

272 Capital LP Form ADV Part 2A Brochure

**272 Capital LP**

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Dallas, TX 75219**

March 2024

**ITEM 1: COVER PAGE**

This “**Brochure**” provides information about the qualifications and business practices of 272 Capital LP (hereinafter “**272**”, “**272 Capital**”, “**we**”, “**us**”, “**our**” or the “**Firm**”). If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer (“**CCO**”), Doug Shippee, by email at [dshippee@272capital.com](mailto:dshippee@272capital.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.

272 is a registered investment adviser. Registration as an investment adviser does not imply that 272 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 272 is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

### **Important Note About This Brochure**

This Part 2A of Form ADV: Brochure (the “Brochure”) is not:

- an offer or agreement to provide advisory services to any person;
- an offer to sell interests or a solicitation of an offer to purchase interests in any investment product or vehicle advised by 272 Capital; or
- a complete discussion of the features, risks or conflicts associated with any account advised by 272 Capital.

272 Capital provides this Brochure to current and prospective investors.

Persons who receive this Brochure (whether or not from 272 Capital) should be aware that it is designed solely to provide information about 272 Capital as necessary to respond to certain disclosure obligations under the Advisers Act. Therefore, the information in this Brochure may differ from information provided in the materials that govern an account or investor relationship such as an advisory contract or a private fund’s governing documents.

**In no event should this Brochure be considered to be an offer of, or agreement to provide, advisory services directly to any recipient.**

## ITEM 2: MATERIAL CHANGES

Since the last annual filing of this Brochure in March 2023, the firm is making the following updates:

- Effective February 4, 2024, Wesley C. Cummins (“Wes Cummins”) is the sole owner of the Firm. The Firm is also renamed 272 Capital LP, **See Item 4.**
- Updated assets under management, **See Item 4.**

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## ITEM 4: ADVISORY BUSINESS

### FIRM DESCRIPTION

272 Capital LP (hereinafter “**272**”, “**we**”, “**us**”, “**our**”, “**Investment Manager**”, or the “**Firm**”), a Delaware limited liability company, was formed in 2017. The Firm currently provides investment management services to private pooled investment vehicles and a separate account for an institutional investor. 272 is registered as an investment adviser under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”).

### PRINCIPAL OWNERS

272 Capital Holdings is the majority owner and Managing Member of the Firm. Wes Cummins is the sole owner of 272 Capital Holdings LLC.

### TYPES OF ADVISORY SERVICES

272 serves as investment manager to the **272 Capital Fund, LP**, a Delaware limited partnership (the “Domestic Fund”), **272 Capital Offshore Fund, Ltd.**, a Cayman Islands exempted company (the “Offshore Fund” and together with the Domestic Fund, the “Feeder Funds”), and **272 Capital Master Fund, Ltd.**, a Cayman Islands exempt limited partnership (the “**Master Fund**” and together with the Feeder Funds, the “**272 Fund**”). Each of the Feeder Funds invests all or substantially all of its assets in, and conducts its investment activities through, the Master Fund. 272 has full discretionary authority with respect to the investment decisions of the 272 Fund. Our investment advisory services are provided in accordance with the investment objectives and guidelines set forth in Fund offering and governing documents. The information set forth in this Brochure is qualified in its entirety by the Fund offering and governing documents. Interests in the Feeder Funds are privately offered only to eligible investors pursuant to exemptions under the Securities Act of 1933, as amended (the “**Securities Act**”), and the regulations promulgated thereunder. The Fund is not registered with the SEC as investment companies based on specific exclusions from the definition of investment company under the Investment Company Act of 1940, as amended (the “**Company Act**”).

272 provides investment advice to the 272 Fund in accordance with the investment objectives, policies and guidelines set forth in the Fund’s offering and governing documents, and not in accordance with the individual needs or objectives of any particular investor in the Fund.

In addition to the 272 Fund, 272 serves as adviser to two non-affiliated pooled vehicles and a separately managed account for an institutional investor; the Firm also serves as sub-adviser to a pooled vehicle, the BRC Partners Opportunity Fund, LP (“**BRCP**”), each a “**Client**”. As investment manager, 272 is responsible for investing and re-investing the capital of each Client account in securities, financial instruments and/or other assets in accordance with the investment objectives, policies and guidelines set forth in the 272 Fund’s offering and governing documents as well as the investment management agreements for the sub-advised and separately managed Client accounts. **See Item 8: Methods of Analysis, Investment Strategies and Risk of Loss.**

### INVESTMENT RESTRICTIONS

Investors generally are not permitted to impose restrictions on investments in certain securities or types of securities or limitations on the management of the Fund. Notwithstanding the foregoing, 272 has entered into, and may in the future enter into, side letter agreements or similar arrangements with certain investors in the Feeder Funds that have the effect of establishing rights under, or altering, modifying, waiving or supplementing the terms of, the governing documents of the Fund in respect of such investors. Among other things, these agreements may entitle an investor in the Fund to lower fees, information or transparency rights, most favored nations status, investment capacity rights, notification rights, rights or terms necessary or advisable in light of particular legal, regulatory or policy considerations of or related to an investor and/or other preferential rights and terms. Advisory services are generally not tailored to each Client, the firm manages a single strategy for all clients in which all clients invest in the same securities at all

times. However, the clients have imposed restrictions, in writing, on investing in certain securities. All Client accounts are managed on a *pari passu* basis. Each Client account generally buys, sells and holds the same securities.

We do not participate in any Wrap Fee Programs.

#### **ASSETS UNDER MANAGEMENT**

As of December 31, 2023, the Firm had approximately \$430 million in regulatory assets under management. All of these assets are managed on a discretionary basis.

## ITEM 5: FEES AND COMPENSATION

### DESCRIPTION OF COMPENSATION

In consideration of our advisory services, 272 receives a “Management Fee” and an “Incentive/Performance Allocation” with respect to each Client account. While our fees are described in detail in the 272 Fund’s governing and offering documents and in the investment management agreements, a brief summary of our advisory fees is set forth below.

#### *Management Fee*

**272 Fund Management Fee:** The Master Fund will pay to the Investment Manager a fee for its services (the “**Management Fee**”) for each fiscal quarter equal to a quarter of the result of the Management Fee Rate multiplied by the balance of each Capital Account as of the beginning of such fiscal quarter (before taking into account the estimated accrued Incentive Allocation, if any). The Master Fund will calculate and pay the Management Fee in advance but will amortize the Management Fee monthly over the fiscal quarter for which such Management Fee is paid. The portion of the Management Fee applicable to a Capital Account will be charged to its corresponding Master Fund Shares.

“Management Fee Rate” means 1.5% per annum. The Master Fund will pay the Management Fee within 10 days of the first day of each fiscal quarter. The Investment Manager may, without the consent of the Limited Partners, cause the Management Fee to be charged to and paid by the Partnership instead of the Master Fund.

**Incentive Allocation:** Generally, at the end of each Fiscal Year, the Master Fund will reallocate from the record of each series of Master Fund Shares corresponding to a Capital Account to the record of the Class M Shares an amount (the “**Incentive Allocation**”) equal to the result of the applicable Incentive Allocation Rate multiplied by the net realized and unrealized appreciation in the net asset value of such series of Master Fund Shares (taking into account, as applicable, gains and losses realized or deemed realized with respect to Special Investments allocated during such Fiscal Year, and after reducing such amount by the amount of the Management Fee debited to such Limited Partner’s Capital Account during such Fiscal Year), adjusted for (i) any redemption of Master Fund Shares in the series since the last calculation of the Prior High NAV of such series of Master Fund Shares, and (ii) expenses of the Partnership (other than Investor-Related Taxes) corresponding to such series of Master Fund Shares that are not reflected in the net asset value of the Master Fund (the “**Adjusted NAV**”); provided, however, that an Incentive Allocation will be made only with respect to the excess of the Adjusted NAV of a series of Master Fund Shares over its Prior High NAV. The Incentive Allocation will also be made with respect to net realized and unrealized appreciation attributable to amounts withdrawn, amounts distributed, and amounts transferred (provided that such Transfer results in a change in the beneficial ownership of the Interest transferred) and in connection with the termination of the Partnership or the Master Fund. The Class M Shares will not be subject to the Incentive Allocation.

“**Incentive Allocation Rate**” means 20%.

The “**Prior High NAV**” of each series of Master Fund Shares is the net asset value of that series immediately following the date as of which the last Incentive Allocation allocable with respect to such series was determined (or if no Incentive Allocation has yet been determined with respect to such series, the net asset value of such series immediately following the initial issuance of such series), reduced by any Investor- Related Taxes accrued or paid subsequent to either such date.

For purposes of determining allocations, including calculating the Incentive Allocation and the Prior High NAV, any Investor-Related Taxes related to a Partner, or a direct or indirect beneficial owner of the Master Fund will be deemed distributed to such Partner or direct or indirect beneficial owner of the Master Fund and will not be deemed to be expenses that reduce net capital appreciation or increase the Prior High NAV.

**“Investor-Related Tax”** means any tax withheld from the Partnership or the Master Fund or paid over by the Partnership or the Master Fund, in each case, directly or indirectly, with respect to or on behalf of a Partner or a direct or indirect beneficial owner of the Master Fund, and interest, penalties and/or any additional amounts with respect thereto, including (i) a tax that is determined based on the status, action or inaction (including the failure of a Partner or a direct or indirect beneficial owner of the Master Fund to provide information to eliminate or reduce withholding or other taxes) of a Partner or a direct or indirect beneficial owner of the Master Fund, or (ii) an “imputed underpayment” within the meaning of Section 6225 of the Internal Revenue Code of 1986, as amended (the **“Internal Revenue Code”**), and any other similar tax, attributable to a Partner or a direct or indirect beneficial owner of the Master Fund, as determined by the General Partner in its sole discretion.

