



CARRONADE CAPITAL MANAGEMENT, LP

**17 Old Kings Highway South, Suite 140
Darien, CT 06820**

March 2024

This “**Brochure**” provides information about the qualifications and business practices of Carronade Capital Management, LP (hereinafter “**Carronade**”, “**we**”, “**us**”, “**our**” or the “**Firm**” or the “**Investment Manager**”). If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer (“**CCO**”), Rinarisa DeFronze, by email at RDeFronze@carronade.com or +1 (475) 259-0068. 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.

Carronade is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended. Registration as an investment adviser does not imply that Carronade 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 Carronade is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2: Material Changes

Carronade has made no material changes to this Brochure since its last Form ADV amendment submitted in July 2023.

Item 3: Table of Contents

Item 2: Material Changes.....	2
Item 3: Table of Contents	3
Item 4: Advisory Business	4
Item 5: Fees and Compensation	5
Item 6: Performance-Based Fees and Side-By-Side Management	6
Item 7: Types of Clients	7
Item 8: Methods of Analysis, Investment Strategies, and Risk of Loss	7
Item 9: Disciplinary Information	38
Item 10: Other Financial Industry Activities and Affiliations	38
Item 11: Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading	38
Item 12: Brokerage Practices.....	39
Item 13: Review of Accounts	40
Item 14: Client Referrals and Other Compensation	40
Item 15: Custody.....	40
Item 16: Investment Discretion	41
Item 17: Voting Client Securities	41
Item 18: Financial Information	41

Item 4: Advisory Business

Carronade Capital Management, LP (“we, the “Firm”, “Investment Manager” or “Carronade”) is organized as a Delaware limited partnership with a principal place of business in Darien, Connecticut.

We are an affiliate of Carronade Capital Management GP, LLC (the “**General Partner**”), the general partner of the Firm; Carronade Capital GP, LLC (the “**Fund General Partner**”), the general partner of the Offshore Fund (as defined below), the Onshore Fund (as defined below) and the Master Fund (as defined below). The General Partner and the Fund General Partner are herein collectively referred to as the “**Carronade General Partners**”.

Daniel Gropper, the Founder, Managing Partner and Chief Investment Officer of the Firm (the “**CIO**”), is the majority beneficial owner of Firm and directs the investment activities and operations of the Funds (as defined below).

Carronade provides discretionary investment management services to qualified investors through its private funds: Carronade Capital Master, LP; Carronade Capital Offshore, LP; and Carronade Capital Partners, LP, and two special purpose trading vehicles: Carronade Capital Opportunities, LLC (“Opportunities SPV”) and Carronade Capital Events, LLC, its member (“Events SPV”). We serve as the non-member manager for Opportunities SPV and Events SPV. The Master Fund (defined below) is a member of both Opportunities SPV and Events SPV.

We serve as the investment adviser, with discretionary trading authority, to private, pooled investment vehicles, the securities of which are offered through a private placement memorandum to accredited investors, as defined under the Securities Act of 1933, as amended, and qualified purchasers, as defined under the Investment Company Act of 1940, as amended. We generally do not tailor our advisory services to the individual needs of any particular investor.

Carronade manages the following private, pooled investment vehicles:

- Carronade Capital Offshore, LP, a Cayman Islands exempted limited partnership (the “**Offshore Fund**”);
- Carronade Capital Partners, LP, a Delaware limited partnership (the “**Onshore Fund**”); and
- Carronade Capital Master, LP, a Cayman Islands exempted limited partnership (the “**Master Fund**”).

The Master Fund, the Onshore Fund and the Offshore Fund are herein each referred to as a “**Fund**” or “**Client**” and collectively referred to as the “**Funds**” or the “**Clients**”.

The Onshore Fund’s “**Limited Partners**” and the Offshore Fund’s “**Limited Partners**” are hereafter collectively referred to as the “**Investors**” where appropriate.

Our investment decisions and advice with respect to the Funds are subject to each Fund’s investment objectives and guidelines, as set forth in its respective “**Offering Documents**”.

We may enter into managed account relationships in the future to advise on co-investment opportunities.

We do not currently participate in any Wrap Fee Programs.

As of December 31, 2023, Carronade managed approximately \$2,020,915,089 in regulatory assets under management on a discretionary basis.

Item 5: Fees and Compensation

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

Management Fee

For its investment management services, the Master Fund pays to the Investment Manager an annual asset-based investment management fee (“**Management Fee**”) of the balance of each Investor’s capital account. The Master Fund pays the Management Fee within 10 days of the first day of each fiscal quarter. The Master Fund calculates and pays the Management Fee in advance but amortizes the Management Fee monthly over the fiscal quarter for which such Management Fee is paid. The Management Fee rate ranges from 1.00% to 1.50%. The Firm, in its sole discretion, may waive or modify the Management Fee for any Investor.

Other Types of Fees or Expenses

Carronade is authorized to incur and pay in the name and on behalf of the Funds all expenses which it deems necessary or advisable.

The Firm is responsible for and shall pay, or cause to be paid, all of its 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.

Each Fund bears its own expenses and its pro rata share of the Master Fund’s expenses and any trading vehicle’s expenses, including the following: (i) the Management Fee; (ii) expenses related to the research, due diligence and monitoring of actual and prospective investments of the Master Fund (whether or not consummated) and the consummation of such investments, including the following: third-party investment sourcing fees; fees and expenses related to obtaining research and market data (including any information technology hardware, software or other technology incorporated into the cost of obtaining such research and market data) and expenses related to obtaining, processing and analysing “big data” or “alternative data”; due diligence expenses including consulting and appraisal fees; travel expenses; brokerage and prime brokerage fees, commissions and expenses; expenses relating to reorganizations, restructurings and workouts; expenses related to short sales; clearing and settlement charges; custodial fees and expenses; bank service fees; interest expenses and fees related to financings or refinancings; and fees and expenses of third-party professionals, including consultants, investment bankers, attorneys and accountants; (iii) organizational and reorganizational expenses; and (iv) operational expenses, including the following: fees and expenses relating to information technology hardware, software or other technology (including costs of software licensing, implementation, data management and recovery services and custom development) used to research investments, evaluate and manage risk, facilitate valuations, facilitate accounting functions, facilitate compliance with the rules of any self-regulatory organization or applicable law (including reporting obligations), facilitate and manage the order execution of financial instruments by the Master Fund or any trading vehicle or otherwise manage the Fund, the Master Fund or any trading vehicle, such as Bloomberg terminals, portfolio management systems, risk management systems and order management systems; fees and expenses of third-party risk management products, models and services; third-party administrative fees and expenses; fees and expenses of third-party professionals, including consultants, valuation service providers, attorneys and accountants; the costs of any litigation or investigation involving activities of the Fund, the Master Fund or any trading vehicle; third-party audit and tax preparation expenses; insurance expenses, including premiums for cybersecurity insurance and liability insurance covering the General Partner, the Investment Manager and the members, partners, officers, employees and agents of any of them

