

# **ADAR1 Capital Management, LLC**

**3503 Wild Cherry Drive, Building 9,  
Austin, TX 78738**

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This “**Brochure**” provides information about the qualifications and business practices of ADAR1 Capital Management, LLC (hereinafter “**ADAR1**”, “**we**”, “**us**”, “**our**” or the “**Firm**”). If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer (“**CCO**”), Stephen Scipione, by email at [\*\*stephen@adarone.com\*\*](mailto:stephen@adarone.com). Information in this Brochure has not been approved or verified by the U.S. Securities and Exchange Commission (the “**SEC**”) or by any state securities authority.

ADAR1 has applied as an “Investment Adviser Expecting to be Eligible for Commission Registration within 120 Days” with the SEC. Registration as an investment adviser does not imply that ADAR1 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 ADAR1 is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2: Material Changes**

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This Brochure is ADAR1's initial Form ADV Part 2A which has been submitted with our application for registration with the SEC; therefore, there are no material changes to report. In the future, if the Brochure contains material changes from our last update, we will identify and discuss those changes in this section.

**Item 3: Table of Contents**

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**Item 4: Advisory Business**

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ADAR1 Capital Management, LLC (hereinafter “**ADAR1**”, “**we**”, “**us**”, “**our**” or the “**Firm**”) is organized as a Texas limited liability company with a principal place of business in Austin, TX.

ADAR1 serves as the investment adviser, with discretionary trading authority, to private, pooled investment vehicles including:

ADAR1 Partners, LP, a Delaware limited partnership (the “**Master Fund**”) and ADAR1 Partners (BVI), Ltd., a British Virgin Islands Business Company limited by shares (the “**Offshore Fund**” and together with the Master Fund, the “**ADAR1 Funds**”). ADAR Capital Management GP, LLC, a Texas limited liability company, serves as the general partner of the Master Fund and as an investment adviser to the Offshore Fund (the “**GP**”). “**Limited Partners**” and “**Shareholders**” of the applicable ADAR1 Fund are collectively referred to as the “**Investors**” where appropriate. ADAR1 also acts as the sub-advisor/trading advisor to a sub-account of a third-party sponsored pooled investment vehicle that is structured as a “first loss” fund in which ADAR1 contributed “first loss” capital (the “**First Loss Fund**” and, together with the ADAR1 Funds, the “**Funds**” or “**Clients**”). All of ADAR1’s Clients are pooled investment vehicles intended for institutional and other sophisticated investors.

We do not generally tailor our advisory services to the individual needs of any particular investor in such pooled investment vehicles or accept investor-imposed investment restrictions. However, we have entered into agreements with certain Investors and Clients, including the First Loss Fund, granting these Investors and Clients specific rights including, but not limited to imposing restrictions on investing in certain securities or certain types of securities.

Certain Clients have different investment objectives and investment strategies from other Clients.

Our investment decisions and advice with respect to each Client are made according to each Client’s investment objectives and guidelines, as set forth in its respective confidential offering memorandum and governing documents (collectively, “**Offering Documents**”)

This Brochure does not constitute an offer to sell, or solicitation of an offer to buy, any securities. The securities of the Funds are offered and sold on a private placement basis under exemptions promulgated under the Securities Act, and other exemptions of similar import under U.S. state laws and the laws of other jurisdictions where any offering may be made. In order to invest in a Fund and become a Limited Partner/Shareholder, a person must meet certain suitability standards and qualify as an accredited investor, within the meaning of Regulation D promulgated under the Securities Act of 1933, as amended (the “**Securities Act**”) and a qualified purchaser, within the meaning of Section 2(a)(51) of the Investment Company Act of 1940, as amended (the “**Company Act**”) or a “knowledgeable employee” within the meaning of Rule 3c-5 under the Company Act. In addition, in order to invest in the Offshore Fund, non-U.S. investors must qualify as non-U.S. persons in accordance with Regulation S of the Securities Act and meet certain other conditions fully set forth in its Offering Documents.

The Firm has entered into and may enter into “side letters” or similar agreements with certain investor that may waive or modify the application of, or grant special or more favorable rights with respect to the Offering Documents to the extent permitted by applicable law.

We do not currently participate in any Wrap Fee Programs.

As of December 31, 2023, ADAR1 manages \$507,774,765 in regulatory assets under management on a fully discretionary basis. ADAR1 does not manage any of its clients' assets on a non-discretionary basis.

## **Item 5: Fees and Compensation**

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The fees applicable to each of the Clients are set forth in detail in the corresponding Offering Documents. A brief summary of such fees is provided below.

### **ADAR 1 Funds:**

As a general matter, the Firm or an affiliate is paid an asset-based management fee and receives performance-based compensation (detailed in Item 6 below) with respect to the ADAR1 Funds.

#### ***Management Fee***

The Firm is paid a monthly management fee equal to 0.125% (1.5% annually), payable in advance, of the net assets of Investors in the ADAR1 Funds (the "**Management Fee**"). The Management Fee is payable in advance based on the value of the assets as of the beginning of such calendar month. The Management Fee may be waived or reduced with respect to certain Investors in the discretion of the Firm.

#### ***Expenses***

**Organizational Expenses.** All expenses of the Offering and organization of the ADAR1 Fund (including legal and other expenses) ("**Organizational Expenses**") will be paid by the ADAR1 Fund and/or reimbursed by the ADAR1 Fund to the extent paid by the Firm or the General Partner. The Organizational Expenses will be amortized and charged to the Investors' capital accounts on a monthly basis over a period of five (5) years commencing from the launch of the ADAR1 Fund's investment activities. GAAP requires that organizational costs be treated as an expense when incurred. The Firm believes that the impact on the ADAR1 Fund's results from this departure from GAAP will result in a fairer apportionment of such expenses among Investors. This departure from GAAP may also result in a qualified audit opinion from the ADAR1 Fund's auditors. If the ADAR1 Fund is terminated within five (5) years of the commencement of investment activities, any unamortized expenses will be recognized.

**ADAR1 Fund Expenses.** The ADAR1 Fund shall pay (or reimburse the Firm or the General Partner) for all ordinary and reasonable operating and other expenses necessary for the ADAR1 Fund's operations, including, but not limited to, investment-related expenses (*e.g.*, exchange and brokerage commissions, exchange deposit and withdrawal fees, clearing and settlement charges, custodial fees, interest expenses, expenses relating to consultants, brokers or other professionals or advisors who provide research, advice or due diligence services with regard to investments, appraisal fees and expenses); research costs and expenses (including fees for news, quotation and similar information and pricing services); legal expenses (including, without limitation, the costs of on-going legal advice and services, blue sky filings and all costs and expenses related to or incurred in connection with the compliance obligations of the Firm or the General Partner under applicable federal and/or

state securities and investment adviser laws arising out of its relationship to the ADAR1 Fund, as well as extraordinary legal expenses, such as those related to litigation or regulatory investigations or proceedings); the Management Fee; accounting fees and audit expenses; administrative fees; tax preparation expenses and any applicable tax liabilities (including transfer taxes and withholding taxes); other governmental charges or fees payable by the ADAR1 Fund; costs of printing and mailing reports and notices; and other similar expenses related to the ADAR1 Fund, as the Firm or the CP determines in its sole discretion.

**Firm and GP Expenses.** ADAR1 and the General Partner will pay for their own administrative and overhead expenses incurred in connection with providing services to the ADAR1 Funds. These expenses include all expenses incurred by the Firm and the General Partner in providing for their normal operating overhead, including, but not limited to, the cost of providing relevant support and administrative services (*e.g.*, employee compensation and benefits, rent, office equipment, insurance, utilities, telephone, secretarial and bookkeeping services, etc.), but not including any ADAR1 Fund operating expenses described above.

**First Loss Fund:**

***No Asset-Based Management Fee***

The First Loss Fund is not subject to an asset-based management fee.

***Expenses***

The First Loss Fund is subject to expenses as set forth in ADAR1's investment advisory agreements with the First Loss Funds. ADAR1 will have sole liability for all other expenses incurred, including, without limitation, salary, bonus and other payments to its personnel, overhead and any out-of-pocket expenses.

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

**ADAR 1 Funds:**

An investment in the ADAR1 Funds is also subject to an annual performance allocation equal to twenty percent (20%) of an investor's rateable share of the ADAR1 Funds' net capital appreciation for such calendar year, provided that such profits exceed such investor's "high water mark" (the "***Performance Allocation***"). The Performance Allocation is made to 9 Brains, LP, a Delaware limited partnership and an affiliate of the General Partner (the "***Special Limited Partner***"). The Performance Allocation may be waived or reduced with respect to certain Investors in the discretion of the General Partner. Performance-based allocation arrangements may create an incentive for us to recommend investments which may be riskier or more speculative than those which we would recommend under a different arrangement.

**First Loss Fund:**

ADAR1 contributed 10% of the total capital of the First Loss Fund as "first loss" capital. Under this structure, the first 10% of losses of such First Loss Funds will be specially allocable to ADAR1. In return for this enhanced risk, ADAR1 receives a higher percentage of performance-based compensation than in other Client structures. ADAR1 is paid a monthly performance fee in an amount of equal to 50% of the net investment gains for such month, after investment losses of ADAR1's "first loss" capital and regular investor's investment losses have been recouped.

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**Item 7: Types of Clients**

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Our Clients are the ADAR1 Funds and the First Loss Fund, as described in Item 4 above. The ADAR1 Funds and the First Loss Fund are generally open to, among others, institutions, pension plans, endowments, fund of funds, high net-worth individuals, financially sophisticated individuals, and other sophisticated investors.

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

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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 as set forth in the respective Offering Documents and, with respect to the First Loss Fund, the investment advisory agreement with the First Loss Fund. 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.