If Master Fund Shares of a particular series are redeemed other than at the end of a Fiscal Year as of which an Incentive Allocation is made with respect to such series, the Prior High NAV of such series will be reduced in the same proportion as the reduction in the net asset value of that series caused by such redemption.

The Incentive Allocation will be determined separately with respect to each series of Master Fund Shares corresponding to a Capital Account established for a Limited Partner. Accordingly, it is possible that an Incentive Allocation may be made with respect to one series of Master Fund Shares even though another series of Master Fund Shares corresponding to a Capital Account of the same Limited Partner has not appreciated or has depreciated in value during the same period.

In the sole discretion of the General Partner, the Incentive Allocation may be waived, reduced or calculated differently with respect to the series of Master Fund Shares corresponding to the Capital Account of any Limited Partner. To facilitate any such waiver, reduction or different calculation, the Master Fund may issue Master Fund Shares of a separate class, series or sub-series.

**BRCP Management Fee:** We receive a management fee (the **“Management Fee”**) from the BRCP Fund as of the last day of each calendar quarter in arrears equal to 0.25% (approximately 1.00% on an annual basis) of each Limited Partner’s total capital account balance in the Fund as of the last day of such quarter, prior to accrual of any Performance Allocation and prior to any withdrawals as of such last day. The Management Fee is prorated for Interests held for less than a full quarter. The Management Fee paid to the Sub-Adviser is net of amounts paid or reserved for payment of the pro rata portion (i.e., relative to all Investment Manager clients) of the Investment Manager’s expenses and other liabilities and subject to any recall, claw back or other obligations set forth in the Partnership Agreement.

**Performance Allocation:** On December 31 of each year, the BRCP allocates to the General Partner a performance-based allocation (the **“Performance Allocation”**) with respect to each Limited Partner equal to 15% of the appreciation in each Limited Partner’s capital account during the year. The Performance Allocation is made only if, and to the extent that, the net capital appreciation of a Limited Partner’s capital account for the year exceeds any net capital depreciation in the capital account (reduced *pro rata* for any withdrawals) accumulated in prior years (i.e., a **“high water mark”**). The General Partner may be allocated the Performance Allocation with regard to unrealized appreciation as well as realized gains in the Limited Partners’ capital accounts, except with respect to Special Securities.

The General Partner will not be allocated a Performance Allocation with respect to a Special Security until the Special Security has been liquidated, distributed in kind or the General Partner determines that it will no longer be characterized as a Special Security.

If a Limited Partner withdraws all or a portion of its capital account on a date other than December 31, a Performance Allocation will be made with respect to the amount withdrawn for the period since the prior January 1, and any unearned Management Fee will be refunded to the Limited Partner.

The Investment Manager may waive or reduce the Management Fee, and the General Partner may waive or reduce the Performance Allocation, to be borne by a Limited Partner for any reason in its sole discretion, including to reflect matters such as the amount of the Limited Partner’s investment and its commitment to maintain its investment in the Fund. The Investment Manager may also share portions of the Management Fee, and the



General Partner may share portions of the Performance Allocation, with persons who refer investors to the Fund at its own expense.

The Investment Manager has waived receipt of the Management Fee, and the General Partner has waived receipt of the Performance Allocation, which would otherwise be borne by the Limited Partners on account of any investment by the Fund in any pooled investment vehicle for which the Investment Manager or any of its affiliates serves as investment manager.

Pursuant to the Sub-Advisory agreement, the Sub-Adviser is entitled to The Performance Allocation fee received net of amounts paid or reserved for payment of the pro rata portion (i.e., relative to all Investment Manager clients) of the Investment Manager's expenses and other liabilities and subject to any recall, claw back or other obligations set forth in the Partnership Agreement.

**Non-Affiliated Pooled Vehicles and Separately Managed Account Fees:** Similarly, for investment services provided to the non-affiliated pooled vehicles and the separately managed account, 272 receives an annual management fee equal to a percentage, generally between 0% and 1.5%. 272 in its discretion, may waive or reduce the management fee as negotiated. Furthermore, under the investment management agreement, 272 will be entitled to receive an Incentive Allocation. The Incentive Allocation is generally equal to a percentage between 15 and 20%. 272, in its discretion, may waive or reduce the Incentive Allocation as to all or any of its Clients.

#### **OTHER TYPES OF FEES OR EXPENSES**

272 is authorized to incur all expenses, and pay invoices, in the name and on behalf of the 272 Funds which they deem necessary or advisable.

The Firm is responsible for and shall pay, or cause to be paid, all of their own ordinary administrative and overhead expenses, including, without limitation, all costs and expenses related to rent, furniture, fixtures, equipment, office supplies, clerical expenses and all salaries, bonuses and benefits paid to, or on behalf of, personnel of the Firm.

The Funds bear all other expenses, which include, without limitation, the following expenses incurred by or allocable to the Funds: (a) organizational and offering expenses; (b) expenses associated with all investments and transactions considered, evaluated and/or consummated by the Funds, including, without limitation, those expenses incurred before the initial closing of the Funds, including, without limitation, expenses associated with sourcing, negotiating, investigating, researching, financing and structuring of investments and potential investments, whether or not consummated, including, without limitation, third-party research, data, analytics, modeling, structuring, pricing, execution and other third-party information systems, software and service fees (including, without limitation, the expenses with respect to data feeds, subscriptions, expert networks, political intelligence providers, and reports); (c) research-related computer hardware and software expenses, including, without limitation, Bloomberg terminals; (d) the Funds' pro rata share of the Firm's order management system, portfolio management system and any other software used for accounting and/or monitoring of the portfolio; (e) expenses associated with holding, financing, monitoring, hedging, maintaining and disposing of all investments of the Funds and all transaction and other costs associated therewith; (f) travel and related expenses associated with investments and potential investments; (g) professional fees associated with investments and potential investments, including, without limitation, consulting, due diligence, accounting, valuation, financial, legal, and other advisory fees and expenses; (h) transaction fees, brokerage commissions, custodial fees, clearing and settlement charges and similar fees and expenses associated with the acquisition, disposition and settling of investments and potential investments; (i) expenses associated with legal and regulatory filings of the Funds (including, without limitation, pursuant to Section 13 and 16 of the Securities and Exchange Act of 1934, as amended (the "**Exchange Act**")) and the Funds' pro rata portion of the expenses associated with preparation of the Firm's Form 13F, Form 13H and Form PF, and any other similar filing in any other U.S. or non-U.S. jurisdiction; (j) administrative, custodial, appraisal, valuation, legal, regulatory, compliance, consulting, advisory and similar fees and expenses associated with the Funds' operations, investments and transactions, including, without limitation, fees and expenses of the Funds' administrator; (k) expenses incurred in connection with responding to requests or inquiries from any U.S. federal, state, local or non-U.S. governmental entity or authority, regulatory body or self-regulatory organization and all extraordinary expenses; (l) broken-deal, failed transaction, break-up and similar fees, costs and expenses, if any; (m) costs and expenses of leverage or any other borrowings of the Funds, including, without limitation, interest charges and fees; (n) expenses incurred in the collection of monies owed to the Funds, as applicable; (o) auditing and accounting expenses of the Funds, including, without limitation, expenses associated with the preparation of

financial statements, tax returns and Schedules K-1 and the fees and expenses of the auditor; (p) any entity level taxes, fees or other governmental charges on the Funds, including, without limitation, any withholding taxes not due to the status or noncompliance of a particular Investor; (q) costs and expenses associated with investor communications and reports and the delivery thereof to investors; (r) the costs of service providers or software to measure or monitor risk metrics, to aggregate positions and/or to provide reporting with respect to risk metrics and/or positions; (s) costs and expenses associated with meetings of the Investors; (t) insurance expenses; including, without limitation, directors' and officers' liability insurance, general partner liability insurance, errors and omissions insurance and other policies, if any; (u) costs and expenses (including, without limitation, entity-level taxes, fees or other governmental charges) associated with the formation, organization and operation of any subsidiary, special purpose vehicle, alternative investment vehicle, holding company, or similar entity formed with respect to investments, credit facilities or other transactions entered into for the benefit of the Funds; (v) wind-up, liquidation, termination and dissolution expenses; (w) costs, fees and expenses related to registration, qualification and/or exemption under any applicable U.S. federal, state, local or non-U.S. laws, rules or regulations, including, without limitation, blue sky fees, Form D, Form 8.3, CFTC filings and notices and other securities and/or investment-related filing expenses; (x) costs related to any transfers of interests in the Funds, unless otherwise charged to or borne by the applicable transferor and/or transferee; (y) expenses incurred in connection with the preparation of any amendment to the Funds' governing documents and/or Offering Documents; (z) expenses incurred in connection with pursuing, defending or participating in any litigation, arbitration, mediation or similar proceeding by the Funds; (aa) any extraordinary expenses (including, without limitation, all litigation-related and indemnification and contribution expenses, including, without limitation, the amount of any judgment or settlement paid in connection therewith); (bb) the Management Fee; and (cc) all other fees, costs, charges and expenses associated with the business, affairs and/or operations of the Funds.

In general, each Investor will bear its proportionate share of the Fund expenses on a pro rata basis with respect to the size of such Investor's capital account(s) or with respect to the relative net asset value of the shares held by such Investor, as applicable.

Notwithstanding the foregoing, the Fund General Partner and/or the Firm, as applicable, may specially allocate the expenses described herein in any other manner, including by allocating certain expenses to certain (but not all) Investors, if the Fund General Partner and/or the Firm, as applicable, reasonably determines, in its discretion, that it is more equitable to do so.

