

**Part 2A of Form ADV: Firm Brochure (dated 03/27/2019)**

**Item I: Cover Page**

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This brochure (the “**Brochure**”) provides information about the qualifications and business practices of Metacapital Management, L.P. (the “**Adviser**”). If you have any questions about the contents of this Brochure, please contact us at (212) 300-0500 or [info@metacapital.com](mailto:info@metacapital.com).

The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“**SEC**”) or by any state securities authority. Additional information about Metacapital Management, L.P. is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

The Adviser is registered as an investment adviser with the SEC under the U.S. Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

**Item 2: Material changes**

This Brochure dated March 27, 2019 replaces the previous version dated March 28, 2018.

There have been no material changes made to the Brochure since the Adviser's last annual update, which was filed on March 28, 2018, although the Adviser has made routine updates and clarifying changes to the Brochure. Accordingly, this Brochure should be reviewed in its entirety.

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#### Item 4: Advisory Business

The Adviser is an investment adviser with its principal place of business in New York, New York. The Adviser commenced operations as an investment adviser on November 16, 2001. The Adviser is a limited partnership organized under the laws of the State of Delaware, and its general partner is Metacapital GP, LLC, a limited liability company organized under the laws of the State of Delaware. Deepak Narula is the managing member of Metacapital GP, LLC and the principal owner and limited partner of the Adviser.

The Adviser provides discretionary investment management services to its clients, which are privately pooled investment vehicles and funds-of-one intended for sophisticated and institutional investors. The Adviser currently does not manage separate accounts but may do so in the future. All such pooled investment vehicles, funds-of-one and separate accounts managed by the Adviser are collectively referred to herein as the "**Funds**". The Adviser specializes in and its trading and investment advice focuses on all forms of fixed income securities, government issued and sponsored securities, mortgage-backed securities, commercial mortgage-backed securities, asset-backed securities, listed and over-the-counter derivatives and mortgage loans, but the Adviser's Funds are permitted to and do trade in a wide range of long and short investments, including, without limitation, private and public equity securities, real property, commodities, other pooled investment vehicles such as public and private investment funds, and real estate investment trusts (REITs). For a more detailed list of the types of securities and instruments in which the Adviser invests, see Item 8 in this Brochure. For more detail regarding the types of securities and instruments in which each of the Funds are authorized to invest, see the applicable offering document(s) of the Funds.

The Adviser provides advice to the Funds based on the specific investment objectives and strategies stated in each Fund's organizational and offering documents. The Adviser does not tailor advisory services to the individual needs of investors in the Funds. Additionally, unless a Fund is structured as a fund-of-one or separate account for an individual investor, the investors in the Funds may not impose restrictions on the Funds in connection with investing in individual securities or instruments or types of securities or instruments. The Adviser has entered, and may again in the future enter, into supplemental agreements with investors in the Funds by which the Adviser and/or the Fund agree to additional or different rights, fees, minimum or additional subscription amounts, information rights or other rights or terms as compared to the other investors in the Funds or the Funds' offering documents. Neither the Adviser nor the Funds will be required to offer such additional and/or different rights and/or terms to any other investors in the Funds.

When deemed appropriate for a large or strategic investor, the Adviser has established, and may again in the future establish, managed accounts, funds-of-one or other customized vehicles with investment objectives and strategies specified by the applicable investor and terms or fees that are different than those of the Adviser's other Funds. Such managed accounts and vehicles generally require a large minimum investment amount for a number of reasons, including, in part, due to the asset types and markets in which the Adviser invests and the requirements of the counterparties with whom the Adviser transacts.

The Adviser does not participate in wrap fee programs.

As of March 1, 2019, the Adviser managed approximately \$788,234,009 in net client assets, all of which are managed by the Adviser on a discretionary basis through the Funds. This amount reflects the aggregate net asset values of the Funds. The computation of this amount differs from the computation of "regulatory assets under management" required by Item 5.F in Part 1A of Form ADV.

## Item 5: Fees and Compensation

The Funds pay the Adviser an asset based management fee calculated at a rate that currently ranges from 0% to 1.5% per annum of the investors' capital balances (before deducting any performance fees or allocations and including net unrealized appreciation of investments, cash, cash equivalents and accrued interest), but such range could change in the future. Depending on the Fund, such fees are calculated either monthly or quarterly and are paid in advance or arrears based on the applicable Fund's net assets at the beginning or end of the applicable period.