**ADAR 1 Funds:*****Investment Objective***

The primary investment objective of the ADAR1 Funds is to provide Investors with superior risk adjusted returns. The ADAR1 Funds have an open investment mandate and will generally aim to deploy capital towards the most attractive opportunities in a given market environment.

ADAR1 believes that the biotechnology space is one of the most attractive sectors for alpha generation, given its high volatility, high dispersion and presence of clinical and regulatory event-driven catalysts. As such, ADAR1 expects to allocate a significant share of ADAR1 investments to long and short opportunities in the healthcare/biotechnology space, albeit with no specific commitment to any particular gross or net exposure to the sector.

**Risks Associated with Investment in ADAR1 Funds**

ADAR1 Funds will be making sizeable bets on binary clinical events in the biotechnology sector and other special situations including by short selling, utilizing options and leverage. ADAR1 Funds will employ a variety of risk management measures, such as diversification into non-correlated investments, hedging and position sizing to maximum expected loss (within an array of assumptions). However, no assurance can be given as to whether those risk management techniques will be effective in preventing a permanent loss of capital and as such, Investors are encouraged to limit their investment to a maximum of 10% of their net worth.

**Investment Strategy**

ADAR1 will focus and craft investment strategies in a variety of areas, including but not limited to: 1) long and short positions in domestic and international equities; 2) long and short positions in various indices and exchange-traded funds (ETFs) or futures designed to mirror the performance of a variety of assets, currencies and commodities; 3) long and short positions in investment grade and below investment grade debt; and 4) option strategies to maximize returns and limit risk. Each of these strategies is related but requires skill to analyze, manage, trade, and source. The Firm believes that inherent mispricing in certain securities in each of these areas, coupled with broad expertise and analytical abilities of the Firm, will allow the Firm to find investments with highly convex return profiles.

Utilizing the manager's scientific and medical training and deep due diligence, ADAR1 will aim to identify a set of clinical trial readouts that he can predict with a reasonably high degree of confidence. By doing so, ADAR1 aims to improve the chances of accurately predicting the price movement of the publicly traded company conducting the trial. ADAR1 Funds will then try to structure an investment around that catalyst, by entering long or short positions in a company's equity or debt and by purchasing or writing put or call options.

**Types of Investments**

Long/Short Equities: ADAR1 Funds will take long and short positions in publicly-traded equities that are over- or underpriced due to misunderstandings of a company's fundamentals and business outlook, investor biases, spin offs/forced selling, restructurings/liquidations, stock promotions/manias or other events that caused a company's valuation to materially deviate from its true fundamental value.

Additionally, ADAR1 Funds will pursue investments in biotechnology companies which are expected to undergo certain events that will catalyze a meaningful price movement, specifically clinical trial readouts.

Long/Short ETFs. ADAR1 believes that the proliferation of ETFs allows for exposure to various return streams not generally available to smaller investors. Such return streams may include, but not limited to, volatility, commodities, and foreign indices. The Firm believes that investments in such securities, or pairing such securities with existing investments to reduce volatility as appropriate or managing net exposure to a given sector or market, can be a profitable tactic and risk management tool.

Long/Short Credit: In this portion of the portfolio, ADAR1 Funds will take either a long or short position in the bonds, bank debt, privately placed debt, preferred stock, credit default swaps, or other debt related instruments of a company where the market has fundamentally mispriced such securities. The mispricing is typically caused either by investors focusing on a bad event while disregarding a company's strengths, or by investors ignoring problems in a company's business model.

Option Strategies: This portion of the ADAR1 Funds' portfolio will involve supplementing the long/short equities strategy by maximizing potential returns while mitigating risk when necessary. The option strategies utilized may include, but are not limited to, protective puts, naked puts, covered calls, naked calls, various spread options and long calls/puts, depending on the time horizon and confidence level in an effort to achieve high risk-adjusted returns. For example, naked put options will be implemented to build a position in a security at prices below the prevailing market price in order to mitigate downside risk while generating modest premiums in the short-term. In the event of a fundamental mispricing of a security, the Firm may utilize long calls or puts to leverage potential returns, especially in the presence of an impending event-driven catalyst.



**ADAR1 Fund Investments**

The assets of the ADAR1 Funds may be invested and traded in a broad variety of securities and other instruments, whether traded on exchanges, over-the counter or negotiated on electronic markets.

The Firm has broad and flexible investment authority over the ADAR1 Funds. Accordingly, the investments of the ADAR1 Funds may at any time include, without limitation, long and short positions, whether in domestic or emerging markets, equity securities and options on equities, exchange-traded funds and exchange-traded notes; small- and micro-capitalization securities; convertible securities; “new issues”; off-exchange retail foreign currency contracts; privately held debt and equities; financial futures, commodity futures and options thereon and swaps and other derivatives. ADAR1 Funds may periodically maintain all or a portion of their assets in money market instruments and other cash equivalents and may not be fully invested at all times.

**Distributions and Reinvestment**

ADAR1 Funds do not expect to make any dividend payments or other distributions to investors out of the Fund’s earnings and profits, but rather expects that such income will be reinvested. Potential investors should keep this limitation in mind when determining whether or not an investment in the ADAR1 Funds is suitable for their particular purposes. The Firm and the General Partner reserves the right to change such policy.

**Plan of Distribution and Use of Proceeds; Cash Equivalents**

Interests will be offered through private placement to a variety of sophisticated investors. See “*Qualification of Investors*.” The net proceeds of the private offering contemplated herein will be invested in accordance with the policies set forth under “*Investment Objective and Strategy*.” The ADAR1 Funds may hold cash or invest in cash equivalents for short-term investments. Among the cash equivalents in which ADAR1 Funds may invest are obligations of the U.S. Government, its agencies or instrumentalities (e.g., U.S. Government Securities; U.S. Treasury Bills), commercial paper and repurchase agreements, money market mutual funds, certificates of deposit and bankers’ acceptances issued by domestic branches of U.S. banks that are members of the Federal Deposit Insurance Corporation. In the event the Firm determines that there is not sufficiently good value in any investments suitable for capital of the ADAR1 Funds, all such capital may be held in cash and cash equivalents.

**Borrowing and Lending**

ADAR1 may utilize leverage on behalf of the ADAR1 Funds including, without limitation, borrowing cash and entering into derivative transactions that have the effect of leveraging the portfolio of the ADAR Funds. The use of leverage may, in certain circumstances, maximize the adverse impact to which the ADAR1 Fund’s investment portfolio may be subject. ADAR1 Funds may also engage in securities lending transactions.

ADAR1 Funds are permitted to borrow for purposes of providing liquidity to fund withdrawals by investors and/or for investment purposes, subject to regulatory requirements, and for the payment of fees, expenses and other short-term obligations. Loans with respect to the ADAR1 Funds generally may be obtained from securities brokers and dealers or from other financial institutions or third-party lenders; such loans will be secured by securities or other capital of the ADAR1 Funds, as the case may be, pledged to such brokers, financial institutions or third-party lenders.

In the event the ADAR1 Funds obtain a credit facility, ADAR1’s investment discretion may be subject to certain limitations prior to and/or following an event of default. For example, pursuant to the terms of the credit facility, the ADAR1 Funds may have to abide by certain formulas, or the ADAR1 Funds may have to obtain the lender’s consent to engage in some

or all transactions while the credit facility is outstanding. After the occurrence of an event of default (whether because of nonpayment or otherwise), it is likely that, among other consequences, the lender would assume total control of the ADAR1 Funds assets and/or trading activities and no distributions could be made or withdrawals effected without the lender's consent.

If securities are sold short, the ADAR1 Funds may be required to pay a premium and/or interest to the lender of the securities, which would increase the cost of the securities sold. Until the borrowed securities are replaced, the ADAR1 Funds generally will be required to pay to the lender amounts equal to any dividends or interest that accrue on the securities borrowed during the period of the loan. A security may be sold short by the ADAR1 Funds not only for hedging purposes but also when ADAR1 believes the security is likely to lose value.

### **Limits of Description of Investment Program**

ADAR1 is not limited by the above discussion of the investment program of the ADAR1 Funds. ADAR1 has wide latitude to invest or trade the assets of the ADAR1 Funds, to pursue any particular strategy or tactic, or to change the emphasis without obtaining the approval of the Investors, although ADAR1 will only cause a material change to the investment strategy of the ADAR1 Funds with the consent of a majority in interest of Investors. As a result, the investment program imposes no significant limits on the types of instruments in which ADAR1 may take positions, the type of positions it may take, its ability to borrow money, or the concentration of investments.

### ***Risk Factors***

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the ADAR1 Funds advised by us. These risk factors include only those risks we believe to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by us.

An investment involves significant risks, and is suitable only for those persons who can bear the economic risk of the loss of their entire investment, who have limited need for liquidity in their investment, and who have met the conditions set forth in the Offering Documents. There can be no assurances that we will achieve our investment objectives. An investment carries with it the inherent risks associated with investments in publicly-traded stocks and bonds, options, and related instruments, including, without limitation, the risks described below.

### **Investment Instruments Traded**

Equity Securities. The value of the equity securities held by the Master Fund are subject to market risk, including changes in economic conditions, growth rates, profits, interest rates and the market's perception of these securities. While offering greater potential for long-term growth, equity securities are more volatile and more risky than some other forms of investment.