and each member of the Master Fund advisory board; fees and expenses (including director registration fees) of any of the Master Fund's or any trading vehicle's directors and officers (including any anti-money laundering officers); fees and expenses of the Master Fund advisory board; costs of preparing and distributing reports and notices; taxes; expenses incurred in connection with negotiating and complying with provisions of any side letter agreement; fees and expenses related to compliance with the rules of any self-regulatory organization or applicable law in connection with the activities of the Fund, the Master Fund or any trading vehicle, including any governmental, regulatory, licensing, filing or registration fees or taxes (including fees and expenses incurred in connection with the preparation and filing of Form PF, Section 13 filings, Section 16 filings and other similar regulatory filings); expenses incurred in connection with the offering and sale of the Funds' interests and other similar expenses related to the Fund (excluding fees payable to any placement agent); extraordinary expenses, including the following: indemnification expenses; fees and expenses incurred in connection with any tax audit by any taxing authority, including any related administrative settlement and judicial review; and fees and expenses incurred in connection with the reorganization, dissolution, winding-up or termination of the Fund, the Master Fund or any trading vehicle.

Generally, all expenses borne by the Funds, other than the Management Fee and any expenses that the General Partner determines should be allocated to a particular Investor (e.g., Investor-Related Taxes), are debited to all of the Investors' capital accounts on a pro rata basis in accordance with their partnership percentages. To the extent that expenses to be borne by a Fund are paid by the General Partner or the Firm, the Fund reimburses such party for such expenses.

The Funds do not have a pre-determined limit on their ordinary or extraordinary operating expenses. The Funds' actual annual operating expenses are disclosed in the Funds' year-end audited financial statements, which are provided to each Investor.

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

We and our affiliates are entitled to a performance-based compensation between 17.5% and 20% of the net capital appreciation allocated to each investor's capital account, subject to a high-water mark, as described in the Offering Documents. As a result, we and our affiliates do not currently 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 may create an incentive for us to recommend investments that may be riskier or more speculative than those that we would recommend under a different arrangement.

Item 7: Types of Clients

Our clients are the Funds, as described in Item 4 above, and the Funds are generally open to, among others, institutions, pension plans, endowments, high net-worth individuals, financially sophisticated individuals and other sophisticated 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, and Investors, 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

The Master Fund's investment strategy focuses on investing in non-traditional, undervalued distressed financial instruments, combining robust fundamental business valuation with proprietary legal and capital structure analysis. The Investment Manager seeks to create a portfolio of "differentiated distressed" investments by constructing trades predicated on the following factors:

- where a financial instrument resides in the capital structure;
- a legal dispute;
- the restructuring process;
- or idiosyncratic events streams; and
- a combination of the foregoing factors.

The Master Fund generally invests in large, liquid capital structures.

As part of the Master Fund's investment strategy, the Investment Manager seeks to influence the outcome of restructuring investments through activism. The Master Fund's investment strategy also includes the pursuit of special situations credit investments and incorporates both position-specific and portfolio hedges to seek to mitigate market risk and seek to create a balanced portfolio designed to deliver non-correlated, superior risk-adjusted returns.

Investment Philosophy

The Investment Manager's investment philosophy involves deep analysis across various factors that influence the outcome of a legal or restructuring process. The Investment Manager's investment analysis generally includes:

1. Corporate Structure Analysis: The Investment Manager creates corporate organizational structure charts by piecing together multiple inputs, which requires a significant amount of effort;
2. Capital Structure Analysis: The Investment Manager seeks to review all documentation for each instrument in a capital structure in order to properly understand the legal rights for each financial instrument;

3. Original Legal Analysis: The Investment Manager performs legal analysis in-house, as well as consulting a wide network of outside counsel; and
4. Fundamental Research: The Firm will utilize a bottom-up assessment of credit fundamentals combined with decades of experience across multiple industries.

The analytical steps above are augmented by understanding “deal ethos”, as the Investment Manager believes that accurately predicting the correct legal answer is different from accurately predicting and managing the outcome of a complex legal case. Deal outcomes are influenced by subjective human factors, including the identities and motivations of the judges, principals, legal advisors and financial advisors.

Investment Process

The Investment Manager employs a disciplined investment methodology that identifies idiosyncrasies specific to specific issuers in stress, distress or where there are specific event streams to structure event driven or capital structure arbitrage trades in order to seek to build a diversified portfolio designed to generate alpha across a range of market cycles. The Investment Manager’s investment process generally includes:

- Sourcing: Leveraging longstanding, deep and extensive relationships across the restructuring, legal and financial advisor community, the Investment Manager utilizes various avenues to source investment opportunities, including, without limitation: (i) an experienced trader interacting with the sell side, (ii) monitoring large cases through news flow, and (iii) invitations from legal and financial professionals to join an effort;
- Research: The Investment Manager’s bottom-up research process involves robust fundamental business analysis, a comprehensive review of corporate structure, capital structure and associated documentation and detailed legal analysis; and
- Selection and Sizing: The Investment Manager’s selection and sizing of the Master Fund’s investments involves determining a level of conviction, assessing downside risk, maintaining a rigorous process for entering, monitoring and exiting investments and actively managing, re-underwriting and reassessing the portfolio on a daily basis.