To the extent that expenses to be borne by the 272 Funds are paid by the Firm or its affiliates, the Funds will reimburse the Firm or its affiliates for such expenses. We may waive any such reimbursement with respect to any Fund expenses. Any waiver by us for reimbursement of any Fund expenses shall not serve as a waiver of reimbursement for any future Fund expenses to be paid by us or our affiliates.

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

## **ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As noted in Item 5. Fees and Compensation, we and our affiliates are entitled to performance-based compensation. As a result, we and our affiliates do not face certain conflicts of interest that may arise when an investment adviser accepts performance-based fees from some clients, but not from other clients. Performance-based allocation arrangements could motivate us to recommend investments which may be riskier or more speculative than would be the case if these arrangements were not in effect. Our individual employees and affiliates who are compensated to some extent based upon trading profits for which they are responsible face the same potential conflict. Because the performance-based allocation is calculated on a basis that includes unrealized appreciation in the Fund's portfolio based upon values assigned by us, 272 faces a conflict of interest in valuing the Fund's portfolio. 272 addresses these conflicts through full and fair disclosure in the Fund's offering and/or governing documents and/or this brochure. we.

### **SIDE-BY-SIDE MANAGEMENT**

272 does not manage client accounts that are not subject to a performance-based allocation; there are currently no conflicts related to side-by-side management.

## **ITEM 7: TYPES OF CLIENTS**

Our clients are described in Item 4 above. The 272 Fund is generally open to, among others, high net-worth individuals, financially sophisticated individuals, and other sophisticated investors. In addition, we have clients that are institutional investors.

## **ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS**

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

### ***Investment Objective***

272 seeks to provide equity-like returns with a focus on preservation of capital through a long/short equity strategy that results in low net equity exposure. 272 will invest primarily in individual publicly traded equity securities based mostly in the US through a rigorous bottom-up fundamental research investment process. The bottom-up process will largely drive the gross and net exposures of the portfolio yet will be aided by several portfolio management tools to optimize individual position size and overall risk management. Investments will be weighted towards the Technology, Media and Telecom ("TMT"), Industrial, Consumer, Financial and Healthcare sectors. While no particular sector is off limits, we generally avoid businesses that are directly tied to the price of a commodity.

### ***Risk Management***

While the Master Fund's gross and net exposures will be driven by 272's fundamental bottom up investment process, we will utilize multiple tools from a portfolio management perspective to limit risk including:

- Position size limitations. Ultimate positions size maximums of 12% for longs and 6% for shorts.
- A process that identifies market capitalization, liquidity and factor mismatch between the long and short books. While this will not drive our portfolio, we will be vigilant in preventing significant style mismatches on a net exposure basis.
- A short position sizing model and process that seeks to manage position size around expected stock moving events. While not perfect, this process is designed to help us be nimble on our short book.

### ***Risk of Loss Factors***

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the clients 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. Each prospective investor should carefully review the Offering Documents and the documents referred to herein before deciding to invest with 272.

## **RISKS RELATING TO PRIVATE INVESTMENT FUNDS GENERALLY**

### ***Legal and Regulatory Environment for Private Investment Funds and their Managers***

The legal and regulatory environment worldwide for private investment funds (such as the Fund) and their managers is evolving. Changes in the regulation of private investment funds, their managers, and their trading and investing activities may have a material adverse effect on the ability of the Master Fund to pursue its investment program and the value of investments held by the Master Fund. There has been an increase in scrutiny of the private investment fund industry by governmental agencies and self-regulatory organizations. New laws and regulations or actions taken by regulators that restrict the ability of the Master Fund to pursue its investment program or employ brokers and other counterparties could have a material adverse effect on the Fund and the investors' investments therein. In

addition, the Investment Manager may, in its sole discretion, cause the Fund or the Master Fund to be subject to certain laws and regulations if it believes that an investment or business activity is in the Master Fund's interest, even if such laws and regulations may have a detrimental effect on one or more investors.

#### *Alternative Investment Fund Managers Directive*

The Alternative Investment Fund Managers Directive (the "**AIFM Directive**") regulates: (i) alternative investment fund managers (each, an "**AIFM**") based in the European Economic Area (the "**EEA**") or the United Kingdom; (ii) the management of any alternative investment fund ("**AIF**") established in the EEA or the United Kingdom (irrespective of where an AIF's AIFM is based); and (iii) the marketing of any AIF, such as the Fund, to professional investors in the EEA or the United Kingdom.

Under the AIFM Directive, certain conditions must be met to permit the marketing of the Shares to any potential and existing investors in the EEA or the United Kingdom. The ability of the Fund or the Investment Manager to offer the Shares in the EEA or the United Kingdom will depend on the relevant state permitting the marketing of non-EEA or United Kingdom domiciled funds under the national private placement regimes implementing the AIFM Directive and the ability of the Fund and the Investment Manager to comply with such national private placement regimes, where available. Compliance with the requirements of such regimes may increase the costs of the administration of the Fund significantly, including the costs of regulatory reporting services to the Fund and the Master Fund and custody and prime brokerage services provided to the Master Fund. As such, the Fund's ability to market the Shares to EEA or United Kingdom investors may be limited.

#### *Systemic Risk*

Systemic risk is the risk of broad financial system stress or collapse triggered by the default of one or more financial institutions, which results in a series of defaults by other interdependent financial institutions. Financial intermediaries, such as clearing houses, banks, securities firms and exchanges with which the Master Fund interacts, as well as the Master Fund, are all subject to systemic risk. A systemic failure could have material adverse consequences on the Master Fund and on the markets for the Securities in which the Master Fund seeks to invest.

#### *Assumption of Catastrophe Risks*

The Master Fund may be subject to the risk of loss arising from direct or indirect exposure to various catastrophic events, including the following: hurricanes, earthquakes and other natural disasters; war, terrorism and other armed conflicts; cyberterrorism; major or prolonged power outages or network interruptions; and public health crises, including infectious disease outbreaks, epidemics and pandemics. To the extent that any such event occurs and has a material effect on global financial markets or specific markets or issuers in which the Master Fund invests (or has a material negative impact on the operations of the Investment Manager or the Service Providers), the risks of loss can be substantial and could have a material adverse effect on the Fund and the investors' investments therein. Furthermore, any such event may also adversely impact one or more individual investors' financial condition, which could result in substantial redemption requests by such investors as a result of their individual liquidity situations and irrespective of Fund performance. (See "Certain Risk Factors — Risks Relating to the Structure of the Fund — Effect of Substantial Redemptions.")

These potential impacts, while uncertain, could adversely affect the performance of the Fund.

#### *No Operating History*

Each of the Funds, the Master Fund and the Investment Manager are newly formed entities and do not have any operating history upon which prospective investors can evaluate their anticipated performance. Neither the Investment Manager nor its investment professionals have previously operated any investment vehicles similar to the Fund. There can be no assurance that the Funds or the Investment Manager will be successful.

#### *Dependence on the Investment Manager*

The success of the Fund is dependent upon the ability of the Investment Manager to manage the Master Fund and effectively implement the Master Fund's investment program. The Fund's governing documents do not permit the investors to participate in the management and affairs of the Fund. If the Investment Manager were to lose the services of the Principal or the Fund or any of the Other Accounts managed by the Investment Manager were to incur substantial losses, the Investment Manager might not be able to provide the same level of service to the Fund as it has in the past or continued operations. (See "Certain Risk Factors — Risks Relating to Management —

Retention and Motivation of Employees” and “Certain Risk Factors — Risks Relating to Management — Effect of Substantial Losses or Redemptions.”) The loss of the services of the Investment Manager could have a material adverse effect on the Fund and the investors’ investments therein.

#### *Dependence on Service Providers*

The Fund is also dependent upon its counterparties and the businesses that are not controlled by the Investment Manager that provide services to the Fund or the Master Fund (the “**Service Providers**”). Examples of Service Providers include the Administrator, a Prime Broker, Legal Counsel and the Auditors. Errors are inherent in the business and operations of any business, and although the Investment Manager will adopt measures to prevent and detect errors by, and misconduct of, counterparties and Service Providers, and transact with counterparties and Service Providers it believes to be reliable, such measures may not be effective in all cases. Errors or misconduct could have a material adverse effect on the Fund and the investors’ investments therein.

As the Feeder Funds and the Master Fund have no employees and all of the members of the Board of Directors have been appointed on a non-executive basis, the 272 Fund is reliant on the performance of the Service Providers. Each investor’s relationship in respect of its Shares is with the Fund only. Accordingly, absent a direct contractual relationship between the investor and the relevant Service Provider, no investor will have any contractual claim against any Service Provider for any reason related to its services to the Fund or the Master Fund. Instead, the proper plaintiff in an action in respect of which a wrongdoing is alleged to have been committed against the Fund or the Master Fund, as the case may be, by the relevant Service Provider is, prima facie, the Fund or the Master Fund, as the case may be.

#### *Retention and Motivation of Employees*

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

#### *Investment and Due Diligence Process*

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

#### *Increased Regulatory Oversight*

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

#### *Effect of Substantial Losses or Redemptions*

If, due to extraordinary market conditions or other reasons, the Fund and other private investment funds managed by the Investment Manager were to incur substantial losses or were subject to an unusually high level of redemptions, the revenues of the Investment Manager may decline substantially. Such losses and/or redemptions may hamper the

Investment Manager's ability to (i) retain employees, (ii) provide the same level of service to the Fund as it has in the past, and (iii) continue operations.