Exchange-Traded Funds. The Master Fund may invest in a type of investment called an exchange-traded fund ("**ETF**"). ETFs are a recently developed type of investment security, representing an interest in a passively managed portfolio of securities selected to replicate a securities index, such as the S&P 500 Index or the Dow Jones Industrial Average, or to represent exposure to a particular industry or sector. Unlike open-end mutual funds, the shares of ETFs and closed-end investment companies are not purchased and redeemed by investors directly with the fund, but instead are purchased and sold through broker-dealers

in transactions on a stock exchange. Because ETF and closed-end fund shares are traded on an exchange, they may trade at a discount from or a premium to the net asset value per share of the underlying portfolio of securities. As a relatively new type of security, the trading characteristics of ETFs may not yet be fully developed or understood by potential investors. In addition to bearing the risks related to investments in equity securities, investors in ETFs intended to replicate a securities index bear the risk that the ETFs performance may not correctly replicate the performance of the index. Investors in ETFs, closed-end funds and other investment companies bear a proportionate share of the expenses of those funds, including management fees, custodial and accounting costs, and other expenses. Trading in ETF and closed-end fund shares also entails payment of brokerage commissions and other transaction costs.

Exchange-Traded Notes. The Master Fund may invest in a type of investment called an exchange-traded note ("**ETN**"). ETNs are senior, unsecured, unsubordinated debt securities whose returns are linked to the performance of a particular market benchmark or strategy minus applicable fees. ETNs are traded on an exchange (e.g., the NYSE) during normal trading hours. However, investors can also hold the ETN until maturity. At maturity, the issuer pays to the investor a cash amount equal to the principal amount, subject to the day's market benchmark or strategy factor. ETNs do not make periodic coupon payments or provide principal protection. ETNs are subject to credit risk and the value of the ETN may drop due to a downgrade in the issuer's credit rating, despite the underlying market benchmark or strategy remaining unchanged. The value of an ETN may also be influenced by time to maturity, level of supply and demand for the ETN, volatility and lack of liquidity in underlying assets, changes in the applicable interest rates, changes in the issuer's credit rating, and economic, legal, political, or geographic events that affect the referenced underlying asset. When the Master Fund invests in ETNs, it will bear its proportionate share of any fees and expenses borne by the ETN. ADAR1's decision to sell the Master Fund's ETN holdings may be limited by the availability of a secondary market. The tax treatment of investments in ETNs can vary based on the characteristics of the specific ETN held. There may be times when an ETN trades at a premium or discount to its market benchmark or strategy.

Option Transactions. The purchase or sale of an option by the Master Fund involves the payment or receipt of a premium payment and the corresponding right or obligation, as the case may be, to either purchase or sell the underlying investment for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying investment does not change in price in the manner expected, so that the option expires worthless and the investor loses its premium. Selling options, on the other hand, involves potentially greater risk because the investor is exposed to the extent of the actual price movement in the underlying investment in excess of the premium payment received.

Convertible Securities. Convertible securities ("**Convertibles**") are generally debt securities or preferred stocks that may be converted into common stock. Convertibles typically pay current income as either interest (debt security convertibles) or dividends (preferred stocks). A Convertible's value usually reflects both the stream of current income payments and the value of the underlying common stock. The market value of a Convertible performs like that of a regular debt security; that is, if market interest rates rise, the value of a Convertible usually falls. Since it is convertible into common stock, the Convertible generally has the same types of market and issuer risk as the underlying common stock. Convertibles that are debt securities are also subject to the normal risks associated with debt securities, such as interest rate risks, credit spread expansion and ultimately default risk, as discussed below. Convertibles are also prone to liquidity risk as demand can dry up periodically, and bid/ask spreads on bonds can widen significantly.

An issuer may be more likely to fail to make regular payments on a Convertible than on its other debt because other debt securities may have a prior claim on the issuer's assets, particularly if the Convertible is preferred stock. However, Convertibles usually have a claim prior to the issuer's common stock.

In addition, for some Convertibles, the issuer can choose when to convert to common stock, or can "call" (redeem) the Convertible. An issuer may convert or call a Convertible when it is disadvantageous for the Master Fund, causing the Master Fund to lose an opportunity for gain. For other Convertibles, the Master Fund can choose when to convert the security to common stock or to put (sell) the Convertible back to the issuer.

Because Convertible arbitrage may involve the purchase of puts or short sale of underlying common stock, which is subject to stock-borrow risk, which is the risk that the Master Fund will be unable to sustain the short position in the underlying common shares.

Small- and Medium-Capitalization Stocks. The Master Fund may invest its assets in stocks of companies with smaller market capitalizations. Small- and medium-capitalization companies may be of a less seasoned nature or have securities that may be traded in the over-the-counter market. These "secondary" securities often involve significantly greater risks than the securities of larger, better-known companies. In addition to being subject to the general market risk that stock prices may decline over short or even extended periods, such companies may not be well-known to the investing public, may not have significant institutional ownership and may have cyclical, static or only moderate growth prospects. Additionally, stocks of such companies may be more volatile in price and have lower trading volumes than larger capitalized companies, which results in greater sensitivity of the market price to individual transactions. Accordingly, investors in the Master Fund should have a long-term investment horizon.

Small- and medium-capitalization securities may be followed by relatively few securities analysts with the result that there tends to be less publicly available information concerning these securities compared to what is available for exchange-listed or larger companies. The securities of these companies have more limited trading volumes than those of larger issuers and may be subject to more abrupt or erratic market movements than the securities of larger, more established companies or the market averages in general, and the Master Fund may be required to deal with only a few market makers when purchasing and selling these securities. Transaction costs in small- and medium-capitalization stocks may be higher than those involving larger capitalized companies. Companies in which the Master Fund may invest may also have limited product lines, markets or financial resources and may lack management depth and may be more vulnerable to adverse business or market developments.

New Issues. The Master Fund may invest in New Issues. Such investments offer the opportunity for significant appreciation; however, they are speculative and involve a high degree of risk. It is characteristic of the initial public offerings market that certain companies may be extremely successful, while a much higher percentage of new public companies fail. Thus, the risk of investing in initial public offerings is substantially greater than investing in the stock market as a whole. Certain Investors may be restricted from participating in New Issues based on Rule 5130 and Rule 5131 and this may preclude the entire ADAR1 Fund from participating in New Issues, subject to the "*de minimis*" exception under the New Issues Rule or Anti-Spinning Rule, as applicable.

Debt and Other Income Securities. The Master Fund may invest in fixed-income and adjustable-rate securities. Income securities are subject to interest rate, market and credit risk. Interest rate risk relates to changes in a security's value as a result of changes in

interest rates generally. Even though such instruments are investments that may promise a stable stream of income, the prices of such securities are inversely affected by changes in interest rates and, therefore, are subject to the risk of market price fluctuations. In general, the values of fixed income securities increase when prevailing interest rates fall and decrease when interest rates rise. Because of the resetting of interest rates, adjustable-rate securities are less likely than non-adjustable rate securities of comparable quality and maturity to increase or decrease significantly in value when market interest rates fall or rise, respectively. Market risk relates to the changes in the risk or perceived risk of an issuer, industry, country or region. Credit risk relates to the ability of the issuer to make payments of principal and interest. The values of income securities may be affected by changes in the credit rating or financial condition of the issuing entities. Income securities denominated in non-U.S. currencies are also subject to the risk of a decline in the value of the denominating currency relative to the U.S. dollar.

Emerging Markets. The securities markets of emerging countries are generally smaller, less developed, less liquid, and more volatile than the securities markets of the U.S. and developed foreign markets. Disclosure and regulatory standards in many respects are less stringent than in the United States and developed foreign markets. Accounting and auditing standards in many markets are different, and sometimes significantly differ from those applicable in the United States or Europe. There is substantially less publicly available information about companies located in emerging markets than there is about companies in other more developed jurisdictions. There also may be a lower level of monitoring and regulation of securities markets in emerging market countries and the activities of investors in such markets and enforcement of existing regulations has been extremely limited.

Many emerging countries have experienced substantial, and in some periods extremely high, rates of inflation for many years. Inflation and rapid fluctuations in inflation rates have had and may continue to have very negative effects on the economies and securities markets of certain emerging countries.

Economies in emerging markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values, and other protectionist measures imposed or negotiated by the countries with which they trade. The economies of these countries also have been and may continue to be adversely affected by economic conditions in the countries with which they trade. The economies of countries with emerging markets may also be predominantly based on only a few industries or dependent on revenues from particular commodities. In addition, custodial services and other costs relating to investment in foreign markets may be more expensive in emerging markets than in many developed foreign markets, which could reduce the Master Fund's income from such securities.

In many cases, governments of emerging countries continue to exercise significant control over their economies, and government actions relative to the economy, as well as economic developments generally, may affect the capacity of issuers of emerging country debt instruments to make payments on their debt obligations, regardless of their financial condition. In addition, there is a heightened possibility of expropriation or confiscatory taxation, imposition of withholding taxes on interest payments, or other similar developments that could affect investments in those countries. There can be no assurance that adverse political changes will not cause the ADAR1 Funds to suffer a loss of any or all of its investments and, in the case of fixed-income securities, interest thereon.

Many emerging countries are undergoing important political and economic changes that are making their economies more free-market oriented. However, there could be future

political and economic changes that may return the situation to closed and centrally controlled economies with price and foreign exchange controls. Many of these countries lack the legal, structural and cultural basis for the establishment of a dynamic, orderly, market-oriented economy. Many of the promising changes that are being seen at present could be reversed, causing significant impact on the ADAR1 Funds' investment returns.

Futures. Futures markets are highly volatile. Investing in the futures markets involves being able to analyze correctly such markets, which are influenced by, among other things, changing supply and demand relationships, weather, governmental, agricultural, and commercial and trade programs and policies designed to influence commodity prices, world political and economic events, and changes in interest rates. Moreover, investments in commodities, futures, and options contracts involve additional risks including, without limitation, leverage (*e.g.*, margin is usually only five percent (5%) to fifteen percent (15%) of the face value of the contract and exposure can be nearly unlimited) and credit risk vis-à-vis the contract counterparty. A futures position 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 increases or decreases by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Master Fund from promptly liquidating unfavorable positions and subject it to substantial losses.