Portfolio Investments

The assets of the Master Fund may be invested, directly or indirectly, on margin or otherwise, in interests commonly referred to as securities, other financial instruments issued by, entered into by or referenced to U.S. or non-U.S. entities and other assets, including capital stock; shares of beneficial interest; partnership interests and similar financial instruments; bonds, notes and debentures (whether subordinated, convertible or otherwise); currencies; commodities; physical and intangible assets; interest rate, currency, commodity, equity and other derivative products, including (i) futures contracts (and options thereon) relating to stock indices, currencies, U.S. government securities and securities of non-U.S. governments, other financial instruments and all other commodities, (ii) swaps, options, swaptions, warrants, caps, collars, floors and forward rate agreements, (iii) spot and forward currency transactions and (iv) agreements relating to or securing such transactions; repurchase and reverse repurchase agreements; loans; accounts and notes receivable and payable held by trade or other creditors; trade acceptances; contract and other claims; executory contracts; participations; mutual funds, exchange-traded funds and similar financial instruments; money market funds; obligations of the United States or any non-U.S. government, or any country, state, governmental agency or political subdivision thereof; commercial paper; certificates of deposit; bankers’ acceptances; choses in action; trust receipts; and any other obligations and instruments or evidences of indebtedness of whatever kind or nature that exist now or are hereafter created (all such items being called

herein “**Financial Instruments**”); in each case, of any person, whether or not publicly traded or readily marketable.

Portfolio Construction

The Master Fund’s portfolio will contain approximately 35 to 60 positions. An average position is expected to be 2% to 4% of capital. The top ten positions will generally represent 50% to 60% of capital, and large positions are expected to generally represent 10% of capital. Gross longs are expected to be between 65% and 85% of the Master Fund’s portfolio, and gross shorts are expected to be 25% to 45% of the Master Fund’s portfolio. The net exposure is expected to be 20% to 60%. While the Investment Manager currently expects the Master Fund’s position sizes and net exposure to be at approximately the percentage levels set forth above, the Investment Manager may make adjustments to such position sizes and net exposure without prior notice to the Investors.

The Master Fund will generally invest in corporate and municipal bonds, sovereign bonds, bank debt, trade claims, hybrids, equity and structured products, including, without limitation, RMBS, CMBS and other asset-backed securities. The average holding period of an investment is expected to be between six months to two years. Three-quarters of the Master Fund’s investments are expected to be in the United States and one-quarter of the Master Fund’s investments are expected to be outside of the United States. Generally, no more than 25% of the Master Fund’s portfolio will have net exposure to a single industry (for the avoidance of doubt, gross exposure will exceed net exposure). While the Investment Manager currently expects the Master Fund’s average holding period and geographical and industry exposure to be at approximately the percentage levels set forth above, the Investment Manager may make adjustments to such holding period and geographical and industry exposure without prior notice to the Investors.

The Investment Manager seeks to identify portfolio hedges and position-specific hedges to mitigate market-correlated, systematic and beta risk. Portfolio hedges generally consist of out of the money market protection, single-name credit shorts and low-cost municipal and corporate credit default swaps. Position specific hedges generally consist of hedges within the capital structure, a basket of industry securities for significant industry exposures, hedges for certain commodity exposures and foreign-exchange hedges for non-U.S. dollar-denominated positions.

Leverage and Borrowing for Cash Management Purposes

While the Master Fund generally does not intend to utilize leverage other than in connection with investments in performing bank debt, the Master Fund has the authority to borrow, trade on margin, utilize derivatives and otherwise obtain leverage from brokers, banks and others on a secured or unsecured basis. The overall leverage of the Master Fund depends on the investment strategies employed by the Master Fund and specific market opportunities, particularly in respect of investments in performing bank debt.

The Master Fund may borrow for cash management purposes, such as to satisfy withdrawal requests. To facilitate such borrowings, the Master Fund may, among other things, enter into a credit facility with a service provider to the Master Fund or a third party.

No restrictions have been imposed on the collateral and asset reuse or rehypothecation arrangements that the Master Fund may employ as a means of reducing the cost of a counterparty providing leverage to the Master Fund.

Trading Vehicle

The Master Fund may effect one or more of the foregoing strategies either directly by purchasing Financial Instruments or indirectly, for tax, regulatory or other reasons, by investing through one or more trading vehicles organized by the Investment Manager. The Investment Manager may form one or more corporate subsidiaries or other entities through which the Fund may invest, which in turn will invest all of its assets into the Master Fund with respect to certain investments or activities in respect of which the Investment Manager determines that the establishment of such corporate subsidiaries or other entities is beneficial for the Investors. In the event of such an investment, all of the income, gain and loss attributable to each such investment or activity would be allocated by the Master Fund to the relevant corporate subsidiary. For the avoidance of doubt, the Incentive Allocation will be allocated to the General Partner, in its capacity as general partner of the Master Fund, before taking into account any taxes paid by (or withheld in respect of) any such corporate subsidiary formed in accordance with the preceding sentence.

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 Funds advised by us. Additional or new risks not addressed below may affect the Funds. These risk factors cannot be and is not intended to be exhaustive. Prospective investors should consult with their own legal, tax and financial advisors about the risks of an investment in any Fund. The following risk factors and other relevant risks could have a material adverse effect on the Funds and investors' investments therein.

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 the Financial Instruments listed in the Offering Documents, 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 Carronade.

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 Investor' 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.

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 Financial Instruments in which the Master Fund seeks to invest.

Risks Relating to Management

Limited Operating History

Each of the Fund, the Master Fund, the General Partner and the Investment Manager has a limited operating history upon which prospective Investors can evaluate their anticipated performance. The investment professionals of the Investment Manager have been using investment strategies similar to the investment strategies described herein in other private investment funds for several years. However, there can be no assurance that the Fund or the Investment Manager will be successful.