In the event that a Fund is not in existence for an entire period, the fee for such Fund for such quarter or month will be charged as of the effective date of the investment management agreement and prorated for the number of days remaining in the quarter. If additional contributions are made to a Fund during a quarter, the fee for such Fund will be prorated for the number of days remaining in the quarter and charged as of the date of the additional contribution.

The Adviser is also paid a performance-based fee, which is compensation that is based on a share of the capital gains on or capital appreciation of the Fund's assets for a calendar year (including the unrealized gains on investments for such period). This compensation may be paid to the Adviser or to a related person of the Adviser and currently ranges from 10% to 20% of the gains or appreciation, but such range may be lower or higher in the future. Receipt of performance-based compensation may be subject to a hurdle rate such as one-month rolling LIBOR and a high water mark and/or claw back mechanism. For certain Funds, the performance-based compensation is structured as an allocation of Fund gains as opposed to a cash fee.

The Adviser may and has agreed to alternative management and performance fee arrangements with certain investors in the Funds. The Adviser does not charge management or performance fees on investments in the Funds held by the Adviser or the Adviser's principal or employees or their family members or related vehicles. The Adviser deducts the investment management fee and the performance-based fee from the Funds' accounts by instructing the Funds' administrator and custodians to effect such payments or allocations from the Funds' accounts to the Adviser. **For a complete description of the fees and compensation paid to the Adviser by a Fund and the risks of an investment in a Fund, investors must review the Fund's offering documents.** The Funds will also incur brokerage and other transaction related costs and expenses associated with the Adviser's investment transactions on behalf of the Funds. See Item 12 of this Brochure, which discusses the Adviser's brokerage practices.

In addition to paying investment management fees and, if applicable, performance-based fees or other compensation, Fund accounts will also be subject to other expenses such as fees paid to the Funds' administrators; investment expenses (e.g., expenses which the Adviser reasonably determines to be related to the investment of a Fund's assets, such as brokerage commissions, expenses relating to short sales, research expenses (which include the Adviser's Bloomberg service fees), clearing and settlement charges, custodial fees, bank service fees and interest expenses); data and pricing service fees; insurance (including professional liability, E&O and D&O insurance for members of the Boards of Directors of the Funds and for the Adviser and its officers and employees); investment-related travel expenses (including but not limited to travel to industry-related conferences); legal expenses; professional fees (including, without limitation, expenses of consultants and experts) relating to investments; expenses of regulatory compliance, filings and reporting (including but not limited to Form PF, Form CPO-PQR and Section 13 and 16 filings and the preparation thereof) to the extent they are in connection with, relate to or derive from the Funds or their investment activities; accounting expenses (including the cost of accounting software packages); directors' fees; auditing and tax preparation expenses; organizational expenses; expenses incurred in connection with the offering and sale of the interests in the Funds and other similar expenses related to the Funds; and extraordinary expenses.

In cases where client assets are invested in other pooled investment vehicles, the clients will bear their pro rata share of the underlying fund's operating and other expenses described above. For Funds of the Adviser that are feeder funds in a master-feeder structure, the feeder funds also bear a pro rata share of the expenses of the master-feeder fund structure, including the master fund and other related feeder funds.

Each Fund bears its own expenses as set forth in its respective offering documents and investment management or other agreement with the Adviser or the Adviser's affiliates. Expenses borne by one Fund may differ from the expenses born by another Fund. In certain instances, a Fund may bear expenses that the Adviser has agreed to bear for one or more other Funds. Additionally, the Funds pay for research and such research does not benefit all Funds equally. Research paid for by a Fund will, in some cases, benefit other Funds that are not charged for such costs.