Commodity Interests. Commodity interest prices are highly volatile. Price movements for such interests are influenced by, among other things, changing supply and demand relationships; trade, fiscal, political, and economic events and policies; changes in national and international interest rates of inflation; and currency devaluation and emotions of the marketplace. None of these factors can be controlled by the Master Fund and no assurance can be given that the Master Fund's investment program will result in profitable trades or that losses will not be incurred.

The low margin deposits normally required in commodity interest trading result in an extremely high degree of leverage. A relatively small price movement in an unfavorable direction in a commodity interest, therefore, could result in immediate and substantial losses to the investor. Like other leveraged instruments any purchase or sale of a commodity interest may result in losses in excess of the amount invested in that commodity interest. The Master Fund may lose more than its initial margin deposit on a trade. Gains made using leverage will generally cause the value of the portfolio to rise faster than could be the case without borrowing. Conversely, if investment results fail to cover the cost of borrowing, the value of the portfolio could decrease faster than if there had been no borrowing. In connection with borrowing limited by applicable margin limitations, the Master Fund may be required to reduce such borrowing on a timely basis in the event the value of the Master Fund's assets falls below the coverage requirement of the margin limitations. In the event of such a required reduction of borrowing, the Master Fund could be required to liquidate positions at times when it might not be desirable or advantageous from the Master Fund's standpoint to do so.

It is not always possible to execute a buy or a sell order at the desired price, or to close out an open position, due to market illiquidity. Such illiquidity can be caused by intrinsic market conditions or it may be the result of extrinsic factors like the imposition of daily price fluctuation limits. Most United States commodity exchanges limit fluctuations in certain commodity interest prices during a single day by imposing what are known as "daily price fluctuation limits" or "daily limits." The daily limit, which is set by most exchanges for all but

a portion of the expiration months, impose a floor and a ceiling on the process at which a trade may be executed, as measured from the last trading day's close. The purpose of daily limits is to limit risk of loss during a trading session. However, the existence of "daily limits" may have the less salutary effect of reducing liquidity or effectively curtailing trading in a particular market for both the future and its option.

Once the price of a particular contract has increased by an amount equal to the daily limit, a "limit up" or "limit down" position in the contract generally cannot be taken or liquidated unless traders are willing to effect trades at or within the limit. As a result, all trading ceases unless traders are willing to effect trades at or within the limit. It is not unusual for the price of a futures contract to move the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent a participating customer from promptly liquidating unfavorable positions and subject him to substantial losses that could exceed the margin initially committed to such trades.

In market emergencies, the CFTC and individual exchanges can take strong action that impacts liquidity. Specifically, they are empowered to suspend or limit trading in a particular contract, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only.

Intrinsic market factors, such as the lack of demand for an overabundant supply of the underlying commodity, will affect market interest and therefore liquidity. The Master Fund is committed to trading in active markets although the determination of what is active is within its discretion.

Swaps. Swaps are inherently risky. First, institutions that develop swap contracts have fees that are built into the price, thereby increasing the Master Fund's exposure to third-party fees. Second, the nature of a swap is that you reduce risk while also reducing a potential upside; that is, hedging would lock a low price in while prices are high, however it would lock in a high price if prices are low. Swaps are also based on financial market prices that might not always track the cost of a product in the real market. Lastly, the biggest risk in a swap is the risk that the party on the other side of the swap, sometimes referred to as the counterparty, defaults. In such an instance, the swap would essentially be worthless if the counterparty is unable to make the payment.

General Risks of Off-Exchange (Forex) Trading. The foreign exchange, or Forex, market is the place where currencies are traded. The Forex market is very loosely regulated and there is no central marketplace for currency exchange. As such, currency trading is conducted electronically, aka "over-the-counter" (OTC) between fund managers, corporate Treasury departments, banks, position traders, and speculators. Positions which are traded on the Forex market can be highly leveraged and accordingly, such positions will generally carry a high degree of risk and can result in a loss of all or substantially all of the assets placed in the margin account.

Forex Trading is Subject to Margin Requirements set by the Broker. When the market value of a particular open position changes to a point where the margin on deposit in a participating investor's account does not satisfy the applicable maintenance margin requirements imposed by the Forex broker, the Master Fund, rather than the General Partner or ADAR1, will receive a margin call from the Forex broker. If the Master Fund does not satisfy the margin call within a reasonable time (which may be as brief as a few hours), the Forex broker will close out the Master Fund's position. Such forced close out may be at disadvantageous prices. In the event stop loss triggers are not executed by the Master Fund or Forex broker the potential exists for any trade to result in losses in excess of the amount invested.

Forex Positions may be Impossible to Liquidate. Under certain market conditions, the Master Fund may find it difficult or impossible to liquidate a Forex position. This can occur, for example, when a currency is deregulated or fixed trading bands are widened.

Derivative Investments. Derivatives are financial contracts whose value depends on, or is derived from, an underlying product, such as the value of a securities index. The risks generally associated with derivatives include the risks that:

(1) the value of the derivative will change in a manner detrimental to the Master Fund; (2) before purchasing the derivative, the Master Fund will not have the opportunity to observe its performance under all market conditions; (3) another party to the derivative may fail to comply with the terms of the derivative contract; (4) the derivative may be difficult to purchase or sell; and (5) the derivative may involve indebtedness or economic leverage, such that adverse changes in the value of the underlying asset could result in a loss substantially greater than the amount invested in the derivative itself or in heightened price sensitivity to market fluctuations.

Derivatives markets can be highly volatile. The profitability of investments by the Master Fund in the derivatives markets depends on the ability of the Master Fund to analyze correctly these markets, which are influenced by, among other things, changing supply and demand relationships, governmental, commercial and trade programs and policies designed to influence world political and economic events, and changes in interest rates. In addition, the assets of the Master Fund may be pledged as collateral in derivatives transactions. Thus, if the Master Fund defaults on such an obligation, the counterparty to such transaction may be entitled some or all of the assets of the Master Fund as a result of the default.

#### **Risks Associated with Investments in Private Companies**

Investments by the Master Fund in the debt or equity of private companies may expose the Master Fund to a wide number of risks, including market risk, credit risk, liquidity risk, operational risk and litigation risk.

The Master Fund may not have control over an investment. In general, the Master Fund will acquire only a minority interest in a private company or other asset in which it invests, or rely on independent third-party management or strategic partners with respect to the management of a private company. The Master Fund may also co-invest with third parties through funds, joint ventures or other entities, thereby acquiring non-controlling interests in certain investments. Therefore, the Master Fund may not be able to exercise control over the investment. A third-party partner or co-venturer may have financial difficulties resulting in a negative impact on such asset, may have economic or business interests or goals which are inconsistent with those of the Master Fund, or may be in a position to take action contrary to the ADAR1 Funds' investment objectives.

The Master Fund may not achieve its targeted rate of return on investments. The Master Fund expects to make investments based on estimates or projections of overall rates of return on such investments, which in turn are based upon, among other considerations, assumptions regarding the performance of private companies, the amount and terms of available financing, marketability and viability of and the manner and timing of dispositions, all of which are subject to significant uncertainty. In addition, events or conditions that ADAR1 has not anticipated may occur and may have a significant effect on the actual rate of return received on an investment.

Lack of Liquidity and Need for Additional Capital. In some cases, private companies will become successful only if additional capital is raised, which may dilute the holdings of previous investors. The inability of such private companies to attract other capital may have



the effect of halting the development of that private company and cause the Master Fund to lose its investment therein. Also, if such private company is ultimately unsuccessful in going public and developing a public market or merging with or being acquired by another company, the Master Fund's holdings of that company's securities may become worthless.

Competition for Investments. ADAR1 expects the Master Fund to encounter competition from other entities having similar investment objectives. Historically, the primary competition for venture capital investments has been from venture capital Firms and companies, venture capital affiliates of large industrial companies, wealthy individuals and foreign investors. Additional competition is anticipated from industrial and financial companies investing directly, rather than through venture capital entities. The Master Fund may co-invest with other professional venture capital investors, and these relationships with other investors may expand access to investment opportunities. However, there is no assurance that ADAR1 will succeed in finding investments on similar or favorable terms in comparison to competitors.

Start-up Risks. The Master Fund may make investments in companies at the start-up or incubation stage of their development. Particularly in early-stage enterprises, a major risk exists that a proposed service or product cannot be developed successfully with the resources available to the private company. There is no assurance that the development efforts of any private company will be successful or, if successful, will be completed within the budget or time period originally estimated. The services and products may also be subject to a high degree of technical obsolescence. There is no assurance that any portfolio company can successfully develop future generations of its services or products. Additional funds may be necessary to complete such development, and there is no assurance that such fund will be available from any particular source.

### **Strategy Risks**

Leverage and Margin Transactions. ADAR1 may utilize leverage on behalf of the Master Fund including, without limitation, borrowing cash and entering into derivative transactions that have the effect of leveraging its portfolio and may engage in securities lending transactions. The use of leverage may, in certain circumstances, maximize the adverse impact to which the investment portfolio may be subject. As with any margin borrowing it is possible for the Master Fund to lose more money than was initially invested – although each Investor is only liable for their entire capital contribution. In the event of adverse market movements or other factors, the Master Fund may have to meet calls for substantial additional margin which may limit assets available for other investments at an inopportune time. In addition, a change in the general level of interest rates may adversely affect the Master Fund.