Banking Relationships

The Investment Manager, the Fund and the Master Fund will hold cash and, with respect to the Master Fund, other assets in accounts with one or more banks, custodians or depository or credit institutions (collectively, “Banking Institutions”), which may include both U.S. and non-U.S. Banking Institutions from time to time. The Master Fund may also enter into credit facilities and have other relationships with Banking Institutions as contemplated elsewhere in this Memorandum. The distress, impairment, or failure of, or a lack of investor or customer confidence in, any of such Banking Institutions may limit the ability of each of the Investment Manager, the Fund and the Master Fund to access, transfer or otherwise deal with its assets, draw upon a credit facility, or rely upon any of such other relationships, in a timely manner or at all, and may result in other market volatility and disruption, including by affecting other Banking Institutions. All of the foregoing could have a negative impact on the Fund and the Master Fund. For example, in such a scenario, the Master Fund could be forced to delay or forgo an investment or a distribution, including in connection with a withdrawal, or generate cash to fund such investment or distribution from other sources (including by disposing of other investments or making other borrowings) in a manner that it would not have otherwise considered desirable. Furthermore, in the event of the failure of a Banking Institution, access to a depository account with that institution could be restricted and U.S. Federal Deposit Insurance Corporation (“FDIC”) protection may not be available for balances in excess of amounts insured by the FDIC (and similar considerations may apply to Banking Institutions in other jurisdictions not subject to FDIC protection). In such a case, the Investment Manager, the Fund or the Master Fund, as applicable, may not recover all or a portion of such excess uninsured amounts and could instead have an unsecured or other type of impaired claim against the Banking Institution (alongside other unsecured or impaired creditors). The Investment Manager does not expect to be in a position to reliably identify in advance all potential solvency or stress concerns with respect to its, the Fund’s or the Master Fund’s banking relationships, and there can be no assurance that the Investment Manager, the Fund or the Master Fund will be able to easily establish alternative relationships with and transfer assets to other Banking Institutions in the event a Banking Institution comes under stress or fails.

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.

Alternative Data

The Investment Manager may use alternative data in its investment process. Alternative data includes datasets that have been culled from a variety of sources, such as internet usage, payment records, financial

transactions, weather and other physical phenomena sensors, applications and devices (such as smartphones) that generate location and mobility data, data gathered by satellites, and government and other public records databases. These data are sometimes referred to as “big data” or “alternative data”. The Investment Manager applies these alternative data to better anticipate micro- and macro-economic trends and otherwise to develop or improve trading or investment themes.

The analysis and interpretation of alternative data involves a high degree of uncertainty and may entail significant expense, including technological efforts, that are expected to be borne—in whole or in part—by the Fund. No assurance can be given that the Investment Manager will be successful in utilizing alternative data in its investment process.

Moreover, there has been increased scrutiny from a variety of regulators regarding the use of alternative data in this manner, and its use or misuse under current or future laws and regulations could create liability for the Investment Manager and the Master Fund in numerous jurisdictions. The Investment Manager cannot predict what, if any, regulatory or other actions may be asserted with regard to alternative data, but any adverse inquiries or formal actions could cause reputational, financial, or other harm to the Investment Manager or to the Fund. Conversely, any future limitations on the use of alternative data could have a material adverse impact on the performance of the Fund.

Risks Relating to the Structure of the Fund

Effect of Substantial Losses or Withdrawals

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 withdrawals, the revenues of the Investment Manager may decline substantially. Such losses and/or withdrawals 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.

Limited Liquidity

An investment in the Fund has limited liquidity because Investors will generally have only limited rights to withdraw capital from the Fund or transfer their Interests, and the Fund has the right to suspend withdrawals, 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 Withdrawals

Because of the wide range of potential investments, potentially rapid shifts in the concentration of investments among types of Financial Instruments 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 Limited Partner’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 withdraw their Interests potentially at higher values than other investors. Any such withdrawals may result in reduced liquidity for other investors and, in order to meet larger or more frequent withdrawals, 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 Limited Partner 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.

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 Distributions

Although the Fund does not intend to make distributions in kind, under certain circumstances a withdrawing Limited Partner may receive Financial Instruments (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 Financial Instruments owned by the Master Fund, or participations therein. To the extent a withdrawing Limited Partner is distributed interests in special purpose vehicles, such withdrawing Limited Partner will continue to be at risk with respect to the Fund's business. The value of the Financial Instruments distributed in kind may increase or decrease before they are sold either by the withdrawing Limited Partner, if received directly, or by the Investment Manager or its affiliates, if held through a special purpose vehicle. In either case, the withdrawing Limited Partner will incur transaction costs in connection with the sale of any such Financial Instruments 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. Financial Instruments distributed in kind may not be readily marketable. The risk of loss and delay in liquidating these Financial Instruments will be borne by the Limited Partner, with the result that such Limited Partner may ultimately receive less cash than it would have received on the date of withdrawal if it had been paid in cash. Furthermore, to the extent that a withdrawing Limited Partner receives interests in special purpose vehicles, such withdrawing Limited Partner will generally have no voting rights or any control over when and at what price the Financial Instruments in which such vehicles have an interest are sold.

Risks Relating to the Operations and Investment Activities of the Master Fund

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 Financial Instruments, 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 Investor 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 Investment Manager's valuation policies and procedures, as the same may be amended from time to time (the "Valuation Policy"), and all values assigned to such assets and liabilities in accordance with the Valuation Policy are final and conclusive as to all of the Partners. The valuation of any asset or liability involves inherent uncertainty. The value of a Financial Instrument 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 General Partner, in its capacity as general partner of the Master Fund, regarding the appropriate valuation should prove to be incorrect.

The Valuation Policy, and procedures adopted by the Investment Manager relating to the implementation of the Valuation Policy, are subject to change and may be revised from time-to-time. Upon request, the Investment Manager will make its Valuation Policy available to a Limited Partner for review, and, upon request, will provide a summary of material changes to the Valuation Policy from the last time that the Limited Partner reviewed the Valuation Policy.

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 effect transactions in the "over-the-counter" or "OTC" derivatives markets. The stability and liquidity of OTC derivatives transactions depends in large part on the creditworthiness of the parties to the transactions. In the OTC markets, the 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 Financial Instruments 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 Financial Instruments entrusted to such 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 Financial Instruments from or the payment of claims therefor 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 Financial Instruments and/or investments in volatile markets. Fluctuations or prolonged changes in the volatility of such Financial Instruments and/or markets can adversely affect the value of investments held by the Master Fund.

