of such a failure might adversely affect the liquidity and value of the CDO security.

Warehouse Agreements

The Client may enter into warehouse agreements ("Warehouse Agreements") with certain collateral managers, including the Firm. Pursuant to such Warehouse Agreements, the Client may provide financing, either directly or indirectly, for the purchase of assets, or may own certain assets ("Warehouse Securities") in anticipation of such assets constituting the collateral of a CDO or other structured transaction (a "Structured Transaction"). Upon the closing of the Structured Transaction to which the Warehouse Agreement relates, the Client may or may not purchase securities issued in such Structured Transaction. The Client may not achieve its investment objective in financing the warehouse if the Warehouse Securities are not purchased in the Structured Transaction or where the Structured Transaction fails to close. A collateral manager will purchase Warehouse Securities from the warehouse for a Structured Transaction only to the extent that the collateral manager determines that such purchases are consistent with the investment guidelines of the Structured Transaction, the restrictions contained in the collateral management agreement and applicable law. If Warehouse Securities are not purchased for a Structured Transaction, depending on the terms of the Warehouse Agreement, Warehouse Securities may be liquidated, which may result in a profit or a loss to the Client, or the Client may take possession of the Warehouse Securities. In either case, the Client will bear the risk that the value of such Warehouse Securities may be below their purchase price. If a Structured Transaction fails to close, in addition to the foregoing risks, the Client may not be paid for financing the warehouse facility.

Effects of Regulation on CDO Market

Legislative or regulatory action taken by the U.S. federal government or any U.S. regulatory body (or other authority or regulatory body) in response to economic conditions or otherwise may negatively impact the liquidity and value of CDOs. For example, the "Volcker Rule" contained in the Dodd-Frank Act, which imposes limitations on the ability of banking entities and their affiliates to invest in private

investment funds such as CDO issuers, may have a substantial negative impact on the liquidity and value of CDOs. No prediction can be made as to how any modifications made to the Volcker Rule will affect the liquidity and value of CDOs purchased by the Client.

Illiquid Securities and Long-Term Investments

Certain financial instruments may be illiquid because, for example, they are subject to legal or other restrictions on transfer or there is no liquid market for such financial instruments. Valuation of such financial instruments may be difficult or uncertain because there may be limited information available about the issuers of such financial instruments. The market prices, if any, for such financial instruments tend to be volatile and may not be readily ascertainable, and the Firm may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid financial instruments often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of financial instruments eligible for trading on national securities exchanges or in the over-the-counter markets. The Client may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. As a result, the Client may be required to hold such financial instruments despite adverse price movements. Even those markets which the Firm expects to be liquid can experience periods, possibly extended periods, of illiquidity. Occasions have arisen in the past where previously liquid investments have rapidly become illiquid.

Due to the illiquid nature of such investments, as well as the uncertainties of the reorganization and active management process or litigation related to investments made by the Client, the Firm is unable to predict with confidence what the exit strategy will ultimately be for any given core position, or that one will definitely be available. Exit strategies which appear to be viable when an investment is initiated may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors. Although portfolio investments by the Client occasionally may generate some current income, private investment transaction structures typically will not provide for liquidity of the Client's investment prior to that time.

It is unlikely there will be a public market for the securities or instruments held by the Client at the time of their acquisition. In the case of privately negotiated transactions, the Firm generally will not be able to sell its securities or instruments publicly unless the issuer has gone public and such sale is registered under applicable securities laws or unless an exemption from such registration requirements is available. In addition, in some cases, it is expected that the Client will be prohibited by contract or other limitation from selling certain securities or instruments for a period of time (*e.g.*, due to limitations on sale arising from contractual lockups, obligations to receive consent to transfer or assign interests, or rights of first offer), and as a result may not be permitted to sell a portfolio investment at a time it might otherwise desire to do so. Further, disposition of such investments may require a lengthy time period or result in distributions in kind to investors. Thus, the range of disposal strategies available may be further limited.

A Client may invest in investments which cannot be advantageously disposed of prior to the date that the Client will be dissolved. While it is expected that investments of a Client will either be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution, the Client may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution.

Undervalued Securities

The identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued securities offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from investments may not adequately compensate for the business and financial risks assumed.

Unlisted Securities

Unlisted securities may involve higher risks than listed securities. Because of the absence of any trading market for unlisted securities, it may take longer to liquidate, or it may not be possible to liquidate, positions in unlisted securities than would be the case for publicly traded securities. Companies whose securities are not publicly traded may not be subject to public disclosure and other investor protection requirements applicable to publicly traded securities.

Derivative Instruments

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

Regulation in the Derivatives Industry

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

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

These regulations may also result in a Client forgoing the use of certain trading counterparties (such as broker-dealers and futures commission merchants ("**FCMs**")), as the use of other parties may be more efficient for a Client from a regulatory perspective. However, this could limit a Client's trading activities, create losses, preclude a Client from engaging in certain transactions or prevent a Client from trading at optimal rates and terms.

Many of these requirements were implemented under legislation intended to reform the U.S. financial regulatory system the EU Regulation on OTC Derivatives, Central

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

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

Reporting

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

Central Clearing

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

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

Another risk is that the Client may be subject to more onerous and more frequent (daily or even intraday) margin calls from both the Client's FCM and the clearinghouse. Virtually all margin models utilized by the clearinghouses are dynamic, meaning that unlike traditional bilateral swap contracts where the

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

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

Swap Execution Facilities

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

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

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

Margin Requirements for Non-Cleared Swaps

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

Call and Put Options

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

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

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

Index or Index Options

The value of an index or index option fluctuates with changes in the market values of the assets included in the index. Because the value of an index or index option depends upon movements in the level of the index rather than the price of a particular asset, whether the Client will realize appreciation or depreciation from the purchase or writing of options on indices depends upon movements in the level of instrument prices in the assets generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular assets.

Index Futures

The price of index futures contracts may not correlate perfectly with the movement in the underlying index because of certain market distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, participants may close futures contracts through offsetting transactions that would distort the normal relationship between the index and futures markets. Second, from the point of view of speculators, the deposit requirements in the futures market are less onerous than margin requirements in the securities market. Therefore, increased participation by speculators in the futures market also may cause price distortions. Successful use of index futures contracts is subject to the Firm's ability to correctly predict movements in the direction of the market.

Credit Default Swaps

Credit default swaps can be used to implement the Firm's view that a particular credit, or group of credits, will experience credit improvement or deterioration. In the case of expected credit improvement, the Firm may sell credit default protection in which it receives a premium to take on the risk. In such an instance, the obligation of the Client to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. The Firm may also buy credit default protection with respect to a referenced entity if, in the Firm's judgment, there is a high likelihood of credit deterioration. In such instance, the Client will pay a premium regardless of whether there is a credit event.