#### *Increasing Assets Under Management*

The rates of return achieved by trading advisers or managers often diminish as the assets under their management increases. The Investment Manager has not agreed to limit the amount of capital it will manage.

#### *Significant Fees and Expenses*

The fees and expenses of the Fund may be significant. The Fund must generate sufficient income to offset such fees and expenses to avoid a decrease in the net asset value of the Fund.

#### *Absence of Regulatory Oversight Over the Fund and the Master Fund*

The Fund and the Shares are not expected to be registered under the securities laws of the United States or any other jurisdiction other than the Cayman Islands. In particular, the Fund will not be registered as an investment company under the Company Act, and, therefore, will not be required to adhere to the restrictions and requirements under the Company Act. Accordingly, the provisions of the Company Act (which, among other things, require investment companies to have a majority of disinterested directors, require securities to be held in custody by a bank or broker in accordance with rules requiring the segregation of securities, prohibit the investment companies from engaging in certain transactions with its affiliates and regulate the relationship between advisers and investment companies) are not applicable.

The Fund and the Master Fund are each regulated as a mutual fund under the Mutual Funds Law. However, registration under the Mutual Funds Law does not involve an examination of the merits of the Fund or the Master Fund or supervision of the investment performance of the Fund or the Master Fund by the Cayman Islands government or the Monetary Authority. There is no financial obligation or compensation scheme imposed on or by the government of the Cayman Islands in favor of or available to the investors in the Fund.

#### *Liability of the Fund, the Master Fund and Separate Classes*

The Fund has the power to issue Shares in Classes, series or sub-series. The Articles of Association provide for the manner in which the liabilities are to be attributed across the various Classes, series or sub-series (liabilities are to be attributed to the specific Classes, series or sub-series in respect of which the liability was incurred). However, each of the Fund and the Master Fund is a single legal entity and there is no limited recourse protection for any Class, series or sub-series of Shares. Generally, creditors of the Fund may enforce claims against all assets of the Fund, but not against assets of the Master Fund, and creditors of the Master Fund may enforce claims against all assets of the Master Fund, but not against assets of the Fund. However, all assets of the Fund, including its shares in the Master Fund, may be available to meet all liabilities of the Fund, and all assets of the Master Fund may be available to meet all liabilities of the Master Fund, even if, in either case, the liability relates to a particular Class, series or sub-series of Shares of the Fund or the Master Fund, as the case may be (e.g., new issues and any corresponding hedge positions). Thus, for example, in the event that the assets attributable to Shares participating in a Security were completely depleted by losses or liabilities, a creditor could enforce a claim against the assets of the Fund which would be borne by the other Shares that did not participate in the investment or transaction. In addition, in order to facilitate investments or financing, the Fund may guarantee certain obligations of the Master Fund or one or more of its affiliates. In such circumstances all of the assets of the guarantor generally will be available to satisfy the guaranty obligation. Such arrangements may expose the Fund to an increased risk of loss.

#### *Effect of Substantial Redemptions*

Substantial redemptions could be triggered by a number of events, including unsatisfactory performance, events in the markets, a significant change in personnel or management of the Investment Manager, removal or replacement of the Investment Manager as the investment manager of the Fund, legal or regulatory issues that investors perceive to have a bearing on the Fund or the Investment Manager, or other events. Actions taken to meet substantial redemption requests from the Fund (as well as similar actions taken simultaneously by investors of the Domestic Fund and any Other Accounts) could result in prices of Securities held by the Fund decreasing and in Fund expenses increasing (e.g., transaction costs and the costs of terminating agreements). The overall value of the Fund also may decrease because the liquidation value of certain assets may be materially less than their cost or mark-to-market value. The Master Fund may be forced to sell its more liquid positions, which may cause an imbalance in the portfolio



that could have a material adverse effect on the remaining investors. Substantial redemptions could also significantly restrict the Master Fund's ability to obtain financing or transact with derivatives counterparties needed for its investment strategies, which would have a further material adverse effect on the Fund's performance. The Fund and the Investment Manager generally will not disclose to investors the amount of pending redemptions or redemption requests and are under no obligation to make any such disclosure.

#### *Limited Liquidity*

An investment in the Fund has limited liquidity because investors will generally have only limited rights to redeem Shares from the Fund or transfer their Shares, and the Fund has the right to suspend redemptions, as described herein. investors must be prepared to bear the financial risks of an investment in the Fund for an indefinite period of time.

#### *Access to Information and Effect on Redemptions*

Because of the wide range of potential investments, potentially rapid shifts in the concentration of investments among types of Securities or strategies, the inherent complexity of many of the Master Fund's investment strategies and other factors, prospective investors and investors will not have sufficient information to analyze or evaluate in detail the specific risks and potential returns of the Master Fund's investment program prospectively. The Investment Manager generally will not provide detailed information about the Master Fund's portfolio or any advance notice of anticipated changes in the composition of the Master Fund's portfolio, nor will the Investment Manager provide information to prospective investors as to how the Master Fund voted proxies. Furthermore, in response to questions and requests and in connection with due diligence meetings and other communications, the Fund and the Investment Manager may provide additional information to certain investors and prospective investors that is not distributed to other investors and prospective investors. Such information may affect a prospective investor's decision to invest in the Fund, and investors (which may include personnel and affiliates of the Investment Manager) may be able to act on such additional information and redeem their Shares potentially at higher values than other investors. Any such redemptions may result in reduced liquidity for other investors and, in order to meet larger or more frequent redemptions, the Fund may need to maintain a greater amount of cash and cash-equivalent investments than it would otherwise maintain, which may reduce the overall performance of the Fund. Each investor is responsible for asking such questions as it believes are necessary in order to make its own investment decisions, must decide for itself whether the limited information provided by the Investment Manager and the Fund is sufficient for its needs and must accept the foregoing risks.

#### *ERISA Plan Assets Status of the Master Fund*

The assets of the Master Fund may, from time to time, be treated as "plan assets" (as defined under Section 3(42) of ERISA and any regulations promulgated thereunder) of those indirect shareholders of the Master Fund that are subject to ERISA. In such event, the Investment Manager would be a fiduciary with respect to each such indirect shareholder. In addition, in the event that the assets of the Master Fund were treated as "plan assets" for purposes of ERISA, ERISA may impose certain limitations on the operation of the Master Fund. Such limitations could result in the inability of the Master Fund to participate in certain investments or conduct business with certain counterparties. Accordingly, in the event that the assets of the Master Fund are treated as "plan assets" for purposes of ERISA, ERISA could restrict the activities of the Master Fund and, as a result, the Master Fund may not be able to take advantage of certain investment opportunities, could have a different portfolio and could have a lower rate of return than if it were not subject to ERISA.

#### *Governmental Entity Investors*

Governmental entities, including pension plans maintained by governmental agencies and instrumentalities, may invest in the Fund. Such investors may be subject to laws that affect the applicability or enforcement of certain terms generally governing the Fund. For example, exculpation, indemnification, confidentiality, choice of law and choice of venue provisions may be applied differently with respect to such investors. In addition, investment in the Fund by certain governmental entities may subject the Fund and/or the Investment Manager to increased regulatory burdens and public disclosures about the Fund, its investors and its activities.

#### *In-Kind Payments*

Although the Fund does not intend to make payments in kind, under, under certain circumstances, a redeeming investor may receive Securities (to the extent received by the Fund from the Master Fund) in lieu of, or in combination with, cash. Such distributions may include interests in one or more special purpose vehicles holding

Securities owned by the Master Fund, or participations therein. To the extent a redeeming investor receives interests in special purpose vehicles, such redeeming investor will continue to be at risk with respect to the Fund's business. The value of the Securities paid in kind may increase or decrease before they are sold either by the redeeming investor, if received directly, or by the Investment Manager or its affiliates, if held through a special purpose vehicle. In either case, the redeeming investor will incur transaction costs in connection with the sale of any such Securities and, in the case of interests in a special purpose vehicle, will bear a proportionate share of the operating and other expenses borne by such vehicle. Securities distributed in kind may not be readily marketable. The risk of loss and delay in liquidating these Securities will be borne by the investor, with the result that such investor may ultimately receive less cash than it would have received on the date of redemption if it had been paid in cash. Furthermore, to the extent that a redeeming investor receives interests in special purpose vehicles, such redeeming investor will generally have no voting rights or any control over when and at what price the Securities in which such vehicles have an interest are sold.

#### *Systems and Operational Risks Generally*

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

#### *Cybersecurity Risk*

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

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

The loss or improper access, use or disclosure of the Investment Manager's or the Fund's proprietary information may cause the Investment Manager or the Master Fund to suffer, among other things, financial loss, the disruption

of its business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing events could have a material adverse effect on the Fund and the investors' investments therein.

#### *Valuation of Assets and Liabilities*

The Master Fund's assets and liabilities are valued in accordance with the Valuation Policy. The valuation of any asset or liability involves inherent uncertainty. The value of a Security determined in accordance with the Valuation Policy may differ materially from the value that could have been realized in an actual sale or transfer for a variety of reasons, including the timing of the transaction and liquidity in the market. Uncertainties as to the valuation of portfolio positions could have an impact on the net asset value of the Fund if the judgments of the Master Fund Board of Directors regarding the appropriate valuation should prove to be incorrect.

#### *GAAP Net Asset Value Divergence*

Due to GAAP requirements, the net asset value of the Fund for purposes of GAAP-compliant financial reporting may diverge from the net asset value of the Fund for all other purposes, including for purposes of allocating gains and losses among the investors, which, as described in this Memorandum, is relevant to, among other things, determining the net asset value of each series of Shares, calculating the Management Fee and the Incentive Allocation, and calculating the amounts payable by the Fund in respect of a redemption by or dividend to a investor. Net asset value divergence may occur, for example, in connection with the amortization of the organizational and initial offering expenses of the Fund, the measuring of fair value (as a result of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820), or the recognition or nonrecognition of uncertain tax positions (as a result of FASB ASC 740).