Credit Ratings

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

Co-Investments with Third Parties

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

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 Financial Instruments denominated in currencies other than the U.S. dollar. The Master Fund, however, values its Financial Instruments 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 Financial Instruments 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.

Risks Relating to Investment Strategies

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.

Liquidity of Investments

Liquidity may be essential to the Master Fund's business. Under certain market conditions, such as during volatile markets or when trading in a Financial Instrument or market is otherwise impaired, the liquidity of the Master Fund's portfolio positions may be reduced. In addition, the Master Fund may from time to time hold large positions with respect to a specific type of Financial Instrument, which may reduce the Master Fund's liquidity. During such times, the Master Fund may be unable to dispose of certain assets, which would adversely affect the Master Fund's ability to rebalance its portfolio or to meet withdrawal requests. In addition, such circumstances may force the Master Fund to dispose of assets at reduced prices, thereby adversely affecting the Master Fund's performance. If there are other market participants seeking to dispose of similar assets at the same time, the Master Fund may be unable to sell such assets or prevent losses relating to such assets. Furthermore, if the Master Fund incurs substantial trading losses and/or withdrawal requests, the need for liquidity could rise sharply while its access to liquidity could be impaired. In addition, in conjunction with a market downturn, the Master Fund's counterparties could incur losses of their own, thereby weakening their financial condition and increasing the Master Fund's credit risk to them. Many non-U.S. financial markets are not as developed or as efficient as those in the U.S., and as a result, liquidity may be reduced for the Master Fund's investments.

The Master Fund may also invest in Financial Instruments that are subject to legal or other restrictions on transfer. The Master Fund may be contractually prohibited from disposing of such investments for a specified period of time. The sale of restricted and illiquid Financial Instruments often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of Financial Instruments eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted Financial Instruments may sell at a price lower than similar Financial Instruments that are not subject to restrictions on resale. The market prices, if any, for such investments tend to be volatile and may not be readily ascertainable, and the Master Fund may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale.

Risks Associated with Investments in Distressed Financial Instruments

The Master Fund will invest in Financial Instruments or other obligations of entities that are experiencing significant financial or operational difficulties and may be involved in bankruptcy or other reorganization and liquidation proceedings. Although such investments may result in significant returns to the Master Fund, they involve a substantial degree of risk. This area of investing is unusually complex and multi-dimensional. The timing and amount of recoveries can be materially affected by a myriad of operational, legal and process issues, including the conduct not only of the obligors themselves but also other economic stakeholders and judicial and quasi-judicial officials. There is no assurance that the Investment Manager will correctly anticipate and evaluate all of these elements. In any given situation, the Master Fund may lose its entire investment, may be required to accept cash or securities (which could be illiquid) with a value less than the Master Fund's original investment and/or may be required to accept payment over an extended period of

time. Under such circumstances, the returns generated from the Master Fund's investments may be negative or may not compensate the Investors adequately for the risks assumed.

Troubled company and other asset-based investments require active monitoring and may, at times, require participation in business strategy or reorganization proceedings by the Investment Manager. To the extent that the Investment Manager becomes involved in such proceedings, the Master Fund may have a more active participation in the affairs of the issuer than that normally assumed by a Limited Partner. In addition, involvement by the Investment Manager in an issuer's reorganization proceedings could result in the imposition of restrictions limiting the Master Fund's ability to liquidate its position in the issuer.

The Master Fund may invest in, among other things, "higher yielding" (and, therefore, higher risk) debt Financial Instruments. Such Financial Instruments may be below "investment grade" and may face ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower rated 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. It is likely that a major economic recession could have a materially adverse impact on the value of such securities. In addition, adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the value and liquidity of securities rated below investment grade.

Risks Associated with Bankruptcy Claims

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

Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to appear and be heard, there can be no assurance that a bankruptcy court would not approve actions that may be contrary to the interests of the Master Fund (in its role as a creditor). Furthermore, there are instances where creditors lose their priority under Title 11 of the United States Code (the "Bankruptcy Code") (i.e., are equitably subordinated) if, for example, they have engaged in misconduct that harms other creditors. In those cases where the Master Fund is found to have engaged in such misconduct, the Master Fund may lose its priority.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, the approval of the plan by creditors and confirmation of the plan by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and the Master Fund; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the issuer may not be able to reorganize and may be required to sell its assets either as a going concern or as part of a liquidation. As a result, even in those circumstances where the Master Fund may recover the entire amount of its bankruptcy claim, the Master Fund may be adversely impacted by any costs incurred by the Master Fund in representing its interests in a debtor's bankruptcy case.

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

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

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

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

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

Relative Value Strategies

Relative value strategies involve taking offsetting long and short positions in comparable Financial Instruments that have either an economic or mathematical relationship to each other and where a distortion exists between either the historical price or the fair value of that relationship. These strategies may include merger arbitrage, convertible arbitrage, intra-industry pairs trades, cross-holdings and capital structure trades. Although there is an economic or mathematical relationship between such long and short positions, there is no guarantee that the Investment Manager’s assessment of that relationship will be correct. Furthermore, because the Master Fund’s strategies involve short selling, there is a risk that the Master Fund will not be able to maintain its ability to borrow securities that have been sold short.

Event-Driven

Event-driven investing requires the Investment Manager to make predictions about the likelihood that an event will occur and the impact such event will have on the value of a company's securities. If the event fails to occur or it does not have the effect foreseen, losses can result. For example, the adoption of new business strategies, or completion of asset dispositions, or debt reduction programs by a company may not be valued as highly by the market as the Investment Manager had anticipated, resulting in lower gains or losses. In addition, a company may announce a plan of restructuring which promises to enhance value and fail to implement it, resulting in losses. In liquidations and other forms of corporate reorganizations, the risk exists that the reorganization will be unsuccessful, be delayed, or result in a distribution of cash or a new security, the value of which will be less than the purchase price of the security in respect of which such distribution was made. The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors, including: (i) opposition of the management or shareholders of the target company, which will often result in litigation to enjoin the proposed transaction; (ii) intervention of a governmental or other regulatory agency; (iii) efforts by the target company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) in the case of a merger, failure to obtain the necessary shareholder approvals; (v) market conditions resulting in material changes in securities prices; (vi) compliance with any applicable securities laws; and (vii) inability to obtain adequate financing. Because of the inherently speculative nature of event driven investing, the results of the Master Fund's operations should be expected to fluctuate from period to period.