Futures Contracts

The value of futures contracts depends upon the price of the financial instruments, such as commodities, underlying them. The prices of futures contracts are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, as well as national and international political and economic events and policies. In addition, investments in futures contracts are also subject to the risk of the failure of any of the exchanges on which the Client's positions trade or of its clearinghouses or counterparties. Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits". Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Client from promptly liquidating

unfavorable positions and subject the Client to substantial losses or prevent it from entering into desired trades. Also, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

Non-U.S. Futures Transactions

Foreign futures transactions involve executing and clearing trades on a foreign exchange. This is the case even if the foreign exchange is formally "linked" to a domestic exchange, whereby a trade executed on one exchange liquidates or establishes a position on the other exchange. No domestic organization regulates the activities of a foreign exchange, including the execution, delivery, and clearing of transactions on such an exchange, and no domestic regulator has the power to compel enforcement of the rules of the foreign exchange or the laws of the foreign country. Moreover, such laws or regulations will vary depending on the foreign country in which the transaction occurs. For these reasons, the Client may not be afforded certain of the protections which apply to domestic transactions, including the right to use domestic alternative dispute resolution procedures. In particular, funds received from customers to margin foreign futures transactions may not be provided the same protections as funds received to margin futures transactions on domestic exchanges. In addition, the price of any foreign futures or option contract and, therefore, the potential profit and loss resulting therefrom, may be affected by any fluctuation in the foreign exchange rate between the time the order is placed and the time the foreign futures contract is liquidated or the time the foreign option contract is liquidated or exercised.

Forward Contracts

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

Contracts for Differences

Contracts for differences ("CFDs") are privately negotiated contracts between two parties, buyer and seller, stipulating that the seller will pay to or receive from the buyer the difference between the nominal value of the underlying instrument at the opening of

the contract and that instrument's value at the end of the contract. The underlying instrument may be a single security, stock basket or index. A CFD can be set up to take either a short or long position on the underlying instrument. The buyer and seller are both required to post margin, which is adjusted daily. The buyer will also pay to the seller a financing rate on the notional amount of the capital employed by the seller. As is the case with trading any financial instrument, there is the risk of loss associated with trading a CFD. There may be liquidity risk if the underlying instrument is illiquid because the liquidity of a CFD is based on the liquidity of the underlying instrument. A further risk is that adverse movements in the underlying security will require the posting of additional margin. CFDs also carry counterparty risk, *i.e.*, the risk that the counterparty to the CFD transaction may be unable or unwilling to make payments or to otherwise honor its financial obligations under the terms of the contract. If the counterparty were to do so, the value of the contract may be reduced. Entry into a CFD transaction may, in certain circumstances, require the payment of an initial margin and adverse market movements against the underlying stock may require additional margin payments. CFDs may be considered illiquid. To the extent that there is an imperfect correlation between the return on the Client's obligation to its counterparty under the CFDs and the return on related assets in its portfolio, the CFD transaction may increase the Client's financial risk.

Failure to Enter into Offsetting Trade

To the extent the Client invests in a futures contract or long option, unless an offsetting trade is made, the Client would be required to take physical delivery of the commodity underlying the future or option. To the extent the Firm fails to enter into such offsetting trade prior to the expiration of the contract, the Client may suffer a loss since neither the Client nor the Firm has the operational capacity to accept physical delivery of commodities.

Exotic Options

Exotic options are typically, but not always, traded over-the-counter. OTC contracts may not trade in a liquid market and pricing may be opaque. The illiquidity of these markets can be exacerbated in times of market stress. A Client may incur substantial costs entering into and exiting positions that could have a material impact on performance. Exotic options may be subject to a higher degree of pricing risk as demonstrated by instances in which different counterparties in the market employ different valuation and pricing methodologies to the same exotic option. Because exotic options can often be highly customized, there is lower visibility with respect to the pricing and valuation of these instruments. Exotic options may be subject to high levels of price volatility. For example, in the case of barrier options, as the price of the asset underlying the option trades closer to a barrier level, the delta of the option (*i.e.*, the ratio of the change in the price of the underlying asset to the corresponding change in the price of the option) and the gamma of the option (*i.e.*, the rate of change of the delta with respect to the underlying asset's price) may become very high. Exotic options may be subject to higher levels of model risk than commonly traded options because standard models are not able to adequately capture or predict the risks associated with the exotic options. Exotic options may be "path dependent". This means that their terminal value (at exercise or expiration) depends upon the value of the underlying asset, not only at the time of exercise or expiration, but also at prior points in time. In this sense, the option's terminal value depends upon the "path" taken by the underlying asset over the life of the option. For example, a barrier option's value at expiration depends upon both the value of the underlying asset at expiration and whether the past value of the underlying asset ever

satisfied a barrier condition. In contrast, a vanilla option (e.g., a call option) is not path dependent. Its value at exercise or expiration depends on the value of the underlying asset only at that point in time. The additional features incorporated by exotic options require additional judgments regarding the likelihood of certain conditions being satisfied, any one of which can result in loss if made incorrectly. An OTC option may be closed out only with the counterparty, although either party may engage in an offsetting transaction that puts that party in the same economic position as if it had closed out the option with the counterparty; however, the exposure to counterparty risk may differ. OTC options generally involve greater credit and counterparty risk than exchange-traded options.

Repurchase and Reverse Repurchase Agreements

In a reverse repurchase transaction, the Client "buys" securities issued from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid by the Client, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements involves certain risks. For example, if the seller of securities under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, the buyer will seek to dispose of such securities, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, the Client's ability to dispose of the underlying securities may be restricted. It is possible, in a bankruptcy or liquidation scenario, that the Client may not be able to substantiate its interest in the underlying securities. Finally, if a seller defaults on its obligation to repurchase securities under a reverse repurchase agreement, the Client may suffer a loss to the extent that it is forced to liquidate its position in the market, and proceeds from the sale of the underlying securities are less than the repurchase price agreed to by the defaulting seller. Similar elements of risk arise in the event of the bankruptcy or insolvency of the buyer.

Equity Securities Generally

The value of equity securities of public and private, listed and unlisted companies and equity derivatives generally varies with the performance of the issuer and movements in the equity markets. As a result, a Client may suffer losses if it invests in equity instruments of issuers whose performance diverges from the Firm's expectations or if equity markets generally move in a single direction and the Firm has not hedged against such a general move. A Client also may be exposed to risks that issuers will not fulfill contractual obligations such as, in the case of convertible securities or private placements, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale.