#### *Counterparty Risk*

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

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

If there is a default by a counterparty, the Master Fund under most normal circumstances will have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the net asset value of the Master Fund being less than if the Master Fund had not entered into the transaction. Furthermore, there is a risk that any of such counterparties could become insolvent and/or the subject of insolvency proceedings. In such case, the recovery of the Master Fund's Securities from such counterparty or the payment of claims therefor may be significantly delayed and the Master Fund may recover substantially less than the full value of the Securities entrusted to such counterparty. In addition, there are a number of proposed rules that, if they were to go into effect, may impact the laws that apply to insolvency proceeding and may impact whether the Master Fund may terminate its agreement with an insolvent counterparty.

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

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

#### *Competition; Availability of Investments*

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

#### *Volatility Risk*

The Master Fund's investment program may involve the purchase and sale of relatively volatile Securities and/or investments in volatile markets. Fluctuations or prolonged changes in the volatility of such Securities and/or markets can adversely affect the value of investments held by the Master Fund.

#### *Credit Ratings*

In general, the credit rating assigned by a nationally recognized rating agency to a Security represents such rating agency's opinion of the safety of the principal and interest payments of the rated instrument based on available information. Such ratings are relative and subjective; they are not absolute standards of quality and do not evaluate the market value risk of such Securities. Such ratings also do not reflect macroeconomic or systemic risk, including the risk of increased illiquidity in the credit markets. Further, credit ratings may change over time due to various factors, including changes in the creditworthiness of the issuer and/or changes in the rating agency's analytics and processes. It is possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events and, as a result, outstanding ratings may not reflect the issuer's current credit standing. The Master Fund may incur losses if it makes investments based on credit ratings that subsequently change in a way not favorable to the Master Fund's investment objective.

#### *Significant Positions in Securities; Regulatory Requirements*

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

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

In addition, if the Master Fund, acting alone or as part of a group, acquires beneficial ownership of more than 10% of a certain class of securities of a public company or places a director on the board of directors of such a company, under Section 16 of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), the Master Fund may be subject to certain additional reporting requirements and may be required to disgorge certain short swing profits arising from purchases and sales of such securities. Furthermore, in such circumstances the Master Fund will

be prohibited from entering into a short position in such issuer's securities, and therefore limited in its ability to hedge such investments. Similar restrictions and requirements may apply in non-U.S. jurisdictions.

#### *Litigation Risk*

Some of the tactics that the Investment Manager may use involve litigation. The Master Fund could be a party to lawsuits either initiated by it, or by a company in which the Master Fund invests, other shareholders of such company, or U.S. federal, state and non-U.S. governmental bodies. There can be no assurance that any such litigation, once begun, would be resolved in favor of the Master Fund.

#### *Exposure to Material Non-Public Information*

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

#### *Currency Exchange Exposure*

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

#### *Identity and Reporting of Beneficial Ownership; Withholding on Certain Payments*

In order to avoid a U.S. withholding tax of 30% on certain payments (including payments of gross proceeds) made with respect to certain actual and deemed U.S. investments, the Fund and the Master Fund generally will be required to timely register with the U.S. Internal Revenue Service (the "**Service**"), and agree to identify, and report information with respect to, certain direct and indirect U.S. account holders (including debtholders and equityholders). The Cayman Islands has signed a Model 1B (non-reciprocal) inter-governmental agreement with the United States (the "**US IGA**") to give effect to the foregoing withholding and reporting rules. So long as the Fund and the Master Fund comply with the US IGA and the Cayman Islands enabling legislation, they will not be subject to the related U.S. withholding tax.

A non-U.S. investor in the Fund will generally be required to provide to the Fund information that identifies its direct and indirect U.S. ownership. Under the US IGA, any such information provided to the Fund and certain financial information related to such investor's investment in the Fund will be shared with the Cayman Islands Tax Information Authority or its delegate (the "**Cayman TIA**"). The Cayman TIA will exchange the information reported to it with the Service annually on an automatic basis. A non-U.S. investor that is a "foreign financial institution" within the meaning of Section 1471(d)(4) of the Internal Revenue Code will generally be required to timely register with the Service and agree to identify, and report information with respect to, certain of its own direct and indirect U.S. account holders (including debtholders and equityholders). A non-U.S. investor who fails to provide such information to the Fund or timely register and identify, or report information with respect to, such account holders (as applicable) may be subject to the 30% withholding tax with respect to its share of any such payments attributable to actual and deemed U.S. investments of the Fund, and the Board of Directors may take any action in relation to an investor's Shares or redemption proceeds to ensure that such withholding is economically borne by the relevant investor whose failure to provide the necessary information or comply with such requirements gave rise to the withholding. Investors should consult their own tax advisers regarding the possible implications of these rules on their investments in the Fund.

#### *Subscription Monies*

Where a subscription for Shares is accepted, the Shares will be treated as having been issued with effect from the relevant Subscription Date notwithstanding that the subscriber for those Shares may not be entered in the Fund's register of members until after the relevant Subscription Date. The subscription monies paid by a subscriber for Shares will accordingly be subject to investment risk in the Fund from the relevant Subscription Date.

### *Risk of Loss*

No guarantee or representation is made that the Master Fund's investment program, including the Master Fund's investment objective, diversification strategies or risk monitoring goals, will be successful. Investment results may vary substantially over time.

**No assurance can be made that profits will be achieved or that substantial or complete losses will not be incurred.**

### *Long/Short*

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

### *Short Selling*

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

### *Long-Term*

The success of the Master Fund's long-term investment strategy depends upon the Investment Manager's ability to identify and purchase Securities that are undervalued and hold such investments so as to maximize value on a long-term basis. In pursuing any long-term strategy, the Master Fund may forego value in the short-term or temporary investments in order to be able to avail the Master Fund of additional and/or longer-term opportunities in the future. Consequently, the Master Fund may not capture maximum available value in the short-term, which may be disadvantageous, for example, for investors who redeem all or a portion of their Shares before such long-term value may be realized by the Master Fund.

### *Short-Term Market Considerations*

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

### *Leverage for Investment Purposes*

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

### *Borrowing for Cash Management Purposes*

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

### *Collateral*

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

### *Costs*

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

### *Lending of Portfolio Securities*

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

### *Diversification and Concentration*

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

### *Lack of Control*

The Master Fund may invest in debt instruments and equity securities of companies that it does not control, which the Master Fund may acquire through market transactions or through purchases of securities directly from the issuer or other shareholders. Such Securities will be subject to the risk that the issuer may make business, financial or management decisions with which the Master Fund does not agree or that the majority stakeholders or the management of the issuer may take risks or otherwise act in a manner that does not serve the Master Fund's interests.

In addition, the Master Fund may share control over certain investments with co-investors, which may make it more difficult for the Master Fund to implement its investment approach or exit the investment when it otherwise would. The occurrence of any of the foregoing could have a material adverse effect on the Fund and the investors' investments therein.

### *Hedging Transactions*

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

### *Discretion of the Investment Manager; New Strategies and Techniques*

While the Investment Manager will generally seek to employ the representative investment strategies and techniques discussed herein, the Investment Manager (subject to the policies and control of the Master Fund Board of Directors) has considerable discretion in the types of Securities the Master Fund may trade and has the right to modify the investment strategies and techniques of the Master Fund without the consent of the investors. New investment strategies and techniques may not be thoroughly tested in the market before being employed and may have operational or theoretical shortcomings which could result in unsuccessful trades and, ultimately, losses to the Master Fund. In addition, any new investment strategy or technique developed by the Master Fund may be more speculative than earlier investment strategies and techniques and may involve material and as-yet-unanticipated risks that could increase the risk of an investment in the Master Fund.

### *Fundamental Analysis*

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

### *General Economic and Market Conditions*

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

### *Governmental Interventions*

Extreme volatility and illiquidity in markets has in the past led to, and may in the future lead to, extensive governmental interventions in equity, credit and currency markets. Generally, such interventions are intended to reduce volatility and precipitous drops in value. In certain cases, governments have intervened on an "emergency" basis, suddenly and substantially eliminating market participants' ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition, these interventions have typically been unclear in scope and application, resulting in uncertainty. It is impossible to predict when these restrictions will be imposed, what the interim or permanent restrictions will be and/or the effect of such restrictions on the Master Fund's Strategies.

### *Potential Interest Rate Increases*

The United States has experienced a sustained period of historically low interest rate levels. In recent years, however, short-term and long-term interest rates have risen. The uncertainty of the U.S. and global economy, changes in U.S.



government policy, and changes in the federal funds rate, increase the risk that interest rates will remain volatile in the future. Sustained future interest rate volatility may cause the value of the fixed income securities held by the Master Fund to decrease, which may result in substantial redemptions from the Fund that, in turn, force the Master Fund to liquidate such securities at disadvantageous prices negatively impacting the performance of the Master Fund.

### *MiFID II*

The package of European Union market infrastructure reforms known as “**MiFID II**,” in effect from January 3, 2018, is expected to have a significant impact on the European capital markets.

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

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

### *Micro-, Small- and Medium-Capitalization Companies*

Investments in securities of micro- and small-capitalization companies involve higher risks in some respects than do investments in securities of larger “blue-chip” companies. For example, prices of securities of micro- and small-capitalization and even medium-capitalization companies are often more volatile than prices of securities of large-capitalization companies and may not be based on standard pricing models that are applicable to securities of large-capitalization companies. Furthermore, the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) may be higher than for larger, “blue-chip” companies. Finally, due to thin trading in the securities of some micro- and small-capitalization companies, an investment in those companies may be illiquid.