Common expenses are frequently incurred on behalf of all the Funds. The Adviser seeks to allocate those common expenses among the Funds in a manner that is fair and reasonable over time. However, expense allocation decisions involve conflicts of interest (e.g. an incentive to favor accounts that pay higher incentive fees or conflicts relating to different expense arrangements with certain clients). Under its current expense allocation policies, the Adviser seeks to allocate common expenses among the Funds pro rata based on the ratio of the Funds' net assets under management as of the first day of the calendar month for the period in which the expense is paid; provided, however, that if an expense is incurred in connection with a service or transaction that is utilized for investing in a particular asset or sector type, the expense is allocated between the Funds based upon the ratio of the market value of each such Fund's investment positions in the relevant asset or sector type. The Adviser may, however, use other methods to allocate certain common expenses (such as equally across each Fund) if it deems another method more appropriate based on the relative use of the product or service, the nature or source of the product or service, the relative benefits derived by the Funds from the product or service, or other relevant factors. Nonetheless, portions of common expenses that the Adviser allocates to a Fund for a particular product or service do not always reflect the relative benefit derived by the Fund from that product or service. The Adviser's expense allocations often depend on inherently subjective determinations and, accordingly, expense allocations made by the Adviser in good faith will be final and binding on the Funds.

Neither the Adviser nor any of its personnel accepts compensation for the sale of securities or other investment products.

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

The Adviser and its investment personnel provide investment management services to multiple portfolios for multiple clients. The Adviser is permitted to be paid performance-based compensation by its private pooled investment vehicle and separate account clients in accordance with Rule 205-3 under the Advisers Act. In addition, the Adviser's compensation decisions with respect to the Adviser's investment personnel include a performance-based component.

Certain Funds may have higher asset-based fees or more favorable performance-based compensation arrangements than other Funds. When the Adviser and its investment personnel manage more than one Fund, a potential exists for one Fund to be favored over another Fund. The Adviser and its investment personnel have a greater incentive to favor Funds that pay the Adviser, and indirectly the Adviser's personnel, performance-based compensation or higher fees.

The Adviser employs a wide range of investment objectives and strategies for its clients. These differing objectives and strategies raise potential conflicts of interest. For example, the Adviser may buy a security for one client account while it is selling that security for another client account. In addition, the Adviser

may cause one client account to buy a particular security “long” and another client account to sell that same security “short.” In specific instances, the Adviser’s strategies may result in buying and selling different securities and instruments within an issuer’s capital structure for different clients. Accordingly, it is possible that one client may acquire an instrument that is senior in the capital structure of an issuer relative to an instrument for a different client that is more junior in the capital structure (including common stock). In certain circumstances, such as if the credit quality of the issuer deteriorates, the Adviser may owe conflicting fiduciary duties to multiple clients because action taken to protect the interest of one set of holders may be detrimental to, or conflict with the interests of, other holders of that issuer’s securities or instruments. When the Adviser causes its clients to take opposite positions with respect to a particular security or investment, or to invest in securities of an issuer with varying seniority in the issuer’s capital structure, actions taken by the Adviser for one set of clients may disadvantage other sets of clients.

The Adviser has adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of multiple accounts, including accounts with multiple fee arrangements, and the allocation of investment opportunities. The Adviser reviews investment decisions or allocations for the purpose of ensuring that all accounts with substantially similar investment objectives are treated equitably. The performance of similarly managed accounts is also reviewed to determine whether there are any unexplained significant discrepancies. See Item 5 regarding expense allocations.

It is the Adviser’s basic policy that no client for whom the Adviser has investment decision responsibility shall receive preferential treatment over any other client. In allocating securities among clients, it is the Adviser’s policy that all clients should be treated fairly and that, to the extent possible, all clients should receive equivalent treatment.

#### Allocation of Transactions to Clients

The Adviser generally intends to allocate positions and securities among its investment advisory clients that follow the same investment objectives and strategies on a pro rata basis based upon the relative participation or weighting of such clients in such strategies or the size of such accounts, to the extent possible. Notwithstanding the foregoing general policy, because of differences in client investment objectives and strategies, risk tolerances, tax status and other criteria, there are frequently differences among clients in the invested positions and securities held by the clients. The following factors are taken into account by the Adviser in allocating securities among investment advisory clients:

- client investment objectives and strategies;
- client risk profiles and investment guidelines or restrictions;
- client specific portfolio or hedge requirements, such as to manage a client’s portfolio duration or hedge a specific risk or investment;
- client tax statuses or domiciles;
- restrictions placed on a client's portfolio by the client or by virtue of a law or regulation (such as the Employee Retirement Income Security Act of 1974, as amended, or Rule 144A under the Securities Act of 1933, as amended);
- client account sizes and the available amount or minimum position size of a security;
- total amount of a portfolio allocated to a strategy or the amount of a security already held by a client (such as in connection with “roll” transactions);
- availability of financing or margin to a client or a client’s brokerage terms (for example, it may be more efficient for one client to hold a security directly in the cash markets and another client to invest synthetically via a derivative instrument or swap);