Litigation Finance and Claims

The investments made by the Client are expected to include interests in ongoing litigations, including, but not limited to, the purchase of the rights to bring or continue to pursue certain litigation or arbitration claims, the making of loans to the parties to litigation or arbitration proceedings (generally referred to as "**litigation funding**"), and debt or equity investments in companies engaged in litigation or arbitration proceedings. In addition to other risks commonly associated with loans and debt and equity investments, such investments, (which are referred to collectively herein as "**litigation investments**") are subject to a number of significant risks, including, but not limited to, the following:

Ethics and Legal Restrictions

Laws and professional regulations (including ethics regulations and professional codes of conduct) in the litigation investment environment can be complex and uncertain. Various jurisdictions prohibit or restrict the assignment of certain claims and/or participating in a lawyer's contingent fee interests (including ethical rules against sharing fees with lawyers and non-lawyers). Prohibitions against maintenance, champerty and barratry exist in several jurisdictions. Such prohibitions and restrictions are governed by the rules and regulations of each jurisdiction and vary in degree of strength and enforcement.

Some jurisdictions may not permit the Client to make investments in or engage in other business and financial transactions relating to certain litigation. The law and regulations in such jurisdictions may be uncertain, and accordingly, the Client may not have the ability or the desire to make such investments in these jurisdictions, thereby limiting the size of the potential market. There is also the risk that the Client may make an investment despite the uncertainty around a certain jurisdiction, leading to the risk that such investment agreement may not be enforced.

The Firm intends to assess the foregoing legal and ethical issues as appropriate on an ongoing basis. However, in many jurisdictions, the relevant issues may not have been considered by the courts or addressed by statute, so obtaining clear opinions or legal advice may be difficult. Thus, the Client's investments could be open to challenge or subsequent reduction in value.

Changes in laws, regulations or ethical rules in certain jurisdictions could further reduce or limit litigation investment opportunities for the Client or could reduce the value of the Client's pre-existing litigation investments in such jurisdictions.

Failure to Comply

The Client's failure to comply with any federal, state or local law or regulation relating to a litigation investment, whether actual or alleged, could expose the Client to fines, penalties or potential litigation liabilities, including costs, settlements and judgments, any of which could adversely affect the Client. Any failure to comply with such applicable laws or regulations also could result in a range of sanctions and enforcement actions, including the imposition of civil money penalties, formal agreements and cease and desist orders.

Some Litigation Markets are Still in Infancy

To the extent that the Client invests in litigation investments, such investments may involve litigation or arbitration in the European Union (the "EU") or other non-U.S. jurisdictions. Unlike the comparatively well-established market in the United States, certain of such jurisdictions have historically lacked cohesive mechanisms allowing claimants to seek compensation and may apply more cumbersome procedures, inconsistent standards of evidence and/or suffer from a lack of precedent. There can be no assurance that such legal and regulatory frameworks will evolve (if at all) in favor of the Client.

The Outcome of Claims is Uncertain

The outcome of litigation claims entails a large degree of uncertainty, including the legal liability of the defendant, the amount of damages assessed by the trier of fact, the ability of the defendant and the defendant's insurance company to pay a settlement or judgment, the abilities of the plaintiff's counsel, the assessment of fault and causation, the legal nature of the claim and the amount of monetary damages ultimately awarded. It is also possible that a claimant that is funded by the Client may abandon or otherwise compromise its claims. Such an event may prevent the Client from realizing expected returns or cause the Client to sustain a complete loss. The uncertainties of litigation may result in a judgment for amounts less than anticipated, a settlement for amounts lower than predicted, or failure to reach a settlement. Such unfavorable outcomes could reduce the profitability of the Client's investments and ultimately cause losses.

Investment Selection

The Client's ability to achieve its investment objectives with respect to litigation investments depends on whether claims in which the Client invests will be successful, will pay the targeted returns and will pay those returns in the anticipated time. Assessing the values, strengths and weaknesses of a claim is complex and the outcome is not certain. Should cases, claims, defenses or disputes in which the Client invests prove to be unsuccessful or produce returns below those expected, the value of the Client could be adversely affected. The Firm may be unable to access or review documents relating to a case, including documents protected by the attorney-client privilege. Such lack of access may lessen the ability of the Firm to assess fully the strengths and weaknesses of a claim.

Evaluation and Disclosure of Cases and Case Performance

Details of cases that the Client is pursuing or intends to pursue from time to time cannot and will not be disclosed on a named or detailed basis because of confidentiality and other restrictions. To this extent, the Client will be dependent upon the judgment and ability of the Firm, and not any other persons, to assess and manage the assets of the Client.

Collection Risks; Uncertainty of Timing

Part of the case selection process for a litigation investment involves assessing the ability of a defendant to pay a judgment or award if a claim is successful. If the defendant is unable to pay or seeks to challenge the validity of the judgment or award, the Client may encounter difficulties in recovery. Additionally, certain aspects of litigation recoveries, including the timing and amounts recovered, are outside of the control of the Client and the Firm. Once a litigation investment is made, there is no assurance as to collection times, and there is no guarantee that the Firm will be able to predict the timing of payment with enough accuracy to achieve the anticipated profitability and rate of return in any given period. The award collections that may secure a litigation investment are specialized assets that require significant work to collect. There can be no assurance that the Client will be able to successfully collect and service the collection process. A failure to collect an award may have an adverse effect on the Client.

Retaliation Risks

There are retaliation risks associated with litigation investments. It is possible that one or more of the parties to a litigation (whether a private party or a sovereign government) may threaten regulatory action or litigation and/or institute regulatory actions or lawsuits against the Client and/or the Firm and/or its employees or members in an attempt to undermine an investment or prospective investment. The law and regulations in non-U.S. jurisdictions vary and what would be considered a retaliatory or frivolous action or lawsuit in the United States may be permissible in a non-U.S. jurisdiction. The expense of defending against any such action or litigation as well as any settlements or judgments in connection therewith will generally be borne by the Partners. There can be no assurances that any such action or litigation, once begun, would be resolved in favor of the Client and/or the Firm and/or its employees or members and an unfavorable outcome could reduce the profitability of the Client and may ultimately cause losses.

Legal Professional Duties

Where the Client participates in a claim but does not wholly own or control it, which may frequently be the case, the Client will not be the client of the law firm representing the owner of the claim. Accordingly, that law firm will be required to act pursuant to its client's wishes rather than those of the Client or may be subject to an overriding duty to the courts.

Reliance on Lawyers

Neither the Client nor the Firm is a law firm, provides legal advice or engages in the practice of law. With respect to any litigation investment, the Client will be particularly reliant on lawyers to litigate claims and defenses with due skill and care. If such lawyers are not able to do this, or do not do this for other reasons, the value of the Client could be adversely affected. There is no guarantee that the outcome of a case will be in line with the lawyers' assessment of the case or the lawyers' capabilities.