### *Investment and Trading Out of Sector*

The Master Fund may trade in regions other than the financial sector, healthcare sector, media sector, technology sector, including for hedging purposes and/or on an opportunistic basis. Although out of sector positions are not expected to represent core positions, the profit or loss from those positions could have a material impact on the Master Fund’s performance.

### *American Depositary Receipts and Global Depositary Receipts*

American Depositary Receipts (“**ADRs**”) are receipts issued by a U.S. bank or trust company evidencing ownership of underlying securities issued by non-U.S. issuers. ADRs may be listed on a national securities exchange or may be traded in the over-the-counter market. Global Depositary Receipts (“**GDRs**”) are receipts issued by either a U.S. or non-U.S. banking institution representing ownership in a non-U.S. company’s publicly traded securities that are traded on non-U.S. stock exchanges or non-U.S. over-the-counter markets. Holders of unsponsored ADRs or GDRs generally bear all the costs of such facilities. The depository of an unsponsored facility frequently is under no obligation to distribute investor communications received from the issuer of the deposited security or to pass through voting rights to the holders of depositary receipts in respect of the deposited securities. Investments in ADRs and GDRs pose, to the extent not hedged, currency exchange risks (including blockage, devaluation and non-exchangeability), as well as a range of other potential risks relating to the underlying shares, which could include expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains, other income or gross sale of disposition proceeds, political or social instability or diplomatic developments that could affect investments in those countries, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding the underlying shares of ADRs and GDRs, and non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to, or as uniform as, those of U.S. companies. Such risks may have a material adverse effect on the performance of such investments and could result in substantial losses.

## *Commodities*

### *Factors affecting Commodities Prices*

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

### *Agricultural Commodities*

Agricultural commodities are particularly sensitive to changes in, among other things, climate, crop and livestock health, world political events, government action (including export and import restrictions and embargoes), international and regional trade contracts, labor contracts, transportation systems and crop predictions. Significant production declines and volume decreases of agricultural commodities can occur as a result of, among other things, hurricanes, tornadoes, floods, fires and other natural disasters. In addition, agricultural commodities are subject to price volatility as a result of disruptions relating to the facilities necessary to produce, transport, store and deliver the agricultural commodity. As a result, the net assets of the Master Fund may be affected by such factors.

### *Precious Metals*

Prices of precious metals (e.g., gold, silver, platinum and palladium) are affected by factors such as cyclical economic conditions, political events, and monetary policies of various governments and countries. In addition, certain precious metals are geographically concentrated, and events in those parts of the world in which such concentration exists may affect their values. Gold and other precious metals are also subject to governmental action for political reasons. The markets for precious metals are volatile and there may be sharp fluctuations in prices even during periods of rising prices.

### *Energy*

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

### *Cash Commodities*

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

### *Convertible Securities*

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

### *Debt Securities*

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

### *Market Making by Dealers*

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

### *Interest Rate Risk*

Changes in interest rates can affect the value of the Master Fund's investments in fixed-income instruments. Increases in interest rates may cause the value of the Master Fund's debt investments to decline. The Master Fund may experience increased interest rate risk to the extent it invests, if at all, in lower rated instruments, debt instruments with longer maturities, debt instruments paying no interest (such as zero-coupon debt instruments) or debt instruments paying non-cash interest in the form of other debt instruments.

### *Prepayment Risk*

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

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

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

### *Zero-Coupon and Deferred Interest Bonds*

Zero-coupon bonds and deferred interest bonds are debt obligations issued at a significant discount from face value. The original discount approximates the total amount of interest the bonds will accrue and compound over the period until maturity or the first interest accrual date at a rate of interest reflecting the market rate of the security at the time of issuance. While zero-coupon bonds do not require the periodic payment of interest, deferred interest bonds generally provide for a period of delay before the regular payment of interest begins. Such investments experience greater volatility in market value due to changes in interest rates than debt obligations that provide for regular payments of interest.

### *High-Yield*

Bonds or other fixed-income securities that are "higher yielding" (including non-investment grade) debt securities are generally not exchange-traded and, as a result, these securities trade in the over-the-counter marketplace, which

is less transparent and has wider bid/ask spreads than the exchange-traded marketplace. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions, which could lead to the issuer's inability to meet timely interest and principal payments. High-yield securities are generally more volatile and may or may not be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured by substantially all of the issuer's assets. High-yield securities may also not be protected by financial covenants or limitations on additional indebtedness. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates and tend to be more sensitive to economic conditions than higher-rated securities. Companies that issue such securities may be highly leveraged and may not have available to them more traditional methods of financing. In addition, the Master Fund may invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments.

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

#### *Corporate Debt*

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

#### *Mezzanine Debt*

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

#### *Stressed Debt*

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

#### *Non-Performing Nature of Debt*

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

### *Troubled Origination*

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

### *Sovereign Debt*

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

### *Equitable Subordination*

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

### *Derivative Instruments*

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

### *Regulation in the Derivatives Industry*

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

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

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

Many of these requirements were implemented under legislation intended to reform the U.S. financial regulatory system, the European Union Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (known as the European Market Infrastructure Regulation, or “**EMIR**”), and similar regulations globally. In the United

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

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

#### *Reporting*

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

#### *Central Clearing*

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

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

Another risk is that the Master Fund may be subject to more onerous and more frequent (daily or even intraday) margin calls from both the Master Fund’s FCM and the clearinghouse. Virtually all margin models utilized by the clearinghouses are dynamic, meaning that unlike traditional bilateral swap contracts where the amount of initial margin posted on the contract is typically static throughout the life of the contract, the amount of the initial margin that is required to be posted in respect of a cleared contract will fluctuate, sometimes significantly, throughout the life of the contract. The dynamic nature of the margin models utilized by the clearinghouses and the fact that the margin models might be changed at any time may subject the Master Fund to an unexpected increase in collateral obligations by clearinghouses during a volatile market environment, which could have a detrimental effect on the Master Fund. Clearinghouses also limit collateral that they will accept to cash, U.S. treasuries and, in some cases, other highly rated sovereign and private debt instruments, which may require the Master Fund to borrow eligible securities from a dealer to meet margin calls and raise the costs of cleared trades to the Master Fund. In addition, clearinghouses may not allow the Master Fund to portfolio-margin its positions, which may increase the Master Fund’s costs.

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

### *Swap Execution Facilities*

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

The European Union regulatory framework governing derivatives is set not only by EMIR but also a legislative package known as a recast of the Markets in Financial Instruments Directive (“**MiFID II**”). Among other things, MiFID II requires transactions in derivatives to be executed on regulated trading venues.

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

### *Margin Requirements for Non-Cleared Swaps*

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

### *Call and Put Options*

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

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

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

### *Index or Index Options*

The value of an index or index option fluctuates with changes in the market values of the assets included in the index. Because the value of an index or index option depends upon movements in the level of the index rather than the price

of a particular asset, whether the Master Fund will realize appreciation or depreciation from the purchase or writing of options on indices depends upon movements in the level of instrument prices in the assets generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular assets.

#### *Index Futures*

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

#### *Credit Default Swaps*

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

#### *Futures Contracts*

The value of futures contracts depends upon the price of the Securities, such as commodities, underlying them. The prices of futures contracts are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, as well as national and international political and economic events and policies. In addition, investments in futures contracts are also subject to the risk of the failure of any of the exchanges on which the Master Fund's positions trade or of its clearing houses or counterparties. Futures positions may be illiquid because certain commodity exchange limits fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, position in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Master Fund from promptly liquidating unfavorable positions and subject the Master Fund to substantial losses or prevent it from entering into desired trades. Also, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

#### *Non-U.S. Futures Transactions*

Foreign futures transactions involve executing and clearing trades on a foreign exchange. This is the case even if the foreign exchange is formally "linked" to a domestic exchange, whereby a trade executed on one exchange liquidates or establishes a position on the other exchange. No domestic organization regulates the activities of a foreign exchange, including the execution, delivery, and clearing of transactions on such an exchange, and no domestic regulator has the power to compel enforcement of the rules of the foreign exchange or the laws of the foreign country.

Moreover, such laws or regulations will vary depending on the foreign country in which the transaction occurs. For these reasons, the Master Fund may not be afforded certain of the protections which apply to domestic transactions, including the right to use domestic alternative dispute resolution procedures. In particular, funds received from customers to margin foreign futures transactions may not be provided the same protections as funds received to margin futures transactions on domestic exchanges. In addition, the price of any foreign futures or option contract and, therefore, the potential profit and loss resulting therefrom, may be affected by any fluctuation in the foreign



exchange rate between the time the order is placed and the time the foreign futures contracts liquidated or the time the foreign option contract is liquidated or exercised.

#### *Forward Contracts*

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

#### *Contracts for Differences*

Contracts for differences (“CFDs”) are privately negotiated contracts between two parties, buyer and seller, stipulating that the seller will pay to receive from the buyer the difference between the nominal value of the underlying instrument at the opening of the contract and that instrument’s value at the end of the contract. The underlying instrument may be a single security, stock basket or index. A CFD can be set up to take either a short or long position on the underlying instrument. The buyer and seller are both required to post margin, which is adjusted daily. The buyer will also pay to the seller a financing rate on the notional amount of the capital employed by the seller less the margin deposit. As is the case with trading any financial instrument, there is the risk of loss associated with trading a CFD. There may be liquidity risk if the underlying instrument is illiquid because the liquidity of a CFD is based on the liquidity of the underlying instrument.