Capital Structure Arbitrage

The success of the Master Fund's capital structure arbitrage strategies will depend on the Investment Manager's ability to identify and exploit inefficiencies in the pricing of credit risk within a company's capital structure. Identification and exploitation of market opportunities involve uncertainty. There can be no assurance that the Investment Manager will be able to locate investment opportunities or to correctly exploit price discrepancies. A reduction in the pricing inefficiency of the markets in which the Master Fund seeks to invest will reduce the scope for the Master Fund's investment strategies. In the event that the perceived mispricings underlying the Master Fund's positions fail to materialize, these investment strategies could be unsuccessful or result in losses.

Investments in Undervalued Financial Instruments

One of the objectives of the Master Fund is to invest in undervalued Financial Instruments. The identification of investment opportunities in undervalued Financial Instruments is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued financial instruments offer the opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. In addition, the Master Fund may be required to hold such Financial Instruments for a substantial period of time before realizing their anticipated value. During this period, a portion of the Master Fund's funds would be committed to the Financial Instruments purchased, thus possibly preventing the Master Fund from investing in other opportunities.

Leverage and Borrowing

Leverage for Investment Purposes

The use of leverage will allow the Master Fund to make additional investments in performing bank debt and performing bonds, 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 withdrawal 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 Financial Instruments in order to borrow or otherwise obtain leverage for investment or other purposes. Should the Financial Instruments pledged to brokers to secure the 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 Financial Instruments with the broker or suffer mandatory liquidation of the pledged Financial Instruments to compensate for the decline in value. The banks and dealers that provide financing to the 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.

Diversification and Concentration

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

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 Financial Instruments 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 Financial Instruments 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 Financial Instruments; (iv) enhance or preserve returns, spreads or gains on any Financial Instrument 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 Financial Instruments; (vii) protect against any increase in the price of any Financial Instruments that 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 General Partner, in its capacity as general partner of the Master Fund) has considerable discretion in the types of Financial Instruments that 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.

Risks Relating to Market Conditions Generally

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 or 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.

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 (which may be caused, or enhanced in frequency and severity, by climate change factors); 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 withdrawal requests by such Investors as a result of their individual liquidity situations and irrespective of Fund performance.

Climate Change-Related Risks

The environmental effects of climate change, including rising temperatures, extreme weather, fires, flooding, erratic weather fluctuations, agricultural failures and displacement and destabilization of human populations, could have materially adverse effects on the Financial Instruments held by the Master Fund. The Investment Manager believes that such risks may increase over time, although the time period over which these consequences might unfold is difficult to predict.

In addition to the physical, economic and geo-political risks associated with climate change, there are transition risks. The willingness of certain governments, industries and businesses, especially those that profit from, or have a reliance on, fossil fuels, to adapt to climate change or transition to sustainable practices may also adversely affect the Financial Instruments.

Regulatory changes and divestment movements tied to concerns about climate change could adversely affect the value of certain industries whose activities or products are seen as accelerating climate change, or ill-positioned in light of the economic and social demands imposed by climate change. In recent years, certain investors have incorporated the business risks of climate change and the adequacy of companies' responses to climate change as part of their investment theses. These shifts in investing priorities may result in adverse effects on the trading price of Financial Instruments if investors determine that the company has not made sufficient progress on climate change and environmental sustainability matters whether or not climate change proves to be as severe as predicted or preventable.

The values of Financial Instruments whose performance is linked to assets and revenue streams that are exposed to climate change risk may readily be affected by both long-term, systemic effects of climate change, as well as severe environmental events whose occurrence is inherently unpredictable.

Risks Relating to Specific Investments

Debt Instruments Generally

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/or spreads are low, such debt instruments may be adversely affected by changes in prepayments in any interest rate environment.

The adverse effects of prepayments may impact the 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 are higher-rated securities. Companies that issue such securities may be highly leveraged and may not have available to them more traditional methods of financing. 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 or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to such debt instruments.

Troubled Origination

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

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.

Sovereign Debt

The Master Fund may invest in Financial Instruments issued by an emerging markets government, its agencies, instrumentalities or its central bank (“Sovereign Debt”), which involves significant risk. Sovereign Debt issued by many emerging market countries is considered to be below investment grade, and should be viewed as speculative with respect to the issuing government’s ability to make payments of interest and principal. Some Sovereign Debt may be the equivalent of debt accorded the lowest credit rating available by U.S. rating agencies. Although the secondary market for Sovereign Debt has been relatively liquid in recent years, there have been periods of illiquidity, and the Investment Manager may have difficulty disposing of certain Sovereign Debt on behalf of the Master Fund from time to time. Many individual emerging market countries are large debtors to commercial banks, foreign governments and international financial organizations. Some emerging market countries have encountered difficulties in servicing their external debt obligations. These difficulties have led to agreements to restructure these debts, typically by rescheduling principal payments, reducing interest rates and principal amounts and extending new credit to finance interest payments on existing debt. Certain countries have not been able to make payments of interest on or principal of Sovereign Debt as such payments have come due. At times, certain emerging market countries have declared moratoriums on the payment of principal or interest on outstanding debt. The following risks are inherent in an investment in Sovereign Debt.

A government may not be able or willing to repay the principal or interest when due in accordance with the terms of its debt. A government’s willingness or ability to repay principal and interest due in a timely manner may be affected by, among other factors, its cash flow situation, the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the government policy towards the International Monetary Fund and the political constraints to which a government may be subject. Governments may also be dependent on expected disbursements from foreign governments, multilateral agencies and others abroad to reduce principal and interest arrearages on their debt. The commitment on the part of such foreign governments, agencies and others to make such disbursements may be conditioned on a government’s implementation of economic reforms and/or economic performance and the timely service of such debtor’s obligations. Failure

to implement such reforms, achieve such levels of economic performance or repay principal or interest when due may result in the cancellation of such third parties' commitments to lend funds to the governments, which may further impair such debtor's ability or willingness to timely service its debts. Consequently, governments may default on their Sovereign Debt. The ability to take legal action and to enforce court judgments against sovereign entities is limited by law in the United States and many other jurisdictions.