Commodities

Factors affecting Commodities Prices

The values of commodities which underlie the commodity futures contracts and other types of financial instruments are generally affected by, among other factors, the cost of producing commodities, changes in consumer demand for commodities, the hedging and trading strategies of producers and consumers of commodities, speculative trading in commodities by commodity pools and other market participants, disruptions in commodity supply, weather and climate conditions, changes in interest rates, rates of inflation, currency devaluations and revaluations, embargoes, tariffs, regulatory developments, governmental, agricultural, trade, fiscal, monetary and exchange control programs and policies, political and other global events and global economic factors. In addition, governments from time to time intervene, directly and by regulation, in certain markets, often with the intent to influence prices directly. The effects of governmental intervention may be particularly significant at certain times in certain markets and this intervention may cause these markets to move rapidly. The Client and the Firm have no control over the factors that affect the price of commodities. Accordingly, the value of the Client's investments could change substantially and in a rapid and unpredictable manner.

Agricultural Commodities

Agricultural commodities are particularly sensitive to changes in, among other things, climate, crop and livestock health, world political events, government action (including export and import restrictions and embargoes), international and regional trade contracts, labor contracts, transportation systems and crop predictions. Significant production declines and volume decreases of agricultural commodities can occur. In addition, agricultural commodities are subject to price volatility. As a result, the net assets of the Client may be affected by such factors.

Energy

Markets for energy-related commodities, including electricity, coal, natural gas, crude oil and other petroleum products, can be susceptible to substantial price fluctuations over short periods of time and are particularly affected by political events, natural disasters, exploration and development success or failure, and technological changes. In addition, significant short-term price volatility can occur.

Storage of Physical Commodities

Commodities held in storage are subject to a risk of loss in the event of bankruptcy of the storage facility, or physical damage to the storage facility and its contents. Physical loss of stored commodities may be the result of insurable or uninsurable risks. The Firm may choose not to purchase insurance for insurable risks based on its risk assessment. Even if the physical commodities owned by the Client are insured, certain events may not be covered by such insurance.

Cash Commodities

Contracts governing the purchase and sale of specific physical commodities (known as "cash commodities") for immediate or deferred delivery may differ from each other with respect to terms such as quantity, grade, mode of shipment, terms of payment, penalties and risk of loss. There is no limit on daily price movements of cash commodities, and banks, brokerage firms, and dealers in cash commodities are not required to continue to make markets in any commodity. Lastly, the CFTC does not comprehensively regulate cash transactions, which are subject to the risk of the foregoing entities' failure, inability or refusal to perform with respect to such contract.

Physical Assets

Investments in physical assets are subject to risks—destruction, loss, industry-specific regulation (e.g., pollution control regulation), operating failures, labor relations, etc.—that are not typically directly applicable to financial instrument trading. In addition, the regulation of such assets is extensive and variable, and the Client's commitment to certain of such assets (e.g., if the Client were to invest in a power plant) could be wholly illiquid for long periods of time. Prices of such assets are affected by factors such as global supply and demand, investors' expectations with respect to the rate of inflation, currency exchange rates, interest rates, investment and trading activities of hedge funds and commodity funds, and global or regional political, economic or financial events and situations. Markets can be volatile at times, and there may be sharp fluctuations in prices even during periods of rising prices.

Convertible Securities

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by a Client is called for redemption, the Client will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on the Client's ability to achieve its investment objective.

Currencies

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

Exchange-Traded Funds

Exchange-traded funds ("**ETFs**") are publicly traded unit investment trusts, open-end funds or depository receipts that seek to track the performance and dividend yield of specific indexes or companies in related industries. These indexes may be either broad-based, sector, or international. However, ETF shareholders are generally subject to the same risk as holders of the underlying financial instruments they are designed to track. ETFs are also subject to certain additional risks, including the risk that their prices may not correlate perfectly with changes in the prices of the underlying financial instruments they are designed to track, and the risk of trading in an ETF halting due to market conditions or other reasons, based on the policies of the exchange upon which the ETF trades. Generally, each shareholder of an ETF bears a *pro rata* portion of the ETF's expenses, including management fees.

Real Estate

Real estate investments are not as liquid as other types of investments and this lack of liquidity may tend to limit the Client's ability to react promptly to changes in economic or other conditions. In addition, expenditures associated with real estate investments, such as mortgage payments, real estate taxes and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investments. The Client may need to comply with certain legal, tax and other requirements prior to liquidating such investments.

Real Estate Insurance

The insurance coverage applicable to real estate investments contains policy specifications and insured limits customarily carried for similar properties, business activities and markets. There may be certain losses, including losses from floods and losses from earthquakes, acts of war, acts of terrorism or riots, that are not generally insured against or that are not generally fully insured against because it is not deemed to be economically feasible or prudent to do so. If an uninsured loss or a loss in excess of insured limits occurs with respect to a real estate investment, the Client could experience a significant loss and could potentially remain obligated under any recourse debt associated with the property.

Potential Environmental Liability

Under various U.S. federal, state, and local laws, ordinances and regulations, a current or previous owner, developer or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, under or in its property. The costs of removal or remediation of such substances could be substantial. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such hazardous substances. The Firm will attempt to assess such risks as part of its due diligence activities, but cannot give any assurance that such conditions do not exist or may not arise in the future. The presence of such substances on the Client's real estate investments could adversely affect its ability to sell such investments or to borrow using such investments as collateral.

Real Estate-Related Securities

Securities issued by entities which invest in real estate, including "real estate investment trusts" ("REITs"), generally will be subject to the risks incident to the ownership and operation of commercial real estate and/or risks incident to the making of nonrecourse mortgage loans secured by real estate. Such risks include the risks associated with both the domestic and international general economic climates; local real estate conditions; risks due to dependence on cash flow; risks and operating problems arising out of the absence of certain construction materials; changes in supply of, or demand for, competing properties in an area (as a result, for instance, of over-building); the financial condition of tenants, buyers and sellers of properties; changes in availability of debt financing; energy and supply shortages; changes in the tax, real estate, environmental, and zoning laws and regulations; various uninsured or uninsurable risks; natural disasters; and the ability of the Client or third-party borrowers to manage the real properties. In addition, the Client may incur the burdens of ownership of real property, which include the paying of expenses and taxes, maintaining such property and any improvements thereon, and ultimately disposing of such property.

Insurance-Related Risks

Investments in public and private insurance and reinsurance companies, catastrophe bonds, weather derivatives, life insurance policies and annuities, and other financial instruments linked to insurance and reinsurance risks and similar factors, are subject to all of the numerous inherent risks of the insurance and reinsurance industry, such as weather-related and other natural or man-made catastrophes, which are unpredictable and may result in significant losses. A significant natural disaster, such as a hurricane or earthquake, or terrorist incident, or a series of such events, could have a material, adverse effect on the Client.