- nature of the security to be allocated, the supply or demand for a security at a given price level and the current market conditions;
- timing of subscriptions, redemptions and cash flows into and from the Funds and the Funds' liquidity terms;
- the brokers and trading counterparties with whom the client has opened accounts or established trading facilities; and
- any other information determined to be relevant to the fair allocation of securities.

The Adviser may also allocate positions and securities in such a manner as necessary to avoid creating "odd lots" as long as such allocations are equitable among the applicable funds and separate accounts. To the extent that an investment is not allocated on a pro rata basis due to any of the foregoing criteria, the Adviser will allocate investments in a fair and equitable manner.

#### Limited Investments

The Adviser considers an investment opportunity to be limited when the amount of it available in the market at a reasonable price is insufficient to satisfy in full the demand of Adviser's client accounts and it is thought by the Adviser to represent a unique opportunity in light of other investments available or reasonably anticipated to become available in the market. In the Adviser's experience, investment opportunities are limited only when offered or available privately in illiquid market conditions. When the Adviser's access to an investment is limited, the Adviser seeks to allocate such investment in an equitable manner among accounts (including affiliated accounts) for which such investment is appropriate. Generally, such allocation shall be made pro rata among accounts based upon the relative size of the accounts with similar investment styles and strategies and for which the investment has been determined to be appropriate.

#### Cross Trades

An investment adviser with multiple client accounts may sell a security for one client while it buys the same security for another client. This may occur for several reasons including the different investment objectives, investment strategies, risk tolerances or liquidity needs (such as the occurrence of subscriptions or redemptions) of an adviser's clients or for rebalancing investments across client accounts. In such cases, the investment adviser may transact the purchase and sale directly between the relevant clients (a "**Cross Trade**"). Cross Trades may also reduce transaction costs that would otherwise be incurred in separate open market buy and sell transactions.

The Adviser does not rebalance the Funds' portfolios across Funds and the Adviser's policy is not to transact directly between the Funds as a regular matter. If the Adviser decides to engage in a Cross Trade, the Adviser will determine that the trade is in the best interests of each client involved and take steps to ensure that the transaction is consistent with the duty to seek best execution for each of those clients. To the extent that the Adviser believes a cross trade is appropriate, the Adviser will generally execute a Cross Trade of exchange traded securities with the assistance of a broker-dealer, who would execute and book the transaction at the close of the market at the reported price on the day of the transaction or at the publicly quoted market price at the time of the transaction. The Funds may pay a commission to the broker-dealer for executing the trade.

The Adviser will effect Cross Trades of non-exchange traded securities or instruments by setting a minimum and maximum price range for each Cross Trade and seeking bids from dealers of such securities and instruments through a "bid wanted in competition" or another auction-like process or effecting the Cross Trades as of a month-end (or other applicable accounting period) based on the valuation of the

securities or instruments on such date as determined in accordance with the Adviser's Valuation Policies and Procedures using the quotes received from brokers, quote vendors and pricing service providers pursuant to such procedures. The Adviser, in its reasonable discretion based on the market conditions and information applicable at the time of a Cross Trade, will determine whether an additional amount should be added to the best bid received or the price calculated with respect to a Cross Trade of non-exchange traded securities or instruments to approximate a mid-market price. Cross Trades of private or non-exchange traded securities or instruments are typically effected by the Adviser instructing the Funds' prime broker(s) or custodian(s) to transfer the applicable securities, instruments and/or cash between the Funds' accounts.

When determining whether a Cross Trade is in the best interests of the Funds and which valuation methodology or price to use, the Adviser will consider factors such as the liquidity and availability of the security or instrument in the markets generally; the Funds' existing holdings and strategies; the level, availability and type of prices, quotes and valuations received with respect to the security or instrument; the typical or then current variability or volatility of the price of the security or instrument; and the timing and requirements of the Funds' subscriptions and redemptions. The Adviser will not receive any fee in connection with the completion of a Cross Trade.