ABS and MBS Generally

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

ABS and MBS Subordinated Securities

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

Commercial MBS

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

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

ABS

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

obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related ABS. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the ABS may not have a proper security interest in all of the obligations backing such ABS. Therefore, there is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor. The collateral supporting ABS is of shorter maturity than certain other types of loans and is less likely to experience substantial prepayments. ABS are often backed by pools of any variety of assets, including, for example, leases, mobile home loans and aircraft leases, which represent the obligations of a number of different parties and use credit enhancement techniques such as letters of credit, guarantees or preference rights. The value of an ABS is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement.

RMBS

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

Investments in RMBS may experience losses or reduced yield if, for example, (i) the borrower of an underlying residential mortgage loan defaults or is unable to make payments, (ii) the underlying residential mortgage loans are prepaid, (iii) there is a general decline in the housing market, or (iv) violations of particular provisions of certain U.S. federal laws by an issuer of RMBS limit the ability of the issuer to collect all or part of the principal of or interest on the related underlying loans.

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 Financial Instruments that are overvalued. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying Financial Instrument could theoretically increase without limit, thus increasing the cost to the Master Fund of buying those Financial Instruments to cover the short position. There can be no assurance that the Master Fund will be able to maintain the ability to borrow Financial Instruments sold short. In such cases, the Master Fund can be "bought in" (i.e., forced to repurchase Financial Instruments in the open market to return to the lender). There also can be no assurance that the Financial Instruments necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing Financial Instruments to close out a short position can itself cause the price of the Financial Instruments to rise further, thereby exacerbating the loss. Short strategies can also be implemented synthetically through various instruments and be used with respect to indices or in the over-the-counter market and with respect to futures and other instruments. In some cases

of synthetic short sales, there is no floating supply of an underlying instrument with which to cover or close out a short position and the 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 Financial Instrument sold short at the time of execution, the lending institution may recall the lent Financial Instrument at any time, thereby forcing the Master Fund to purchase the Financial Instrument at the then-prevailing market price, which may be higher than the price at which such Financial Instrument was originally sold short by the Master Fund.

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 EU Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (known as the European Market Infrastructure Regulation, or “EMIR”), and similar regulations globally. In the United States, 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 interest rate and credit default swaps. The CFTC and the SEC may introduce clearing requirements for additional classes of derivatives in the future. EMIR also requires OTC derivatives contracts meeting specific criteria to be cleared through central counterparties.

While such clearing requirements may be beneficial for the 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 EU 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., EU and other regulators globally (the "Margin Rules") impose various margin requirements on all swaps that are not centrally cleared, including the establishment of minimum amounts of initial margin that must be posted, and, in some cases, the mandatory segregation of initial margin with a third-party custodian. Although the Margin Rules are intended to increase the stability of the derivatives market, the overall amount of margin that the 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 over time. Even though an option may be in-the-money to the purchaser at various times prior to its expiration date, the purchaser's ability to realize the value of an option depends on when and how the option may be exercised. For example, the terms of the transaction may provide for the option to be exercised automatically if it is in-the-money on the expiration date. Conversely, the terms may require timely delivery of a notice of exercise, and exercise may be subject to other conditions (such as the occurrence or non-occurrence of certain events, such as knock-in, knock-out or other barrier events) and timing requirements, including the "style" of the option.

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

Index or Index Options

The value of an index or index option fluctuates with changes in the market values of the assets included in the index. Because the value of an index or index option depends upon movements in the level of the index rather than the price of a particular asset, whether the 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 instance, 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 Financial Instruments, such as commodities, underlying them. The prices of futures contracts are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, as well as national and international political and economic events and policies. In addition, investments in futures contracts are also subject to the risk of the failure of any of the exchanges on which the Master Fund's positions trade or of its clearing houses or counterparties. Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits". Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the 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 contract is 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 or receive from the buyer the difference between the nominal value of the underlying instrument at the opening of the contract and that instrument’s value at the end of the contract. The underlying instrument may be a single security, stock basket or index. A CFD can be set up to take either a short or long position on the underlying instrument. The buyer and seller are both required to post margin, which is adjusted daily. The buyer will also pay to the seller a financing rate on the notional amount of the capital employed by the seller 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 the 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 customised, 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.

Distressed Obligations

The obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems (including companies involved in bankruptcy or other reorganization and liquidation proceedings) are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the risk that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate, recharacterize debt as equity or disenfranchise particular claims. Such companies' obligations may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to the Master Fund's investments in any Financial Instrument. Obligations in which the Master Fund invests may be less than investment grade. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that value of the assets collateralizing the Master Fund's investments will be sufficient or that prospects for a successful reorganization or similar action will become available. In any reorganization or liquidation proceeding relating to a company in which the Master Fund invests, the Master Fund may lose its entire investment, may be required to accept cash or securities with a value less than its original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Master Fund's investments may not compensate the Investors adequately for the risks assumed. In addition, under certain circumstances, payments and distributions may be disgorged if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

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

Illiquid Investments

Certain Financial Instruments may be illiquid because, for example, they are subject to legal or other restrictions on transfer or there is no liquid market for such Financial Instruments. Valuation of such Financial Instruments may be difficult or uncertain because there may be limited information available about the

issuers of such Financial Instruments. The market prices, if any, for such Financial Instruments tend to be volatile and may not be readily ascertainable, and the Master Fund may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid Financial Instruments often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of Financial Instruments eligible for trading on national securities exchanges or in the over-the-counter markets. The Master Fund may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. As a result, the Master Fund may be required to hold such Financial Instruments despite adverse price movements. Even those markets which the Investment Manager expects to be liquid can experience periods, possibly extended periods, of illiquidity. Occasions have arisen in the past where previously liquid investments have rapidly become illiquid.