Reinsurance Transactions

Reinsurance transactions include insurance-linked securities and insurance-linked derivatives. Insurance-linked securities are fixed income or equity securities for which the return of principal or invested capital and payment of interest or dividends are contingent on the occurrence or non-occurrence of specific natural or man-made perils such as hurricanes, earthquakes or other physical or weather-related catastrophic events, aviation or marine disasters and similar events. Insurance-linked derivatives are financial contracts the returns on which are linked to the same types of events as insurance-linked securities. In addition, reinsurance transactions may include life insurance-based financial instruments, the returns on which are linked to mortality risks or other performance-based measures of a portfolio of life insurance policies.

Insurance-linked investments are subject to relatively infrequent but severe losses resulting from the occurrence of one or more catastrophic events, such as hurricanes, windstorms, hailstorms, earthquakes, fires, explosions, severe winter weather, tsunamis, floods, riots, aviation disasters, or other physical or weather-related or man-made catastrophic events. The occurrence or non-occurrence of such catastrophic events can be expected to result in volatility with respect to the Client's assets.

In connection with its investment diligence process related to insurance-linked investments, the Firm may rely on models and analysis performed by third parties (including the sponsors of such insurance-linked investments). Actual loss experience can materially differ from that generated by such models. These models rely on various assumptions, some of which are subjective and some of which vary between the different catastrophe risk modeling firms. The loss probabilities generated by such models are not predictive of future catastrophic events, or of the magnitude of losses that may occur. Actual frequency of catastrophic events and their attendant losses could materially differ from those estimated by such models.

An investment in insurance-linked investments will expose the Client to the credit risk of several parties involved in the reinsurance product chain. For example, the Client will have exposure to the reinsurer that is buying the reinsurance from the issuer of the insurance-linked investments in respect of such reinsurer's obligation to make premium payments to the issuer. The issuers of insurance-linked investments may also be exposed to the credit risk of reinsurance brokers and other service providers with whom the sponsoring reinsurer conducts business related to the reinsurance policies to which such insurance-linked investments have exposure.

Certain insurance-linked investments may permit the Client to acquire such investments with one or more deliveries or pledges of securities in lieu of a one-time cash purchase payment but such investments may also obligate the Client to post additional collateral if the value of securities delivered by the Client fall below certain levels. Such margin call requirements expose the Client to the risk that the securities delivered by the Client to secure its obligations to the issuer of the related insurance-linked investments or the sponsoring reinsured company may fall below certain specified levels and cause the Client to use its most liquid assets to meet margin calls.

U.S. state insurance laws and regulations and the laws of many non-U.S. jurisdictions contain broad definitions of the activities that may constitute the conduct of the business of insurance or reinsurance in such jurisdictions. Insurance regulatory authorities have broad discretionary powers in administering insurance laws, including the authority (subject to appeal in court or otherwise) to determine whether a party is conducting the business of insurance or reinsurance within their applicable jurisdictions. Because insurance-linked investments have certain features and an investment return that may be based on the occurrence of events that traditionally are the subject of insurance, it is possible that such instruments may be structured in a manner where insurance regulatory authorities or courts would determine that the purchase or holding of such securities or the writing of such derivatives by the Client constitutes the conduct of the business of insurance and reinsurance. In the event such a determination were made, the Client may be subject to regulatory and legal action.

Special Purpose Acquisition Companies

A special purpose acquisition company (a “**SPAC**”) is a publicly traded company formed for the purpose of raising capital through an initial public offering to fund the acquisition, through a merger, capital stock exchange, asset acquisition or other similar business combination, of one or more undervalued operating businesses. Following the acquisition of a target company, a SPAC typically would exercise control over the management of such target company in an effort to increase the value of such target company. Capital raised through the initial public offering of securities of a SPAC is typically placed into a trust until the target company is acquired or a predetermined period of time

elapses. Investors in a SPAC would receive a return on their investment in the event that a target company is acquired and such target company's value increased. In the event that a SPAC is unable to locate and acquire target companies by the deadline, the SPAC would be forced to liquidate its assets, which may result in losses due to the expenses and liabilities of the SPAC. Investors in a SPAC are subject to the risk that, among other things, (i) such SPAC may not be able to locate or acquire target companies by the deadline, (ii) assets in the trust may be subject to third-party claims against such SPAC, which may reduce the per share liquidation price received by the investors in the SPAC, (iii) such SPAC may be exempt from the rules promulgated by the SEC to protect investors in "blank check" companies, such as Rule 419 promulgated under the Securities Act, so that investors in such SPAC may not be afforded the benefits or protections of those rules, (iv) such SPAC may only be able to complete one business combination, which may cause it to be solely dependent on a single business, (v) the value of any target company may decrease following its acquisition by such SPAC, (vi) the value of the funds invested and held in the trust decline, (vii) the inability to redeem due to the failure to hold the securities in the SPAC on the record date or the failure to vote against the acquisition and (viii) if the SPAC is unable to consummate a business combination, public stockholders will be forced to wait until the deadline before liquidating distributions are made. In addition, most SPACs are illiquid and have a concentrated shareholder base that tends to be comprised of hedge funds (at least at inception). The Firm may invest in a SPAC that, at the time of investment, has not selected or approached any prospective target businesses with respect to a business combination. In such circumstances, there may be limited basis for the Firm to evaluate the possible merits or risks of such SPAC's investment in any particular target business. To the extent that a SPAC completes a business combination, it may be affected by numerous risks inherent in the business operations of the acquired company or companies. For these and additional reasons, investments in SPACs are speculative and involve a high degree of risk.

Restricted Securities

Restricted securities cannot be sold to the public without registration under the Securities Act. Unless registered for sale, restricted securities can be sold only in privately negotiated transactions or pursuant to an exemption from registration (*e.g.*, under Rule 144A of the Securities Act). Although these securities may be resold in privately negotiated transactions, because there is often little liquidity for these securities, they may be difficult and take a substantial amount of time to sell, and the prices realized from these sales could be less than those originally paid by the Client. Restricted securities may involve a high degree of business and financial risk which may result in substantial losses.

When-Issued and Forward Commitment Securities

The purchase of securities on a "when-issued" basis involves a commitment by the Client to purchase or sell securities at a future date (typically one or two months later). No income accrues on securities that have been purchased on a when-issued basis prior to delivery to the Client. When-issued securities may be sold prior to the settlement date. If the Client disposes of the right to acquire a when-issued security prior to its acquisition, it may incur a gain or loss. In addition, there is a risk that securities purchased on a when-issued basis may not be delivered to the Client. In such cases, the Client may incur a loss.