Concentration of Investments. The Master Fund is not subject to any significant limitations on the amount of capital which may be committed to any one investment, security type, issuer or geographic location. As a consequence of this potential investment concentration, the Master Fund may be subject to greater losses than would be the case if it maintained a more diversified portfolio.

In-Kind Distributions. A withdrawing Investor may, in the sole discretion of the General Partner, receive financial instruments owned by the Master Fund in lieu of, or in combination with, cash. The value of financial instruments distributed may increase or decrease before such financial instruments can be sold and the Limited Partner will incur transaction costs in connection with the sale of such financial instruments. Additionally, financial instruments distributed with respect to a withdrawal by a Limited Partner may not be readily marketable. The risk of loss and delay in liquidating such financial instruments will

be borne by the Limited Partner, with the result that such Limited Partner may receive less cash than it would have received on the date of withdrawal.

Side Pocket Investments will cause the returns of certain investors to differ. Investors that invest in the ADAR1 Funds will not participate in any investments that have been deemed to be Side Pocket Investments prior to such investment. Therefore, the returns of investors who participate in Side Pocket Investments will differ from the returns of other investors in the ADAR1 Funds. The Master Fund has no obligation to liquidate any asset or any portion thereof or to take any other action in relation to such Side Pocket Investments. Accordingly, there may be a substantial period of time between the date as of which an investment is deemed to be a Side Pocket Investment and the date on which it is ultimately resolved. During such period of time, the Side Pocket Investment(s) will continue to be subject to the Management Fee. Side Pocket Investments and indebtedness allocated to such investments will remain in the Master Fund and will not be allocated to a separate legal entity, account or class with any special creditor protections. The notional transfer to a maintenance account of the Side Pocket Investment will entail significant judgments and adjustments by ADAR1, whose interests may differ from those investors who participate in such Side Pocket Investments.

Conflicts may arise in connection with Firm Expenses, potential liabilities and indebtedness. The Master Fund Agreement contains provisions regarding the apportionment of expenses between the General Partner and its affiliates (on the one hand) and the Funds (on the other hand), and as among Investors and Side Pocket Investments. Except as set forth in the Master Fund Agreement, the General Partner must bear its own internal costs of existence and operations, such as rent, employee salaries, and other expenses incurred in maintaining the principal place of business of the General partner. In general, the ADAR1 Funds must pay the Management Fee as well as substantially all other expenses associated with the organization, existence and operations of the ADAR1 Funds. The fees, costs and expenses paid by the ADAR1 Funds may be substantial.

The apportionment of costs, expenses and liabilities and allocation of indebtedness inherently creates conflicts of interest between the General Partner and its affiliates (on the one hand) and the ADAR1 Funds (on the other hand). For example, in many cases, the same individual could be admitted or engaged as a member or employee of the General Partner, or an affiliate thereof (in which case, the General Partner or its affiliate generally would bear the expense of such individual's salary, benefits and bonuses) or as a consultant/advisor/service provider to the Master Fund (in which case the Master Fund generally would bear the salary, benefits and bonuses paid to such individual). In general, Investors will have no right to require that any particular individual be admitted, engaged or retained as an employee of the General Partner, or an affiliate thereof, with the result that decisions regarding such matters will be made by the General Partner in its discretion.

Similarly, in administering the ADAR1 Funds, the General Partner will need to allocate expenses, costs, reserves, capital calls, re-contribution obligations and indebtedness among the interests of Investors, including as among the ADAR1 Funds, and Side Pocket Investments. While the General Partner intends to do so in good faith and on a reasonable basis in accordance with GAAP, various judgments will need to be made and many conflicts or potential conflicts may exist.

Conflicts and risks may arise due to and in the exercise of the General Partner's discretion in operating the ADAR1 Funds, including holding subsequent closings, establishing Side Pocket Investments, redeeming its Performance Allocation for cash, etc. The General Partner has significant discretion with respect to many operational aspects of the Funds, including determining when to hold subsequent closings, who to admit as an additional or increasing

investor, the use of proceeds of additional and increasing investors, the determination of value of ADAR1 Fund investments, determining when investments should be deemed to be Side Pocket Investments and when they should no longer be deemed Side Pocket Investments, when to redeem its Performance Allocation in whole or part for cash (which it may do on a priority basis, ahead of Investors), when to redeem Investors for cash in lieu of causing such Investors to remain in Side Pocket Accounts and how to allocate indebtedness. In many instances, the General Partner's decision-making could be influenced by various competing interests, including those of different investors (e.g., long-time investors in the ADAR1 Funds vs. newer investors in Side Pockets), the General Partner's fees, and the interests of the ADAR1 Funds vs. the interests of the borrower community. While the General Partner will generally be subject to a duty of good faith and fair dealing, it will be managing the ADAR1 Funds as a whole and numerous conflicts exist and in making and effecting various decisions the General Partner will need to balance numerous competing interests, and often imperfect information, which may result at times in decisions and consequences from time-to-time which are not in the individual best interest of one or more particular investors.

Systems Risks. The ADAR1 Funds depend on ADAR1 to develop and implement appropriate systems for Fund activities. ADAR1 relies extensively on computer programs and systems to trade, clear and settle securities transactions, to evaluate certain securities based on real-time trading information, to monitor its portfolio and net capital, and to generate risk management and other reports that are critical to oversight of Fund activities. The ability of its systems to accommodate an increasing volume of transactions could also constrain ADAR1's ability to manage the portfolio. In addition, certain of the ADAR1 Funds' and ADAR1's operations interface with or depend on systems operated by third parties, including prime brokers and market counterparties and their respective sub-custodians, and other service providers, and the ADAR1 Funds or ADAR1 may not be in a position to verify the risks or reliability of such third-party systems. These programs or systems may be subject to certain defects, failures or interruptions, including, but not limited to, those caused by worms, viruses and power failures. Any such defect or failure could have a material adverse effect on the ADAR1 Funds. For example, such failures could cause settlement of trades to fail, lead to inaccurate accounting, recording or processing of trades, and cause inaccurate reports, which may affect the ability to monitor investment portfolio and risks. ADAR1 is not liable to the ADAR1 Funds for losses caused by systems failures or due to any breakdown in the means of the communication normally used to ascertain the value of Master Fund investments or to conduct trading in such investments.

Execution of Orders. The Master Fund's trading strategies depend on the ability to establish and maintain an overall market position in a combination of financial instruments selected by the Firm. Trading orders may not be executed in a timely and efficient manner due to various circumstances, including, without limitation, systems failures or human error attributable to employees, brokers, agents or other service providers. In such events, the Master Fund might only be able to acquire some, but not all, of the components of such position, or if the overall position were to need adjustment, the Master Fund might not be able to make such adjustment. As a result, the Master Fund would not be able to achieve the market position selected by ADAR1, and might incur a loss in liquidating its position.

Operational Risks. The volume and complexity of Master Fund transactions may place substantial burdens on the Firm's operational systems and resources, including those related to trade entry and execution, position reconciliation, corporate actions, marking procedures, finance, accounting, profit and loss reporting, internal management and risk reporting and funds transfers. Human error, system failure or other problems with any of

these processes could result in material losses or costs, which will generally be borne by the ADAR1 Funds.

Short Selling. The Master Fund may engage in short selling as part of the general investment strategy. Short selling of securities involves selling securities that are not owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the Master Fund to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. However, because the borrowed securities must be replaced by purchases at market prices in order to close out the short position, any appreciation in the price of the borrowed securities would result in a loss upon such repurchase. Fund obligations under short sales will be marked to market daily and collateralized by the Fund's assets held at the broker, including its cash balance and its long securities positions. Because short sales must be marked to market daily, there may be periods when short sales must be settled prematurely, and a substantial loss would occur. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Short-selling exposes the Master Fund to unlimited risk with respect to that security due to the lack of an upper limit on the price to which an instrument can rise. Short sales may be utilized to enhance returns and hedge the portfolio. The frequency of short sales will vary substantially in different periods. There are no prescribed limits to the amount of Master Fund assets that may be subject to short sales.

Highly Volatile Instruments. The prices of financial instruments in which the Master Fund may invest can be highly volatile. Price movements of securities, forward contracts, option contracts and other derivative contracts in which Master Fund assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies and interest rate related futures and options. Such intervention is often intended directly to influence prices and may, together with other factor, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations.

Failure of Broker-Dealers. Institutions, such as brokerage firms or banks may hold certain of Master Fund assets in "street name." Bankruptcy or fraud at one of these institutions could impair the operational capabilities or the capital position of the Master Fund. In addition, if the Master Fund were to borrow money or securities, the Master Fund will post certain of its assets as collateral securing the obligations ("**Margin Securities**"). The broker generally holds the Margin Securities on a commingled basis with margin securities of its other customers and may use certain of the Margin Securities to generate cash to fund leverage, including pledging such Margin Securities. Some or all of the Margin Securities may be available to creditors of the broker in the event of its insolvency. The broker has netting and set off rights over all the assets held by it (which may indirectly include amounts held for the benefit in the special segregated bank account) to satisfy the Firm's obligations under its agreements with the broker, including obligations relating to any margin or short positions.

Trading on Exchanges Outside the United States. The Master Fund may trade contracts on non-U.S. exchanges. Non-U.S. trading involves risks -- including exchange-rate exposure, excessive taxation, possible governmental regulation and lack of regulation -- which U.S. trading does not. In addition, some non-U.S. markets, in contrast to U.S. exchanges, are "principals' markets" where performance is the responsibility only of the individual member with whom

the trader has entered into a contract and not of any exchange or clearing corporation. In addition, the Master Fund's rights and responsibilities if a non-U.S. exchange or clearing house defaults or declares bankruptcy are likely to be more limited than if a U.S. exchange does the same. Consequently, daily price movements for these instruments may be unlimited, and there can be no guarantee that markets will exist for liquidation of such instruments following investment.