See Item 12 in this Brochure regarding the Adviser's order aggregation policies.

#### **Item 7: Types of Clients**

The Adviser's current clients are the Funds. With respect to the Funds, any initial and additional subscription minimums are disclosed in each Fund's offering or operating documents. The Adviser is not precluded from advising additional types of clients other than the Funds.

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

The Adviser utilizes a variety of methods and strategies to make investment decisions and recommendations. **Investing in the securities, instruments and strategies in which the Adviser trades involves risk of loss that clients and investors should be prepared to bear.**

The Adviser may invest in all forms of mortgage-backed securities ("MBS"); other asset-backed securities ("ABS"); commercial mortgage-backed securities ("CMBS"); collateralized debt obligations ("CDOs") and CDO equity; government sponsored enterprise ("Agency") backed securities, TBAs, debt, derivatives and fixed or adjustable rate collateralized mortgage obligations ("CMOs"); interest rate swaps and swaptions; credit default swaps ("CDS") and CDS indices such as ABX, CMBX and corporate CDS indices; real estate mortgage investment conduits ("REMICs"); real estate investment trusts ("REITs"); real property; commodities; currencies; interest rate, currency, commodity and other derivative products, including, without limitation (i) futures contracts (and options thereon) relating to stock indices, currencies, United States Government securities and securities of foreign governments (including government agencies and government sponsored enterprises), other financial instruments and all other commodities, (ii) swaps, options, warrants, caps, collars, floors and forward rate agreements, (iii) spot and forward currency transactions and (iv) agreements relating to or securing such transactions; loans (including whole loans); credit paper; accounts and notes receivable and payable held by trade or other creditors; trade acceptances; contract and other claims; executory contracts; participations; mutual funds; money market funds; pooled investment vehicles (including private investment funds managed by the Adviser); obligations of the United States or any state thereof, foreign governments and instrumentalities of any of them; 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; in each case, of any person, corporation, government or other entity whatsoever, whether or not publicly traded or

readily marketable. The Adviser may also invest in other forms of corporate debt, convertible debt and equity and may enter into repurchase and reverse repurchase agreements and security loan agreements, and invest and trade in futures contracts, forward contracts, options (including options on equity securities), swaps, swaptions and other derivative transactions primarily in the credit markets, but also in the currency markets used mainly as hedging instruments. Debt instruments in which the Adviser may trade may range in credit quality from unrated to "AAA." The securities or instruments in which the Adviser may trade can be denominated in currencies other than the U.S. dollar.

Investments may be made on a leveraged basis, with the Adviser purchasing sectors and particular securities and other instruments that it believes are undervalued and selling short sectors, particular securities and other instruments that it believes are overvalued. The Adviser may from time to time seek to hedge, among other things, interest rate, prepayment and credit risk through the use of various products including, but not limited to, interest rate swaps, total return swaps, Eurodollar futures, swaptions and Treasuries.

The Adviser engages in short term trading with respect to certain investment positions or strategies. Frequent trading can negatively affect investment performance through increased brokerage and other transaction costs and increased taxes, among other factors.

The following are examples of certain of the strategies that the Adviser may utilize:

Opportunistic Investments: The Adviser will look to take advantage of dislocations in mortgage and other related debt markets that can create special investment opportunities. Such opportunities occur periodically and are generally caused as a result of deleveraging by other investors or due to a tightening of credit conditions.

Cross-sector Strategy: These strategies seek to profit from changes in relative value in various sectors of the fixed income markets. These sectors include Treasuries, Agency securities (both bullet and callable), interest rate swaps, mortgage pass-throughs, high grade ABS, CMBS and corporate debt.

Strategies may range from relying on mean-reverting spread relationships to anticipating Agency demand for mortgage pass-throughs relative to issuing Agency securities. Inter-coupon, inter-agency, inter-sector and cross-vintage MBS trades can provide several low risk arbitrage opportunities. Another example of such opportunities arises from the pricing of credit risk in the mortgage, CMBS and ABS markets at substantially different levels than the pricing of similar credit risk in the corporate market.