Risks Relating to Non-U.S. Investments and Non-U.S. Jurisdictions

Non-U.S. Exchanges

The Client may trade on exchanges or markets located outside the U.S. Trading on such exchanges or markets is not regulated by the SEC and the CFTC and may, therefore, be subject to more risks than

trading on U.S. exchanges, such as the risks of exchange controls, expropriation, burdensome taxation, moratoria and political or diplomatic events. Risks in investments in non-U.S. financial instruments may also include reduced and less reliable information about issuers and markets, less stringent accounting standards, illiquidity of securities and markets, higher brokerage commissions and custody fees.

Non-U.S. Investments

Investing in the financial instruments of companies (and, from time to time, governments) outside of the United States involves certain considerations not usually associated with investing in financial instruments of U.S. companies or the U.S. government, including political and economic considerations, such as greater risks of expropriation, nationalization, confiscatory taxation, imposition of withholding or other taxes on interest, dividends, capital gains, other income or gross sale or disposition proceeds, limitations on the removal of assets and general social, political and economic instability; the relatively small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; the evolving and unsophisticated laws and regulations applicable to the securities and financial services industries of certain countries; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the Client's investment opportunities. In addition, accounting and financial reporting standards that prevail outside of the U.S. generally are not as high as U.S. standards and, consequently, less information is typically available concerning companies located outside of the U.S. than for those located in the U.S. As a result, the Client may be unable to structure its transactions to achieve the intended results or to mitigate all risks associated with such markets. It may also be difficult to enforce the Client's rights in such markets. For example, financial instruments traded on non-U.S. exchanges and the non-U.S. persons that trade these instruments are not subject to the jurisdiction of the SEC or the CFTC or the securities and commodities laws and regulations of the U.S. Accordingly, the protections accorded to the Client under such laws and regulations are unavailable for transactions on non-U.S. exchanges and with non-U.S. counterparties.

Item 9: Disciplinary Information

There are no legal or disciplinary events that are material to a Client's or prospective Client's evaluation of our advisory business or the integrity of our management.

Item 10: Other Financial Industry Activities and Affiliations

Neither we nor our management persons are registered as broker-dealers, and neither of us has any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer, respectively.

Jones Road meets the definition of a commodity pool operator and, depending on the amount of commodity interests that we trade, we may be required to register with the CFTC and become a member of the National Futures Association. However, we currently claim an exemption from registration pursuant to CFTC Rule 4.13(a)(3) based on our trading a *de minimis* level of commodity interests.

We do not recommend or select other investment advisers for our Clients.

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

Code of Ethics

Jones Road has adopted a “**Code of Ethics**” that establishes the high standard of conduct that we expect of our employees and procedures regarding our employees’ personal trading of securities. Our employees are required to certify their adherence to the terms set forth in the Code of Ethics upon commencement of employment and annually thereafter. Employees also are required to provide quarterly certifications of compliance with certain Code of Ethics provisions (as described below).

The foundation of our Code of Ethics is based upon the following underlying fiduciary principles:

- Employees must at all times place the interests of the Clients first;
- Employees must ensure that all personal securities transactions are conducted consistent with the Code of Ethics’ personal trading policy (described below); and
- Employees should not take inappropriate advantage of their position at the Firm.

Personal Securities Trading

The Firm’s personal trading policy is designed to prevent potential legal, business or ethical conflicts from arising between the personal trading activities of Employees and the interests of our Clients; to minimize the risk of unlawful or conflicting trading in any account where employees have an interest; and to guard against the misuse of confidential information or material, nonpublic information. All personal trading must avoid any conflict or potential conflict with Jones Road or any Client. This policy includes requirements for publicly traded securities.

Employees are expected to devote their workday to serving the Clients and the interests of Jones Road and must avoid personal trading on a scale or of a kind that would distract from daily work responsibilities. Accordingly, Jones Road discourages personal trading.

Employees are precluded from engaging in personal trading with respect to single name securities and positions (other than the exit of legacy positions that may be permitted by the CCO with prior approval). Employees may be granted approval to trade indices, broad based exchange traded products (“ETPs”), listed closed-end funds, municipal bonds, and related derivatives (“Permitted Securities”). The Firm defines broad based ETPs as exchange traded funds / notes / partnerships / trusts which track an index, subset of an index, sector, or other economic factor (e.g. volatility, interest rates, precious metals, commodities etc.). Additionally, the CCO will maintain a list of Permitted Securities that may be traded without pre-approval (“Preapproved List”). It is anticipated that the Preapproved List may be updated (reflecting removals and/or additions of Permitted Securities) from time to time. The Firm discourages active personal trading even in Permitted Securities.

Investing in the following is also permitted:

- Direct obligations of the U.S. government (governmental/supranational bonds);
- Shares issued by money market funds;
- 529 account plans;
- Shares issued by open-end funds (mutual funds) or foreign equivalent open-ended unit trusts (and similar instruments); and
- Units of a unit investment trust; if the unit investment trust is invested exclusively in one or more open-end funds;

- Money market instruments defined as bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments;

Employees must ensure that they comply with any trading restrictions.

We will provide a copy of our Code of Ethics to our Clients and investors, or any prospective client or investor, upon request.

Participation or Interest in Client Transactions

Cross Trades

The Firm may determine that it would be in the best interests of our Clients, including investment funds, managed accounts, proprietary accounts and other investment vehicles (collectively, "Accounts" and, each an "Account") to transfer a financial instrument from one Account to another (each such transfer, a "Cross Trade") for a variety of reasons, including tax purposes, liquidity purposes, to rebalance the portfolios of the Accounts, or to reduce transaction costs that may arise in an open market transaction. If the Firm decides to engage in a Cross Trade, the Firm will determine that the trade is in the best interests of both of the Accounts involved and take steps to ensure that the transaction is consistent with the duty to obtain best execution for each of those Accounts.

The Firm can execute Cross Trades with the assistance of a broker-dealer that executes and books the transaction at the close of the market on the day of the transaction. Alternatively, a cross transaction between two Clients may occur as an "internal cross", where the Firm instructs the custodian for the Accounts to book the transaction at the price determined in accordance with the Firm's valuation policy and procedures. If the Firm effects an internal cross, the Firm will not receive any fee in connection with the completion of the transaction.

Principal Transactions

To the extent that Cross Trades may be viewed as principal transactions (as such term is used under the Advisers Act) due to the ownership interest in an Account by the Firm (or its affiliates), or to the extent the Firm otherwise engages in principal transactions, the Firm will comply with the requirements of Section 206(3) of the Advisers Act. In connection with principal transactions, Cross Trades, related-party transactions and other transactions and relationships involving potential conflicts of interest, a Fund Advisory Board may be authorized, on behalf of a Fund and the investors, to approve or disapprove, to the extent required by applicable law or deemed advisable by the Firm and its affiliates, such transactions and conflicts of interest. Such Fund Advisory Board may approve of such transactions prior to or contemporaneous with, or ratify such transactions subsequent to, their consummation. In no event will any such transaction be entered into unless it complies with applicable law. Member(s) of such Advisory Board may be exculpated and indemnified by a Fund. Any decision of a Fund Advisory Board will be binding on all investors.