Stop Loss May Not Be Effective. The placement of contingent orders by the Master Fund, such as a "stop-loss" or "stop-limit" orders, will not necessarily limit the Master Fund's losses to the intended amounts, since market conditions may make it impossible to execute such orders.

Spread Position May Be Riskier. A "spread" position may not be less risky than a simple "long" or "short" position.

Trading Methodology. Trading decisions by ADAR1 are on a discretionary basis using fundamental and/or technical analysis and no assurance can be given that such trading strategies used by ADAR1 will be successful, or that losses could not occur. In entering orders into Master Fund accounts, ADAR1 will use market, limit, stop, and other qualified orders, if in its judgment, that appears appropriate under given market conditions. In addition, when liquidating a position, ADAR1 may place a reversal order, *e.g.*, the current position is liquidated and an opposite one is established.

### **Management Risks**

Reliance on the General Partner and no Authority by Investors. All decisions regarding the management and affairs of the Firm will be made exclusively by the General Partner. Accordingly, no person should invest in the Firm unless such person is willing to entrust all aspects of management of the Firm to the General Partner. Investors will have no right or power to take part in the management of the ADAR1 Funds. As a result, the success of the ADAR1 Funds for the foreseeable future depends solely on the abilities of ADAR1.

Dependence on Key Personnel. The General Partner is dependent on the services of the Principal and there can be no assurance that it will be able to retain the Principal. The departure or incapacity of the Principal could have a material adverse effect on the General Partner's management of the investment operations of the Firm.

Changes in Investment Strategies. The Master Fund's investment strategies may be altered from time to time with the approval of a majority-in-interest of Investors. In such event, an Investor who does not consent to such change may nevertheless be out-voted by other Investors in which case the opposing Investor may only withdraw from the ADAR1 Fund pursuant to the terms of the Master Fund Agreement and the governing documents of the Offshore Fund, as applicable, and subject to the limitations described therein.

Proprietary Nature of Investment Strategy. All documents and other information concerning the Master Fund's portfolio of investments will be made available to the ADAR1 Fund's auditors, accountants, attorneys and other agents in connection with the duties and services performed by them on behalf of the ADAR1 Fund. However, because ADAR1's investment techniques may be proprietary, the Master Fund Agreement provides that neither the ADAR1 Fund nor any of its auditors, accountants, attorneys or other agents will disclose to any person, including investors in the ADAR1 Funds, any of the investment techniques employed by ADAR1 in managing the Master Fund's investments or the identity of specific investments held by the Master Fund at any particular time.

Limitations on Liability and Indemnification. The Master Fund Agreement provides that the General Partner, the Firm and any of its respective affiliates, shareholders, members, partners, managers, directors, officers and employees, agents and representatives and the legal representatives of any of them (each, an "**Indemnified Party**"), shall not be liable,

responsible nor accountable in damages or otherwise to the ADAR1 Funds or any Investor, or to any successor, assignee or transferee of the ADAR1 Funds or of any Investor, for (i) any acts performed or the omission to perform any acts, within the scope of the authority conferred on such Indemnified Party by the Master Fund Agreement, except by reason of acts or omissions found by a court of competent jurisdiction upon entry of a final non-appealable judgment to have been made in bad faith or to constitute fraud, willful misconduct or gross negligence; (ii) performance by such Indemnified Party of, or the omission to perform, any acts on advice of legal counsel, accountants, or other professional managers to the Firm; (iii) the negligence, dishonesty, bad faith, or other misconduct of any consultant, employee, or agent of the Firm, including, without limitation, an affiliate of the General Partner selected or engaged by such Indemnified Party with reasonable care and in good faith; or (iv) the negligence, dishonesty, bad faith, or other misconduct of any Person in which the ADAR1 Funds invest or with which the ADAR1 Funds participate as a partner, joint venturer, or in another capacity, which was selected by such Indemnified Party with reasonable care and in good faith. No Indemnified Party shall be liable to the ADAR Funds or to any Investor, or any successors, assignees, or transferees of the ADAR1 Funds or any Investor, for any loss, damage, expense, or other liability due to any cause beyond its reasonable control, including, but not limited to, strikes, labor troubles, riots, fires, blowouts, tornadoes, floods, bank moratoria, trading suspensions on any exchange, acts of a public enemy, insurrections, acts of God, acts of terrorism, failures to carry out the provisions hereof due to prohibitions imposed by law, rules, or regulations promulgated by any governmental agency, or any demand or requisition by any government authority.

Furthermore, to the fullest extent permitted by law, the ADAR1 Funds, in the General Partner's sole discretion, shall indemnify and hold harmless each Indemnified Party from and against any loss, liability, damage, cost or expense suffered or sustained by an Indemnified Party by reason of (i) any acts, omissions or alleged acts or omissions arising out of or in connection with the ADAR1 Funds, the Master Fund Agreement or any investment made or held by the ADAR1 Funds (including, without limitation, any judgment, award, settlement, reasonable attorneys' fees and other costs or expenses incurred in connection with the defense of any actual or threatened action, proceeding, or claim), provided that such acts, omissions or alleged acts or omission upon which such actual or threatened action, proceeding or claim are based are not found by a court of competent jurisdiction upon entry of a final non-appealable judgment to have been made in bad faith or to constitute fraud, willful misconduct or gross negligence by such Indemnified Party, or (ii) any acts or omissions, or alleged acts or omissions, of any broker or agent of any Indemnified Party, provided that such broker or agent was selected, engaged or retained by the Indemnified Party in accordance with reasonable care.

Limited Reporting. The ADAR1 Funds will provide monthly unaudited reports of Fund activity. As a result, Investors will not be able to evaluate the Firm's activity at shorter intervals. Additionally, as a result of side letter arrangements, questions, due diligence requests, meetings or other communications, certain Investors may receive information that is not generally available or otherwise provided to other investors, which may affect such Investors' decision to request a withdrawal of their respective interests or take other actions on the basis of such information.

Information Security – General. The ADAR1 Funds, the Firm, the General Partner, the investments of the Master Fund and their respective service providers are heavily reliant upon internet connected information technology systems which are inherently vulnerable to attacks by malicious third parties and unauthorized disclosure due to incorrect configuration, operating error(s), known and unknown vulnerabilities and system behavior(s). Similar types of risks are also present for issuers of securities in which the Firm

invests, which could result in material adverse consequences for such issuers and cause the Master Fund's investments to lose value. The Firm and the General Partner have implemented controls which comply with applicable laws and regulations, but they, and the issuers of securities in which the Master Fund invests, and their respective vendors, are unable to completely prevent unauthorized access to their information systems and may be unable to anticipate evolving threat vectors and as a result be unable to prepare mitigating mechanisms to limit these inherent risks. If an information system compromise or disruption occurs, the Master Fund, Firm, the General Partner or the Master Fund's investments may face material increases in their costs associated with response, repair, and mitigation which may result in material adverse consequences for such affected party. Compromise or disruption could also result in the inability of the impacted party to operate its business, violations of applicable laws, regulatory fines, reputational damage, and the compromise of sensitive investor information resulting in a direct financial loss through identity or account theft. These risks may not be covered by insurance, and insurance policies which do cover such risks may exist only on the surplus lines market and may be subject to extensive exclusions and limitations.

Information Security – Unauthorized Systems Access. The systems (including hardware, networking, software, SaaS, and PaaS), including the data stored thereon, used by the Master Fund, the General Partner, the Firm, the Master Fund's investments and their respective service providers are at risk of unauthorized access by internal and external parties, including via misconfiguration, credential mismanagement, unauthorized privilege escalation, failures to limit account access, unmitigated known vulnerabilities, previously unknown vulnerabilities ("zero-day" attacks), the compromise of any entity within the supply chain (including during the provision of software updates), phishing and identity falsification attacks, organized criminal activity, the actions of Advanced Persistent Threats ("APT's"), ransomware, insecure APT's, code development practices, and the violation of information policies and practices by agents or employees. It may not be possible to recover or repair systems or data which become compromised through any of these means and such unauthorized access may result in the disclosure of sensitive personal data resulting in a material adverse effect for parties experiencing the compromise including potential legal claims and adverse regulatory actions.

Information Security – System Disruption. The systems (including hardware, networking, software, SaaS, and PaaS), including the data stored thereon, used by the Firm, the General Partner, the Master Fund, the Master Fund's investments and their respective service providers are at risk of being rendered inoperable even without a security breach as a result of a failure of the internet infrastructure (including telecommunications providers, local connection exchanges, DNS managers and providers), poor maintenance or redundancy practices, lack or failure of business continuity/disaster recovery procedures, denial of service attacks and similar attacks which are likely to proliferate with and become increasingly disruptive as a result of broader adoption of the Internet of Things. Such events can each result in operational disruption which would prevent the impacted party from operating its business for a period of time, potentially incurring financial loss and loss of customer goodwill.

Information Security – Reputation. In the event of any system compromise, data breach, or system disruption, the reputation of the Master Fund's investments could become damaged, resulting in a materially adverse effect on the value of such investments and potential increase in costs or failure of the Master Fund.

Information Security – Physical Security. The facilities used by, and housing the information systems used by, the Firm, the General Partner, the ADAR1 Funds, the Master Fund's

investments and their respective vendors are at risk of unauthorized entry during which a third party may gain access to sensitive or confidential information in violation of applicable law, including the risk of a data breach which results in material financially adverse consequences.