A further risk is that adverse movements in the underlying security will require the posting of additional margin. CFDs also carry counterparty risk, i.e., the risk that the counterparty to the CFD transaction may be unable or unwilling to make payments or to otherwise honor its financial obligations under the terms of the contract. If the counterparty were to do so, the value of the contract may be reduced. Entry into a CFD transaction may, in certain circumstances, require the payment of an initial margin and adverse market movements against the underlying stock may require additional margin payments. CFDs may be considered illiquid. To the extent that there is an imperfect correlation between the return on the Master Fund’s obligation to its counterparty under the CFDs and the return on related assets in its portfolio, the CFD transaction may increase the Master Fund’s financial risk.

#### *Failure to Enter into Offsetting Trade*

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

#### *Exotic Options*

Exotic options are typically, but not always, traded over-the-counter. OTC contracts may not trade in a liquid market and pricing may be opaque. The illiquidity of these markets can be exacerbated in times of market stress. The Master Fund may incur substantial costs entering into and exiting positions that could have a material impact on performance. Exotic options may be subject to a higher degree of pricing risk as demonstrated by instances in which different counterparties in the market employ different valuation and pricing methodologies to the same exotic option. Because exotic options can often be highly customized, there is lower visibility with respect to the pricing and valuation of these instruments. Exotic options may be subject to high levels of price volatility. For example, in the case of barrier options, as the price of the asset underlying the option trades closer to a barrier level, the delta of the option (i.e., the ratio of the change in the price of the underlying asset to the corresponding change in the price of the option) and the gamma of the option (i.e., the rate of change of the delta with respect to the underlying asset’s

price) may become very high. Exotic options may be subject to higher levels of model risk than commonly traded options because standard models are not able to adequately capture or predict the risks associated with the exotic options. Exotic options may be “path dependent.” This means that their terminal value (at exercise or expiration) depends upon the value of the underlying asset, not only at the time of exercise or expiration, but also at prior points in time. In this sense, the option’s terminal value depends upon the “path” taken by the underlying asset over the life of the option. For example, a barrier option’s value at expiration depends upon both the value of the underlying asset at expiration and whether the past value of the underlying asset ever satisfied a barrier condition. In contrast, a vanilla option (e.g., a call option) is not path dependent. Its value at exercise or expiration depends on the value of the underlying asset only at that point in time.

The additional features incorporated by exotic options require additional judgments regarding the likelihood of certain conditions being satisfied, any one of which can result in loss if made incorrectly. An OTC option may be closed out only with the counterparty, although either party may engage in an offsetting transaction that puts that party in the same economic position as if it had closed out the option with the counterparty; however, the exposure to counterparty risk may differ. OTC options generally involve greater credit and counterparty risk than exchange-traded options.

#### *Equity Securities Generally*

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

#### *Exchange-Traded Funds*

Exchange-traded funds (“ETFs”) are publicly traded unit investment trusts, open-end funds or depository receipts that seek to track the performance and dividend yield of specific indexes or companies in related industries. These indexes may be either broad-based, sector, or international. However, ETF shareholders are generally subject to the same risk as holders of the underlying Securities they are designed to track. ETFs are also subject to certain additional risks, including the risk that their prices may not correlate perfectly with changes in the prices of the underlying Securities they are designed to track, and the risk of trading in an ETF halting due to market conditions or other reasons, based on the policies of the exchange upon which the ETF trades. Generally, each shareholder of an ETF bears a pro rata portion of the ETF’s expenses, including management fees. Accordingly, in addition to bearing their proportionate share of the Master Fund’s expenses (e.g., Management Fees and operating expenses), investors may also indirectly bear similar expenses of an ETF.

#### *PIPE Transactions*

Private investments in public companies whose stocks are quoted on stock exchanges or which trade in the over-the-counter securities market, a type of investment commonly referred to as a “PIPE” transaction, may be entered into with smaller capitalization public companies, which will entail business and financial risks comparable to those of investments in the publicly-issued securities of smaller capitalization companies, which may be less likely to be able to weather business or cyclical downturns than larger companies and are more likely to be substantially hurt by the loss of a few key personnel. In addition, PIPE transactions will generally result in the Master Fund acquiring either restricted stock or an instrument convertible into restricted stock. As with investments in other types of restricted securities, such an investment may be illiquid. The Master Fund’s ability to dispose of securities acquired in PIPE transactions may depend on the registration of such securities for resale. Any number of factors may prevent or delay a proposed registration. Alternatively, it may be possible for securities acquired in a PIPE transaction to be resold in transactions exempt from registration in accordance with Rule 144 under the Securities Act, or otherwise under the U.S. federal securities laws. There can be no guarantee that there will be an active or liquid market for the stock of any small capitalization company due to the possible small number of stockholders.

As a result, even if the Master Fund is able to have securities acquired in a PIPE transaction registered or sell such securities through an exempt transaction, the Master Fund may not be able to sell all the securities on short notice, and the sale of the securities could lower the market price of the securities. There is no guarantee that an active

trading market for the securities will exist at the time of disposition of the securities, and the lack of such a market could hurt the market value of the Master Fund's Investments.

#### *Preferred Stock*

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

#### *Repurchase and Reverse Repurchase Agreements*

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

#### *Restricted Securities*

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

#### *Undervalued Securities*

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

#### *Unlisted Securities*

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

#### *When-Issued and Forward Commitment Securities*

The purchase of securities on a "when-issued" basis involves a commitment by the Master Fund to purchase or sell securities at a future date (typically one or two months later). No income accrues on securities that have been purchased on a when-issued basis prior to delivery to the Master Fund. When-issued securities may be sold prior to

the settlement date. If the Master Fund disposes of the right to acquire a when-issued security prior to its acquisition, it may incur a gain or loss. In addition, there is a risk that securities purchased on a when-issued basis may not be delivered to the Master Fund. In such cases, the Master Fund may incur a loss.

#### *Non-U.S. Exchanges*

The Master Fund may trade on exchanges or markets located outside the U.S. Trading on such exchanges or markets is not regulated by the SEC and the CFTC and may, therefore, be subject to more risks than trading on U.S. exchanges, such as the risks of exchange controls, expropriation, burdensome taxation, moratoria and political or diplomatic events. Risks in investments in non-U.S. Securities may also include reduced and less reliable information about issuers and markets, less stringent accounting standards, illiquidity of securities and markets, higher brokerage commissions and custody fees.

#### *Non-U.S. Investments*

Investing in the Securities of companies (and, from time to time, governments) outside of the United States involves certain considerations not usually associated with investing in Securities of U.S. companies or the U.S. government, including political and economic considerations, such as greater risks of expropriation, nationalization, confiscatory taxation, imposition of withholding or other taxes on interest, dividends, capital gains, other income or gross sale or disposition proceeds, limitations on the removal of assets and general social, political and economic instability; the relatively small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; the evolving and unsophisticated laws and regulations applicable to the securities and financial services industries of certain countries; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the Master Fund's investment opportunities.

In addition, accounting and financial reporting standards that prevail outside of the U.S. generally are not as high as U.S. standards and, consequently, less information is typically available concerning companies located outside of the U.S. than for those located in the U.S. As a result, the Master Fund may be unable to structure its transactions to achieve the intended results or to mitigate all risks associated with such markets. It may also be difficult to enforce the Master Fund's rights in such markets. For example, Securities traded on non-U.S. exchanges and the non-U.S. persons that trade these instruments are not subject to the jurisdiction of the SEC or the CFTC or the securities and commodities laws and regulations of the U.S. Accordingly, the protections accorded to the Master Fund under such laws and regulations are unavailable for transactions on non-U.S. exchanges and with non-U.S. counterparties.

#### *Dependence on Developing Countries*

The level of commodity prices can fluctuate widely due to supply and demand disruptions in major producing or consuming regions. In particular, recent growth in industrial production and gross domestic product has made many developing countries, particularly China, disproportionately large users of commodities and has increased the extent to which commodity prices are dependent on the markets of those developing countries. Political, economic, and other developments that affect these developing countries may affect the level of certain commodities and, thus, the value of the Master Fund's investments. Because certain commodities may be produced in a limited number of countries and may be controlled by a small number of producers, political, economic and supply-related events in those countries could have a disproportionate impact on the prices of commodity futures contracts and other types of financial instruments in which the Master Fund will invest. Events affecting the prices of commodities tend to affect prices worldwide, regardless of the location of the event.

**THE PRECEDING DISCLOSURE REGARDING RISK FACTORS DOES NOT PURPORT TO BE A COMPLETE DESCRIPTION OR EXPLANATION OF THE RISKS ASSOCIATED WITH AN INVESTMENT IN THE FUND. SUBSTANTIAL ADDITIONAL RISKS MAY BE PRESENT IN CONNECTION WITH AN INVESTMENT IN THE FUND. AN INVESTMENT IN THE FUND COULD RESULT IN A COMPLETE AND TOTAL LOSS.**

## **ITEM 9: DISCIPLINARY INFORMATION**

272 is not involved in any 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.

Mr. Cummins, in his role as an officer of Applied Digital (APLD), has been named as a defendant, along with APLD, in a securities law class action lawsuit related to operations and management of APLD. The litigation does not relate directly to 272 Capital. Mr. Cummins believes the lawsuit is without merit and intends to vigorously defend against this action.

## **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

### **OTHER ACTIVITIES**

272 and its employees will devote such time to the Firm's affairs as is consistent with achieving Client's investment objectives. However, except as otherwise provided in the investment management agreements or governing documents, 272 and any of our affiliates may engage in other business activities subject to pre-clearance by the Chief Compliance Officer.