Neither we nor our related persons generally purchase any securities for our own accounts from, or sell any securities for our own accounts to, Clients. We have solicited and may continue to solicit qualified clients to invest in a Fund. We could be considered to have recommended an investment in the Fund as suitable for a Client as a result of our relationship with the Fund. We will inform each Client of our relationship with a Fund prior to the Client's investment, but we do not intend to advise Clients as to the appropriateness of the investment and we will not receive any compensation for selling interests in a Fund (except to the extent that we receive our Management Fee and Performance-based Compensation from Clients or investors).

We disclose these, and other potential conflicts of interest, to investors in the applicable Fund's Offering Documents. Offering Documents are delivered to investors prior to their investment and investors are given the opportunity to ask questions and seek answers regarding, among other things, potential conflicts involving us, our affiliates, or the executive officers of the foregoing.

Certain Employee Certifications

All Employees are given a copy of the Compliance Manual and Code of Ethics and are required to attest in writing that they have read and understand their contents. Periodic updates to these documents will be circulated to all Employees.

All Employees will attest to various compliance policies and matters on no less than a quarterly basis, including with respect to the following matters:

- Personal Trading;
- Gifts and Entertainment;
- Outside Business Activities;
- Public speaking events & Interactions with the Media
- Compliance Breaches and Investor Complaints; and
- Political Contributions.

Conflicts of Interest Created by Contemporaneous Trading

Though the Firm seeks to act in the best interests of its Clients (and has adopted various policies and procedures to that end), at times, conflicts of interest arise from the fact that the Firm and its affiliates provide investment management services to multiple Clients.

There are Clients that have investment objectives, programs, strategies and positions that are similar. Additionally, Clients may have investment objectives, programs, strategies and positions that conflict, or may compete with or have interests adverse to other Clients. Such conflicts could affect the prices and availability of financial instruments in which Clients invest. Even if Clients have investment objectives, programs or strategies that are similar, at times, the Firm may give advice or take action with respect to the investments held by, and transactions of, one Client that may differ from the advice given or the timing or nature of any action taken with respect to the investments held by, and transactions of, another Client, for a variety of reasons, including, without limitation, differences between the investment strategy, financing terms, regulatory treatment and tax treatment of those Clients. As a result, Clients may have substantially different portfolios and investment returns. Conflicts of interest may also arise when the Firm makes decisions on behalf of one Client with respect to matters where the interests of the Firm or one or more Clients differs.

Allocations of Trades and Investment Opportunities

It will be the policy of the Firm to allocate investment opportunities to Clients on a fair and equitable basis, to the extent practical and in accordance with the applicable investment strategies, over a period of time. Investment opportunities will generally be allocated among those Clients for which participation in the respective opportunity is considered appropriate, taking into account, among other considerations: (i) whether the risk-return profile of the proposed investment is consistent with an Client's objectives; (ii) the potential for the proposed investment to create an imbalance in an Client's portfolio; (iii) the liquidity requirements of an Client; (iv) the tax considerations related to the proposed investment; (v) regulatory restrictions that would or could limit a Client's ability to participate in a

proposed investment; and (vi) the need to re-size risk in a Client's portfolio. Such considerations may result in the non-*pro rata* allocation of an investment opportunity among Clients.

Although sales of investments held by multiple Clients generally are expected to be sold by the Clients on a *pari passu* basis (as held), the Firm, in its sole discretion, may sell investments from various Clients on a non-*pro rata* basis based on a wide variety of factors, including those described above in respect of allocations of investment opportunities. Accordingly, it is possible that one Client may be selling an investment, while another Client is retaining or investing more capital in the same investment.

The Firm will have no obligation to purchase or sell a financial instrument for, enter into a transaction on behalf of, or provide an investment opportunity to, one Client solely because the Firm purchases or sells the same financial instrument for, enters into a transaction on behalf of, or provides an opportunity to, another Client if, in its reasonable opinion, such financial instrument, transaction or investment opportunity does not appear to be suitable, practicable or desirable for each Client.

In particular, when a Client is ramping up its investment or trading strategies, it may receive larger allocations of certain financial instruments than other Clients in order to obtain its desired risk and portfolio size.

Item 12: Brokerage Practices

Jones Road is authorized to determine the broker-dealer to be used for executing securities transactions for its Clients. In selecting broker-dealers to execute transactions, we do not need to solicit competitive bids and do not have an obligation to seek the lowest available commission cost. The Funds' securities and other assets are held in securities accounts at our prime brokers and custodians (where applicable) that are "Qualified Custodians" as defined in the Advisers Act.

Business Management & Operating Committee

The Firm has established a Business Management & Operating Committee. The Business Management and Operating Committee is responsible for overseeing the Firm's business team and functions, including Financial Control & Accounting, Investor Relations, Legal & Compliance, Operations and Office Management/Human Resources.

This committee also provides supervision and monitoring of the Firm's trading policies.

These matters are reviewed on no less frequent than a quarterly basis.

The following matters (among others) are covered:

- Trading Authorities;
- Approved broker list;
- Evaluate performance of broker dealers with reference to various factors, including, among others, commission rates, execution services, reliability and coverage (reviewed semiannually);
- Review of broker allocations;
- Review and approve any soft dollar arrangements;
- Review trade errors and determine any remedial actions;
- Review trade allocation and aggregation of client trades;
- Review securities regulations, or changes or amendments thereto, related to trading;

- Review other internal controls related to trading activities;
- Review any principal or cross trades;
- Review of restricted list;
- Review potential conflicts of interests; and
- Review records related to proxy and other voting matters.

Best Execution

In selecting brokers and negotiating commission rates, we will take into account the financial stability and reputation of brokerage firms, and the research, brokerage, or other services provided by such brokers.

To help oversee the Firm's best execution policies, the Firm's Business Management & Operating Committee is responsible for developing, evaluating and changing, when necessary, the Firm's order execution practices in selecting and using its brokers. This committee assesses the performance of the broker-dealers and the commission levels paid by the funds.

In selecting an appropriate broker-dealer to effect a Client trade, we seek to obtain "Best Execution". In seeking Best Execution, we will take into consideration the price of a security offered by the broker-dealer, as well as a broker-dealers' full range and quality of their services including, among other things, their reliability and financial responsibility, execution capability, commission rates, responsiveness, brokerage and research services provided to us (for example, research ideas, analysis, and investment strategies). Jones Road is not required to weigh these factors equally. Since commission rates in the United States are negotiable, Jones Road's selection of broker-dealers on the basis of considerations that are not limited to applicable commission rates may at times result in Clients being charged higher transaction costs than they could otherwise obtain.