### **Other Risks**

**Force Majeure.** The Master Fund's investments may be affected by force majeure events (*i.e.*, events beyond the control of the party claiming that the event has occurred, including, without limitation, acts of God, fire, flood, earthquakes, outbreaks of an infectious disease, pandemic or any other serious public health concern, war, terrorism, labor strikes, major plant breakdowns, pipeline or electricity line ruptures, failure of technology, defective design and construction, accidents, demographic changes, government macroeconomic policies, social instability, etc.). Some force majeure events may adversely affect the ability of a party (including the Master Fund or a counterparty to the Master Fund) to perform its obligations until it is able to remedy the force majeure event and/or prompt precautionary government-imposed closures of certain travel and business. In addition, forced events, such as the cessation of the operation of machinery for repair or upgrade, could similarly lead to the unavailability of essential machinery and technologies. These risks could, among other effects, adversely impact the Firm's returns, cause personal injury or loss of life, disrupt global markets, damage property, or instigate disruptions of service. In addition, the cost to the Master Fund of repairing or replacing damaged assets resulting from such force majeure event could be considerable. Force majeure events that are incapable of or are too costly to cure may have a permanent adverse effect on the ADAR1's expected returns. Certain force majeure events (such as war or an outbreak of an infectious disease) could have a broader negative impact on the world economy and international business activity generally, or in any of the countries in which the Master Fund may invest and the markets the Master Fund may trade specifically. Additionally, a major governmental intervention into industry, including the nationalization of an industry or the assertion of control over industry assets, could result in losses to the Master Fund, including if its investments are canceled, unwound or acquired (which could be without adequate compensation). Any of the foregoing may therefore adversely affect the performance of the Master Fund and its investments.

**Limited Operating History.** The Master Fund has a limited operating history upon which prospective investors can evaluate its likely performance. There can be no assurance that the Master Fund will achieve its investment objective.

**Risk of Loss.** An Investor could incur substantial, or even total, losses on an investment in the ADAR1 Funds. An investment in the ADAR1 Funds is only suitable for persons willing to accept this high level of risk.

**Effect of Performance Allocation.** The Special Limited Partner will receive a Performance Allocation based on a percentage of any net realized and unrealized profits in the Master Fund. Performance fees may create an incentive for the Firm, an affiliate of the Special Limited Partner, to make investments that are riskier or more speculative than would be the case in the absence of such incentive compensation arrangements. In addition, the Special Limited Partner's performance allocations will be based on unrealized as well as realized gains. There can be no assurance that such unrealized gains will, in fact, ever be recognized. Furthermore, the valuation of unrealized gain and loss may be subject to material subsequent revision.

**Effect of Substantial Withdrawals.** Substantial withdrawals by Investors within a short period of time could require the Master Fund to liquidate its investments more rapidly than would



otherwise be desirable, possibly reducing the value of the Master Fund's assets and/or disrupting the Master Fund's investment strategies. Reduction in the Master Fund's size could make it more difficult to generate a positive return or to recoup losses due to, among other things, reductions in the Master Fund's ability to take advantage of particular investment opportunities or decreases in the ratio of its income to its expenses.

Lack of Liquidity. The ADAR1 Fund's withdrawal provisions place certain restrictions on the right of an Investor to withdraw all or part of its investment, transfer its interest or Shares and pledge or otherwise encumber its interest or Shares. Thus, an Investor may not be able to liquidate the entire value of his or her investment on any given withdrawal date. Interests/Shares may not be transferred or pledged except in compliance with significant restrictions on transfer as required by federal and state securities and commodities laws and as provided in the Master Fund Agreement and governing documents of the Offshore Fund, as applicable. The Master Fund Agreement and governing documents of the Offshore Fund, as applicable, do not permit an Investor to transfer or pledge all or any part of its Interest/Shares to any person without the prior written consent of the General Partner/ADAR1, the granting of which is in the sole and absolute discretion of the General Partner/ADAR1. These limitations, taken together, will significantly limit an Investor's ability to liquidate an investment in the ADAR1 Funds quickly. As a result, an investment in the ADAR1 Funds would not be suitable for an investor who needs liquidity.

Suspension of Withdrawals and Deferment of Withdrawal Proceeds. In certain circumstances, ADAR1 or the General Partner, in their sole and absolute discretion, may suspend the valuation of the ADAR1's assets, the right or obligation to honor withdrawal requests (including the right to receive withdrawal proceeds), and/or extend the period for payment on withdrawal. In addition, the ADAR1 or the General Partner may suspend the right of withdrawal or postpone the date of payment for any period during which there is an extraordinary circumstance as determined in good faith by ADAR1 or the General Partner.

Contingency Reserves. Under certain circumstances, the ADAR1 Funds may find it necessary to set up one or more reserves for contingent or future liabilities or valuation difficulties and, upon withdrawal by an Investor, withhold a portion of that Investor's withdrawal proceeds. This could happen, for example, if the Master Fund or the issuer of portfolio securities were involved in a dispute regarding the value of its assets, in litigation, or subject to a tax audit at the time the withdrawal request would otherwise be satisfied.

Undistributed Income. The General Partner in its sole discretion may, but is not required to, make distributions to Limited Partners in the Master Fund during the term of the Master Fund. Taxable income realized in any year by the Master Fund will be taxable to the Partners in that year regardless of whether they have received any distributions from the Master Fund. Accordingly, Limited Partners may recognize taxable income for federal, state, and local income tax purposes without receiving any or a sufficient distribution from the Master Fund with which to pay the taxes thereon. The General Partner may consider such possible tax liability of the Limited Partners when determining whether to make distributions, but no assurance is given that distributions, if made, will equal the amount of any Limited Partner's tax liability.

Restrictions on Transfer. The Interests/Shares are subject to certain restrictions on transfer, including a requirement that the General Partner or ADAR1 consent to any such transfer. There is no present market for the Interests/Shares, and no market is likely to develop in the future. Accordingly, Investors may not be able to liquidate their investment in the event of an emergency or for any other reason, and Interests may not be readily acceptable as collateral for loans. Interests should be purchased only by prospective Investors who can

bear the economic risk of their investment, who can afford to have their funds committed to an illiquid investment according to the withdrawal provisions in the Master Fund Agreement and who, if necessary, can afford a complete loss of their investment. (See *"Restrictions on Transfers of Interests."*)

Lack of Insurance. The assets of the ADAR1 Funds are not insured by any government or private insurer except to the extent portions may be deposited in bank accounts insured by the Federal Deposit Insurance Corporation or with brokers insured by the Securities Investor Protection Corporation and such deposits and securities are subject to such insurance coverage. Therefore, in the event of the insolvency of a depository or custodian, the ADAR1 Funds may be unable to recover all of its funds or the value of its securities so deposited.

Side Letters. The ADAR1 Funds, the Firm and the General Partner (as applicable) have entered into, and may in the future enter into, "side letter" agreements with certain Investors pursuant to which the ADAR1 Funds give certain Investors rights not granted to other Investors, including one or more of the following: (i) reduced Management Fee, (ii) reduced Performance Allocation, (iii) the right to withdraw all or a portion of their investment in the ADAR1 Funds on shorter notice with or without paying an early withdrawal fee, and/or with more frequency than the terms described in the offering documents, and (iv) different reporting and information rights. As a result, certain Investors may be able to withdraw their Interests at times when other Investors may not. Subject to applicable law, the Firm does not intend to disclose the terms of such side letter agreements and does not intend to disclose the identities of the Investors that have entered into such agreements.

Regulations under Investment Company Act of 1940. The ADAR1 Fund's operations are similar to an investment company as defined under the Investment Company Act, because the ADAR1 Funds engage in the business of purchasing securities for investment. The ADAR1 Funds are currently not required to register under the Investment Company Act due to an exemption for an entity which is available only to "qualified purchasers" and which does not intend to make any public offering of its securities. Accordingly, the provisions and extensive regulations of the Investment Company Act, which might otherwise govern the activities of the ADAR1 Funds, will not be applicable.

Risks for Benefit Plan Investors. Because it is intended that the ADAR1 Funds will not hold or be deemed to hold Plan Assets (as defined below), Benefit Plan Investors (as defined herein) may not have the protection of ERISA with respect to the investments and other activities of the ADAR1 Funds. (See *"ERISA Considerations."*)

Revised Regulatory Interpretations Could Make Certain Strategies Obsolete. In addition to proposed and actual accounting changes, there have recently been certain well-publicized incidents of regulators unexpectedly taking positions which prohibited trading strategies which had been implemented in a variety of formats for many years. In the current unsettled regulatory environment, it is impossible to predict if future regulatory developments might adversely affect the ADAR1 Funds.

Compliance, Litigation and Claims. The ADAR1 Funds must comply with various legal requirements, including requirements imposed by the securities laws, tax laws and pension laws in various jurisdictions as well as compliance and reporting requirements. Should any of these laws change over the term of the ADAR1 Funds, the legal requirements to which the ADAR1 Funds and the Investors may be subject could differ materially from current requirements. These compliance and reporting requirements may also prove expensive for the ADAR1 Funds and time consuming for ADAR1 and the General Partner. The ADAR1 Funds, ADAR1 and General Partner as independent legal entities, may also be subject to lawsuits or proceedings by government entities or private parties. Except in the event of a

lawsuit or proceeding arising from ADAR1's or the General Partner's misfeasance, bad faith or gross negligence in the performance of its duties, expenses or liabilities of the ADAR1 Funds arising from any suit or proceeding shall be borne by the ADAR1 Funds. Under certain circumstances, the ADAR1 Funds may find it necessary to establish a reserve for contingent liabilities or withhold a portion of an Investor's settlement proceeds at the time of withdrawal, in which case, the reserved portion would remain at the risk of the ADAR1 Funds' activities.