### **AFFILIATED GENERAL PARTNER**

272 Advisors LLC serves as the General Partner to the Domestic Fund and Master Fund.

### **OTHER REGISTRATIONS**

Neither 272, nor any of our management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer, futures commission merchant, commodity pool operator

## **ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS, AND PERSONAL TRADING CODE OF ETHICS**

### **CODE OF ETHICS**

Pursuant to Advisers Act Rule 204A-1, 272 has adopted and implemented a Code of Ethics (the “Code”), which sets forth high standards of business conduct for our employees. Our Code is primarily designed to educate employees about our philosophy regarding ethics and professionalism, emphasize our fiduciary duties to clients, encourage employees to comply with applicable laws, prevent the misuse of material non-public information, the circulation of rumors and other forms of market abuse and address conflicts of interest that arise from personal trading by employees. Among other things, 272 imposes restrictions on employees relating to the purchase or sale of securities for accounts with respect to which they have beneficial ownership and the accounts of certain affiliated persons. Such individuals are required to disclose, and in certain instances, seek pre-approval for their personal securities transactions and personal securities holdings. 272 also maintains certain policies and procedures designed to prevent employees from misusing material non-public information and to address certain actual and potential conflicts of interest that may arise when supervised persons engage in outside business activities; make political contributions; or accept, provide, offer or give gifts or entertainment events. A copy of our Code is available to investors and prospective investors upon request.

Our employees are required to certify their adherence to the terms set forth in the Code 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 is based upon the following underlying fiduciary principles:

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

### **PERSONAL TRADING ACTIVITIES**

Employees and their respective affiliates may under limited circumstances purchase or sell for their own account financial instruments that are recommended to, or purchased or sold on behalf of, our Clients. Allowing employees to purchase these securities may motivate those persons to engage in “front running,” which is the practice of executing orders for an employee’s personal account while taking advantage of advance knowledge of pending orders from its Clients. To prevent this practice, 272 limits trading in individual stocks in personal accounts and requires pre-clearance of all personal investments made by our employees and strictly prohibits “front running.” However, 272 does not provide disclosure to our Clients when employees or their respective affiliates purchase or sell for their own account financial instruments that are recommended to, or purchased or sold on behalf of, our Clients. In addition, employees are prohibited from personally, or on behalf of a Client, purchasing or selling securities that appear on the Firm’s Restricted List. Employees are also required to seek preclearance approval by the Chief Compliance Officer prior to participating in an Initial Public Offering (“IPO”) and private investments.

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

### **TRANSACTIONS INVOLVING CONFLICTS OF INTEREST**

272 may enter into transactions and arrangements involving actual or potential conflicts of interest. 272 will review any transactions involving material conflicts of interest and take such actions as 272 deem necessary or appropriate in an attempt to ensure that the terms of such transactions are fair and reasonable under the circumstances (including, without limitation, obtaining consent with respect to such transactions).

272 employees may, on occasion, accept gifts or invitations to entertainment but must always act in the best interest of 272, and its Clients and avoid any activity that might create an actual or perceived conflict of interest or impropriety in the course of the firm’s business relationships. 272’s gift and entertainment policy implements internal controls to

monitor such activity, which include reporting or seeking pre-approval before giving or accepting gifts and entertainment of significant value and prohibiting or limiting the provision or receipt of cash gifts or entertainment to government employees, foreign officials and certain other categories of recipients.

272 employees may from time-to-time make political or charitable contributions. Employees are required to report political contributions made to any political official, candidate for political office, political party or political action committee (“**PAC**”). Political contributions are generally permitted except where such contributions may raise issues under the pay-to-play rule.



## **ITEM 12: BROKERAGE PRACTICES**

### **SELECTING BROKERAGE FIRMS**

272 is authorized to determine the broker-dealer to be used for executing securities transaction for Clients. In selecting broker-dealers to execute transactions, we do not need to solicit competitive bids and do not have an obligation to seek the lowest available commission cost. It is not our practice to negotiate “execution only” commission rates; therefore, our Clients may be deemed to be paying for research, brokerage or other services provided by the broker which are included in the commission rate. Our choice of broker is based on quality and value of the service(s) provided. 272 recognizes its duty to best execution. 272 is not obligated to effect a particular volume of transactions through a particular broker and 272 will ascertain that the brokerage commissions charged in connection with transactions are reasonable in relation to the value of the brokerage, research and other services provided by the broker.

We shall also have the authority to select and appoint custodians of the assets of our Client accounts. The Firm’s authority is limited by its own internal policies and procedures and each Client’s investment guidelines.

### **BEST EXECUTION**

In selecting an appropriate broker-dealer to affect a client trade, we seek to obtain “**Best Execution**,” meaning generally the execution of a securities transaction for a client in such a manner that a client’s total costs or proceeds in the transaction are most favorable under the circumstances. Accordingly, in seeking Best Execution, we will take into consideration the price of a security offered by the broker-dealer, as well as a broker-dealers’ full range and quality of their services including, among other things, their facilities, reliability and financial responsibility, execution capability, commission rates, responsiveness to us, brokerage and research services provided to us (for example, research ideas, analysis, and investment strategies), special execution and block positioning capabilities, clearance, and settlement and custodial services.

### **SOFT DOLLAR PRACTICES**

The Firm uses “**Soft Dollars**” generated by. In such cases, Soft Dollar credits generated by the Firm’s trading activities are used to purchase brokerage and research services. We keep any such arrangements within the parameters of the safe harbor of Section 28(e) of the Exchange Act. However, subject to best execution, we may consider, among other things, capital introduction and marketing assistance with respect to Investors in the 272 Fund in selecting or recommending broker-dealers for our Clients.

### **BROKERAGE FOR INVESTOR REFERRALS**

From time to time, our third-party brokers may provide opportunities for us to be introduced to potential investors. Our prime brokers or their affiliates may provide capital introduction or other placement services to the 272 Fund and 272 (with or without separate charges for such other services). Such “capital introduction” opportunities may influence our decision to use (or continue to use) the services of these brokers, rather than selecting brokers solely based on the Fund’s interest in receiving the most favorable execution. However, 272 does not compensate brokers for capital introductions and such introductions are not material factors in 272’s best execution evaluations. The provision by a broker of research and other services and property to us creates an incentive for us to select such broker since we would not have to pay for such research and other services and property as opposed to solely seeking the most favorable execution for a client. Any research, services or property provided by a broker may benefit any Client and such benefits may not be proportionate to commission dollars related to the provision of such research, services, or property.

### **DIRECTED BROKERAGE**

272 does not recommend, request or require Clients to direct us to execute transactions through a specified broker-dealer. 272 also does not permit Clients to direct brokerage for order execution purposes.

## **ORDER AGGREGATION AND ALLOCATION OF INVESTMENT OPPORTUNITIES**

When possible, 272 aggregates transactions for its Clients and allocates trades per the Firm's pro rata trade allocation policy.

## **TRADE ERRORS**

272 has adopted policies and procedures regarding the handling and resolution of trade errors in our compliance manual. Consistent with our fiduciary duties, our policy is to use the utmost care in making and implementing investment decisions with respect to Client accounts. To the extent trading errors occur, 272 seeks to ensure that the Client's best interests are served. Consistent with provisions, Clients generally will be responsible for trade errors (except for errors caused by the bad faith, willful misconduct or gross negligence of 272, any of our employees, or any of our affiliates).

## **ITEM 13: REVIEW OF ACCOUNTS**

### **REVIEW OF ACCOUNTS**

Our Portfolio Manager and investment professionals continuously monitor and analyze the transactions, positions, and investment levels of the Fund to ensure that they conform with the investment objectives and guidelines that are stated in Client investment management agreements and Fund governing 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. We perform various periodic reviews of each Client's portfolio.

### **REPORTS TO CLIENTS/INVESTORS**

We will distribute an audited financial report with respect to the previous fiscal year to all 272 Fund investors within 120 days of fiscal year end. We may also distribute quarterly unaudited net asset value statements, quarter-end performance reports, and a quarterly letter to all investors.

## **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

### **THIRD PARTY COMPENSATION**

We do not have referral agreements in place for the 272 Fund or for referrals of separately managed account clients.

We do not receive compensation from third parties for investor/client referrals.

## **ITEM 15: CUSTODY**

We are 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 272.

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

## **ITEM 16: INVESTMENT DISCRETION**

### **DISCRETIONARY AUTHORITY**

272 has discretionary power and authority over the types of financial instruments to be bought or sold, as well as the amount to be bought or sold on behalf of Clients. 272 has the authority to determine the broker-dealer or other counterparty to be used for Client transactions and the negotiation of commission rates and other consideration to be paid by the Client.

### **LIMITED POWER OF ATTORNEY**

272 also has the authority to conduct authorized trading and perform other acts on behalf of our Clients.

## ITEM 17: VOTING CLIENT SECURITIES

In compliance with Rule 206(4)-6 of the Advisers Act (i.e., the “proxy voting rule”), we have adopted proxy voting policies and procedures. The general policy is to vote proxy proposals, amendments, consents, or resolutions (collectively, “**Proxies**” in a prudent and diligent manner that will serve the applicable Client’s best interests and is in line with the Client’s investment objectives.

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

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

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

Clients may obtain a copy of our Proxy voting policies and our Proxy voting record upon request.

## **ITEM 18: FINANCIAL INFORMATION**

272 does not require prepayment of fees six months or more in advance.

272 does not have any financial commitment that impairs our ability to meet contractual and fiduciary commitments to our clients, and 272 has not been the subject of any bankruptcy proceeding.