Soft Dollars

Jones Road is not currently using formal commission sharing agreements, but receives from broker-dealers research, products and services that fall within the Section 28(e) safe harbor. Clients may pay commissions, spreads or mark-ups to a broker-dealer in an amount greater than the amount another broker-dealer charges if Jones Road determines, in good faith, that the amount of commissions, spreads or mark-ups charged by such broker-dealer is reasonable in relation to the value of brokerage and research products or services provided by such broker-dealer.

In the future the Firm may use formal "Soft Dollar" or commission sharing arrangements. In such cases, Soft Dollar credits, generated by a Client's trading activities, would also be used to purchase brokerage and research services or products that would otherwise have been a Clients' expense. We intend to keep any such arrangements within the parameters of the safe harbor of Section 28(e) of the Securities Exchange Act of 1934. When Jones Road uses client brokerage commissions (or markups or markdowns) to obtain research or other products or services, it receives a benefit because it does not have to produce or pay for such products or services. Jones Road will not necessarily allocate soft dollar benefits to Client accounts in proportion to the soft dollar benefits the Client accounts generate. The availability of soft dollars from certain broker-dealers presents Jones Road with conflicts of interest and may give incentives for Jones Road to disregard its obligations to Clients (including, without limitation, its best execution obligations) when directing orders. The receipt of information, products or services paid for with soft dollars is in addition to, and not in lieu of, the Management Fees and performance-based fees received by Jones Road and/or its affiliates, and such fees are not reduced as a consequence of the receipt of such products or services purchased with soft dollars.

Neither Jones Road nor any related person receives client referrals from any broker-dealer or third party. However, subject to Best Execution, we may consider, among other things, capital introduction and marketing assistance with respect to investors in the Funds in selecting or recommending broker-dealers for the Funds. Jones Road does not recommend, request or require that a Client direct it to execute transactions through a specified broker-dealer.

Order Aggregation

If Jones Road determines that the purchase or sale of a financial instrument is appropriate with regard to multiple Clients, the Firm may, but is not obligated to, purchase or sell such a financial instrument on behalf of such Clients with an aggregated order, for the purpose of reducing transaction costs, to the extent permitted by applicable law. When an aggregated order is filled through multiple trades at different prices on the same day, each participating Client will receive the average price (if practicable), with transaction costs generally allocated pro rata based on the size of each Client's participation in the order (or allocation in the event of a partial fill) as determined by the Firm. In the event of a partial fill, allocations may be modified on a basis that Jones Road deems to be appropriate, including, for example, in order to avoid odd lots or de minimis allocations. When orders are not aggregated, trades generally will be processed in the order that they are placed with the broker or counterparty selected by the Firm. As a result, certain trades in the same financial instrument for one Client (including a Client in which the Firm and its personnel may have a direct or indirect interest) may receive more or less favorable prices or terms than another Client, and orders placed later may not be filled entirely or at all, based upon the prevailing market prices at the time of the order or trade. In addition, some opportunities for reduced transaction costs and economies of scale may not be achieved.

Item 13: Review of Accounts

The Firm has a duty to ensure that its investment recommendations are suitable and that the portfolios are managed in conformity with the relevant investment objectives and guidelines as well as any applicable restrictions, whether required under the terms of the Client governing documents and applicable law and/or regulation. The Firm's portfolio managers and other investment professionals are responsible for understanding the investment objectives and policies of each Client. Generally, client accounts are reviewed on a regular basis by the appropriate Firm professionals which includes the relevant portfolio managers and other investment professionals, as well as the Chief Financial Officer. These reviews are designed to, among other things, monitor and analyse transactions, positions, investment levels and portfolio risk. The investment professionals meet regularly to review position and portfolio matters.

Account Reporting

We will distribute annual audited financial statements with respect to the previous fiscal year to all investors within 120 days of the relevant Fund's fiscal year end. We may also distribute other interim reports to investors.

Item 14: Client Referrals and Other Compensation

Jones Road does not currently utilize any third-party solicitors. In the future, Jones Road may enter into written arrangements with third parties to act as solicitors or marketers. As applicable, all such compensation would be fully disclosed to each Client consistent with applicable law. All such referral activities would be conducted in accordance with relevant SEC guidance.

Jones Road does not anticipate receiving any economic benefit, from any person who is not a Client, for providing investment advice or other services to its Clients. Neither we nor any of our related persons, directly or indirectly, compensate any person who is not a supervised person for client referrals.

Item 15: Custody

We comply with the Advisers Act's Custody Rule (for those Clients for which we will be deemed to have custody) by meeting the conditions of the pooled vehicle annual audit exception. Upon completion of the relevant Fund's annual audit by an independent auditor that is registered with, and subject to inspection by, the Public Company Accounting Oversight Board (PCAOB), either we, or one of our service providers (e.g., administrator for the Fund(s)) under the Firm's direction, will distribute the Fund's audited financials to investors within 120 days of the Fund's fiscal year end.

Item 16: Investment Discretion

We have full discretionary authority over our Clients' accounts including authority to make decisions with respect to which securities to be bought and sold, as well as the amount and price of those securities.

Jones Road or an affiliate of Jones Road has entered into an investment management agreement, or similar agreement, with each Client, pursuant to which Jones Road or an affiliate of Jones Road was granted discretionary trading authority.

Item 17: Voting Client Securities

In compliance with the Advisers Act's Proxy Voting Rule, we have adopted proxy voting policies and procedures. The general policy is to vote all proxy proposals, amendments, consents or resolutions (collectively, "**Proxies**") in a prudent and diligent manner that will serve the applicable Client's best interests and is in line with each Client's investment objectives.

We may abstain from voting (which generally requires submission of the ballot) or decide not to vote if the Firm determines that abstaining or not voting is in the best interests of our Clients.

We may take into account all relevant factors, as determined by us in our discretion, including, without limitation:

- the impact on the value of the securities or instruments owned by the relevant client and the returns on those securities;
- the anticipated associated costs and benefits;
- the continued or increased availability of portfolio information; and
- industry and business practices.

Generally, Clients may not direct our vote in a particular solicitation.

Conflicts of interest may arise between the interests of the Clients on the one hand and us or our affiliates on the other hand. If we determine that we may have, or be perceived to have, a conflict of interest when voting Proxies, we will vote in accordance with our Proxy voting policies and procedures. Clients may obtain a copy of our Proxy voting policies and our Proxy voting record upon request.

Item 18: Financial Information

We are not required to include a balance sheet for our most recent fiscal year, are not aware of any financial condition reasonably likely to impair our ability to meet contractual commitments to clients, and have not been the subject of a bankruptcy petition at any time during the past ten years.