Future Regulatory Change is Impossible to Predict. The securities markets are subject to comprehensive statutes, regulations and margin requirements. In addition, the Securities and Exchange Commission and the exchanges are authorized to take extraordinary actions in the event of a market emergency, including, for example, the retroactive implementation of speculative position limits or higher margin requirements, the establishment of daily price limits and the suspension of trading. The regulation of securities both inside and outside the United States is a rapidly changing area of law and is subject to modification by government and judicial action. The effect of any future regulatory change on the Firm is impossible to predict, but could be substantial and adverse.

Importance of General Economic Conditions. Overall market, industry or economic conditions, which the Firm cannot predict or control, will have a material effect on performance.

Risks Relating to Markets. The value of those securities in which the Master Fund invests and that are traded on exchanges or over-the-counter and the risks associated therewith vary in response to events that affect such markets and that are beyond the control of the Master Fund and the Firm. Market disruptions such as those that occurred during October of 1987, on September 11, 2001 and during September of 2008 could have a material effect on general economic conditions and market liquidity which could result in substantial losses to the ADAR1 Funds.

There is no guarantee that securities exchanges and markets can at all times provide continuously liquid markets in which the Master Fund can close out its positions in those securities that the Master Fund purchases that are publicly traded. The Master Fund could experience delays and may be unable to sell securities purchased through a broker or clearing member that has become insolvent due to the deterioration of industry conditions in general. In that event, positions could also be closed out fully or partially without the Master Fund's consent.

Terrorist Activities and Military Actions in Ukraine. In recent years, in countries around the world including in Europe and the U.S., terrorist attacks of unprecedented scope, and military actions in various countries around the world (most recently in Russia and Ukraine and their neighboring countries and/or allies), have caused instability in the world financial markets and may generate global economic instability. The continued threat of terrorism and the impact of such military actions have led to and will likely lead to increased volatility in prices for commodities and other assets, and could have knock-on consequences for investments activity generally. Each of the aforementioned could adversely affect the performance of an investment in the ADAR1 Funds.

Risks Related to a Public Health Crisis. As mentioned above, a public health crisis, such as the outbreak of the COVID- 19 global pandemic and related recession, could have unpredictable and adverse impacts on global, national and local economies, which could in turn negatively impact the ADAR1 Funds and their performance. Disruptions to commercial activity (such as the imposition of quarantines or travel restrictions) or, more generally, a failure to contain or effectively manage a public health crisis, could adversely impact the Master Fund's

investments. In addition, such disruptions could negatively impact the ability of the Master Fund to effectively make, monitor and dispose of investments. Finally, the outbreak of COVID-19 has contributed to, and could continue to contribute to, extreme volatility in financial markets, which could adversely affect the Firm's ability to identify investments and have a material and adverse impact on the ADAR1 Funds' performance. The impact of a public health crisis such as COVID-19 (or any future pandemic, epidemic or outbreak of a contagious disease) is difficult to predict and presents material uncertainty and risk with respect to the ADAR1 Funds' performance.

**ADAR 1 Funds:**

The investment strategy, guidelines and positions for the First Loss Fund differ in certain respects from those of the ADAR1 Funds, such as with respect to concentration, market capitalization, permitted jurisdictions, trading volume, net exposure levels and liquidity (including with respect to private investments). As a result, investment strategies, guidelines and risks specific to ADAR1's investment activities for the First Loss Fund are set forth in the investment advisory agreement with the First Loss Fund.

**Item 9: Disciplinary Information**

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To the best of our knowledge, there are no legal or disciplinary events that are material to an Investor's or prospective investor's evaluation of our advisory business or the integrity of our management.

**Item 10: Other Financial Industry Activities and Affiliations**

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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.

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

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***Code of Ethics***

ADAR1 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.

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 and Investors first;
- Employees must ensure that all personal securities transactions are conducted consistent with the Code of Ethics' Employee Personal Investment Policy (described below); and
- Employees should not take inappropriate advantage of their position at the Firm.

Employees are generally not permitted to trade in single name stocks / derivatives within the healthcare and biotech sectors, except in limited situations contemplated by the Code of Ethics, subject to review and prior approval by the CCO. Employees are required to obtain approval from CCO prior to participating in Initial Public Offerings (“**IPOs**”). Employees are prohibited from personally, or on behalf of a Client, purchasing or selling securities that appear on the Firm’s Restricted List.

Employees must obtain pre-approval from the CCO before: (i) engaging in any outside business activities; (ii) making any private investments; or (iii) making political contributions.

We will provide a copy of our Code of Ethics to our Investors, or any prospective investor, upon request, to be viewed on the premises.

## **Item 12: Brokerage Practices**

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ADAR1 is authorized to determine the broker-dealer to be used for executing securities transactions for the 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 most favorable pricing. The Funds’ securities and other assets are held in securities accounts at our prime brokers that are “Qualified Custodians” (as defined in the Advisers Act) or, for certain privately offered securities or assets, in accordance with the Custody Rule under the Advisers Act.

### ***Best Execution***

In selecting an appropriate broker-dealer (including prime brokers) to execute transactions, we seek to obtain “**Best Execution**,” meaning we will execute transactions in a manner most favorable and beneficial to our Clients under the circumstances. ADAR1 considers many factors in determining whether it obtains Best Execution, only one of which is actual commission rate or price paid or received. Best execution is qualitative, and not quantitative, and Adar will weigh a combination of criteria to determine whether the transaction in question represents the best “qualitative” execution for the Client. The General Partner has discretion to execute trades, select broker-dealers and negotiate commissions. In selecting broker-dealers, the General Partner seeks those broker-dealers who can provide best execution of transactions under the circumstances. The principal factors determining this selection are: (1) a broker’s ability to execute the types of transactions occurring in client accounts; (2) the net prices for such transactions; and, (3) trading ideas generated by brokers. “Best execution” is not synonymous with lowest brokerage commission. Consequently, in a particular transaction the Firm may pay a brokerage commission in excess of that which another broker might have charged for executing the same transaction.

Generally, neither ADAR1 nor any Client separately compensates any broker or dealer for any of these other services. ADAR1’s “**Best Execution Policy**” requires that all trades are executed through approved broker-dealers and that the Firm reviews the performance of its broker-dealers to evaluate whether the Firm is obtaining Best Execution for its Clients’ trades.

ADAR1 maintains policies and procedures to review the quality of executions, including periodic reviews by its trading and investment professionals.

***Soft Dollars***

The Funds may enter into one or more “soft dollar” arrangements with brokers that execute trades for the Fund’s account. Under these “soft dollar” arrangements, the broker would provide certain products and services (or arrange for and pay third parties to provide such products and services) based upon the volume of commissions generated by the Firm’s trading activities. Subject to the Firm’s duty to obtain best execution, these arrangements may not result in the execution of trades at the lowest available commission rates. As a result of these arrangements, the Firm may pay higher commissions than would be the case in the absence of such arrangements. In the event the Firm generates “soft dollars” with respect to trades, the Firm shall comply with the safe harbor of Section 28(e) of the Securities Exchange Act of 1934, as amended. In all events, the Firm will always seek to obtain best execution for the Firm’s portfolio transactions.

**Item 13: Review of Accounts**

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Our Principal and investment professionals monitor and analyze the transactions, positions, and investment levels of the Master Fund to ensure that they conform with the investment objectives and guidelines that are stated in the Offering Documents. In these reviews, the Firm pays particular attention to any changes in the investment’s fundamentals, overall risk management and changes in the markets that may affect price levels.

***Account Reporting***

We perform various periodic reviews of each Client’s portfolio. Such reviews are conducted by our officers.

We will distribute an audited financial report with respect to the previous fiscal year to all investors in ADAR1 Funds within 120 days of fiscal year end. We may also distribute quarterly unaudited net asset value statements, quarter-end performance reports, and a quarterly investor letter to all Investors.

The First Loss Fund receives such reports as are set forth in ADAR1’s investment advisory agreement with the First Loss Fund.

**Item 14: Client Referrals and Other Compensation**

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We do not receive economic benefits from non-clients for providing investment advice and other advisory services. 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**

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We will be deemed to have custody of Client funds and securities because we have the authority to obtain Client funds or securities, for example, by deducting advisory fees from a Client's account or otherwise withdrawing funds from a Client's account. Account statements related to the Clients are sent by qualified custodians to ADAR1.

We will comply with Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”) (i.e., the “custody rule”) by meeting the conditions of the pooled vehicle annual audit approach. Upon completion of the relevant ADAR1 Fund’s annual audit by an independent auditor that is registered with, and subject to inspection by, the Public Company Accounting Oversight Board (PCAOB), we will distribute the ADAR1 Fund’s audited financials to Investors within 120 days of such ADAR1 Fund’s fiscal year end.

**Item 16: Investment Discretion**

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We will have full discretionary investment authority with respect to Client 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.

The investment strategy, guidelines and positions for the First Loss Fund differ in certain respects from those of the ADAR1 Funds, such as with respect to concentration, market capitalization, permitted jurisdictions, trading volume, net exposure levels and liquidity (including with respect to private investments).

**Item 17: Voting Client Securities**

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- In compliance with the Advisers Act’s Proxy Voting Rule, we have adopted proxy voting policies and procedures. The Firm will comply with the Proxy Voting Rule and will act solely in the best interests its Clients when exercising its proxy voting authority. The Firm determines whether and how to vote proxies on a case-by-case basis, and will vote proxies that are important to the investment strategies of the Client overall and in particular with respect to the specific company;
- follow management's recommendations in other situations or may not vote a proxy when such company is not a material position in the Client's portfolio; and
- vote in a manner that it believes is consistent with the Client’s stated objectives.

**Item 18: Financial Information**

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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.