Municipal Securities

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

Bank Debt

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

Trade Claims

The Master Fund may purchase creditor claims subsequent to the commencement of a bankruptcy case, including, without limitation, unsecured claims of a debtor's suppliers, vendors and service providers (such claims, "trade claims"). The price ultimately recovered on a trade claim could be less than the price originally paid by the Master Fund for such claim because there is no regulated market for, and no transparent pricing information with respect to, trade claims. The Master Fund may also be subject to actions during the bankruptcy case, including preference actions and, in certain circumstances, equitable subordination actions, based solely on prior conduct of the seller of such trade claim. Such actions may result in the reduction or disallowance of a trade claim, losses to the Master Fund (as the purchaser of such claim) and/or a delay in the realization of the value of such trade claim. Further, the Master Fund may also be subject to the risk that the seller of a trade claim will fail to deliver upon the terms of the investment. For example, in the event a seller of a trade claim subsequently becomes insolvent or itself files for bankruptcy protection, the Master Fund (as the purchaser of such claim) may not benefit from any warranties, representations or indemnities provided by the seller to the Master Fund in the purchase documents, and, with respect to insolvent claim sellers, be subject to credit and litigation risk. A trade claim may be also disallowed by the bankruptcy court if the court determines that the Master Fund (as the purchaser of such claim) has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture. Given the absence of a formal market, indices, or

regulation of trade claims, the market for trade claims may be illiquid and trading in trade claims may be subject to increased settlement risk. Trade claims are also subject to the credit and recovery risk of the bankrupt company, as well as the general risks associated with bankruptcy cases. In the event that any of these risks materialize with respect to trade claims purchased by the Master Fund, the Fund may suffer significant losses.

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.

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

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.

Item 9: Disciplinary Information

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

Item 10: Other Financial Industry Activities and Affiliations

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

Pursuant to a strategic investor agreement (the “**Strategic Investor Agreement**”), a strategic investor or its affiliates (collectively, the “**Strategic Investor**”) have made a significant strategic investment in the Master Fund (such investment, the “**Strategic Investment**”).

In connection with the Strategic Investment, the Strategic Investor benefits from certain rights that are customary for seed or strategic investors and that are in addition to, and more favorable than, the rights of the Investors set forth herein, including, without limitation, (i) the right to receive distributions from the Master Fund in respect of certain guaranteed amounts and performance amounts which will, among other things, reduce the amount of Management Fees and Incentive Allocations accrued and payable or allocated to the Investment Manager or the General Partner, as applicable, (ii) certain co-investment rights, (iii) certain reporting and transparency rights and (iv) the right to designate one individual who will be entitled to attend, as a non-voting observer, all regular and special meetings of the Advisory Board. The Strategic Investor is not a related person of, and does not control, the Investment Manager or the General Partner. The Strategic Investor will not have any governance rights regarding (nor any responsibility for) the day-to-day management, compliance or investment operations of the Investment Manager or the General Partner (or their respective successors) and will not be involved in any investment decisions of the Master Fund.

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

Code of Ethics

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

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

- Employees must at all times place the interests of the Funds and Investors first;

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

Employees are not permitted to trade "**Reportable Securities**" (as defined in the Code of Ethics, and which includes a wide variety of investments such as stocks, bonds, fixed income, options, warrants, futures, and derivatives). Employees are permitted to liquidate positions held at the time of employment in Reportable Securities (a "**Liquidating Trade**") subject to pre-clearance by the CCO. Employees are prohibited from participating in Initial Public Offerings ("**IPOs**"). Employees are also prohibited from personally, or on behalf of a Client, purchasing or selling securities that appear on the Firm's Restricted List.

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

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

Item 12: Brokerage Practices

Carronade is authorized to determine the broker-dealer to be used for executing securities transaction for the Master Fund. 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, the Master Fund may be deemed to be paying for research, brokerage or other services provided by the broker that are included in the commission rate.

We shall also have the authority to select and appoint custodians of the assets of the Funds. The Firm's authority is limited by its own internal policies and procedures and the Master Fund's investment guidelines.

Best Execution

In selecting an appropriate broker-dealer to effect 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 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 Dollars

The Firm may use "**Soft Dollars**". In such cases, Soft Dollar credits, generated by the Master Fund's trading activities, would be used to purchase brokerage and research services or

products that would otherwise have been Fund expense. We intend to keep any such arrangements within the parameters of the safe harbor of Section 28(e) of the Exchange Act.

Neither Carronade nor any related person receives client referrals from any broker-dealer or third party. However, subject to Best Execution, we may consider, among other things, capital introduction and marketing assistance with respect to Investors in selecting or recommending broker-dealers for the Master Fund.

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.

Item 13: Review of Accounts

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

Account Reporting

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

We will distribute an audited financial report with respect to the previous fiscal year to all Investors within 120 days of fiscal year end. We may also distribute periodic unaudited performance information, no less frequently than quarterly.

Item 14: Client Referrals and Other Compensation

We do not receive economic benefits from non-clients for providing investment advice and other advisory services. Neither we nor any of our related persons, directly or indirectly, compensate any person who is not a supervised person for client referrals.

Item 15: Custody

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 Carronade.

We comply with Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended (the "Advisers Act") (i.e., the "custody rule") by meeting the conditions of the pooled vehicle annual audit approach. Upon completion of the relevant 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

We have full discretionary investment authority with respect to the Funds, including authority to make decisions with respect to which securities to be bought and sold, as well as the amount and price of those securities.

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 all proxy proposals, amendments, consents or resolutions (collectively, "**Proxies**") in a prudent and diligent manner that will serve the applicable Client's best interests and is in line with the Client's investment objectives.

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

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

In certain circumstances, Carronade may refrain from voting proxies where the Firm believes that voting would be inappropriate, taking into consideration the cost of voting the proxies and the anticipated benefit to its Clients, or where this is a conflict of interest among other things. Generally, Clients may not direct the Firm's vote in a particular solicitation.

The Firm may engage a proxy advisory firm in the future to provide voting recommendations or voting execution services.

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

Item 18: Financial Information

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