Prepayment Strategy: Prepayments on mortgage-backed securities are impacted by changes in interest rates and the strength of housing markets. The relationship between mortgage prepayments and interest rate movements is generally captured by statistical models that are based on historical experience. However, this relationship is constantly changing due to changes in such factors as technology, competition, borrower awareness and economic cycle. Careful analysis of historical data combined with an accurate assessment of changes in future prepayment patterns provides investment opportunities that can yield substantial returns. Such strategies typically seek to combine prepayment sensitive mortgage securities with interest rate derivatives such as swaps and swaptions to construct a market-neutral portfolio that seeks to profit from income and capital gains at the time of sale.

Other prepayment sensitive strategies may seek to take advantage of changes in the investment behavior for the mortgage servicer community. Mortgage servicing portfolios are among the larger holders of prepayment risk. Shifts in investment behavior by this investor subset can result in secular changes in the valuation of mortgage derivatives. Anticipating these changes and the consequent investment patterns can give rise to profitable market opportunities.

**Volatility Strategy:** These strategies seek to take advantage of relative mispricing of interest rate volatility in different markets. One example of such a strategy is to establish long positions in options in one market (e.g., mortgage options) which are offset with short positions in options in another market (e.g., Treasury options). The strategy results in profits from either the difference in initial option premiums and/or the eventual payoff at expiration. Another example of such a strategy might be to take advantage of a situation where the MBS market is pricing interest rate volatility higher than the corporate bond market. In such an instance the Adviser would short volatility in the mortgage market through the purchase of mortgage pass-throughs and at the same time go long volatility in the corporate market through the purchase of corporate debt instruments having embedded put options. Both the MBS and corporate bond positions would be hedged to eliminate interest rate risk. This strategy generates returns as the two markets readjust to correct this mispricing.

**Credit Strategy:** There is a large universe of mortgage and asset-backed securities and derivative instruments the return profile of which is dependent on underlying borrower default and prepayment behavior. Examples of such securities are (i) private-label mortgage-backed securities backed by, for example, sub-prime, Alt-A, jumbo, manufactured housing and other residential mortgage and home equity loans and (ii) asset-backed securities backed by, for example, aircraft and aircraft engine leases or cash flows from consumer loans, student loans, auto loans or credit card receivables.

**Rising Rates Strategy:** The strategy primarily combines high yielding mortgage securities with both interest rate futures and short and long-dated options on interest rate futures and interest rate swaps although the Adviser has the flexibility to utilize other products and approaches to try to achieve the strategy's objective. The strategy will "spend" some of the mortgage yield to offset the time decay of long option positions held in the portfolio.

**Mortgage REIT Strategy:** The strategy seeks to achieve long-term capital appreciation through long and short leveraged investments in a variety of securities issued by mortgage real estate investment trusts ("mREITs") and related hedging instruments. The Mortgage REIT Strategy invests primarily in all forms of debt and equity securities issued by mREITs, including both privately placed and exchange traded securities and synthetic and derivative instruments referencing such securities, as well as hedging investments that may include, among other instruments, MBS, TBAs, government securities and related derivative instruments, U.S. Treasury debt, futures contracts, forward contracts and swaps. The strategy may enter into repurchase and reverse repurchase agreements, and the debt instruments in which the Mortgage REIT Strategy may trade may range in credit from unrated to "AAA". The Mortgage REIT Strategy portfolio is expected to hold several long, levered positions in mREIT preferred stocks and several short positions in mREIT common stocks in varying proportions based on the preferred and common stock market values from time to time and other rate and duration expectations.

**The following are the material risks relating to the investment strategies described above.**

**Liquidity of Markets.** At times, certain sectors of the fixed income markets (such as the ABS and MBS markets) have experienced significant falloffs in liquidity. While such events may sometimes be attributable to changes in interest rates or other factors, the cause is not always apparent. During such periods of market illiquidity, the Adviser may not be able to sell assets in its portfolio or may only be able to do so at unfavorable prices. Further, during such periods, it is extremely difficult to accurately value the investments. Such "liquidity risk" could adversely impact the value of the portfolio, and may be difficult or impossible to hedge against.

**Lack of Diversification.** The Adviser's portfolios may not be as diversified among a wide range of types of securities as other investment vehicles. Accordingly, the investment portfolio of the Adviser may be

subject to more rapid change in value than would be the case if the Adviser were required to maintain a wider diversification among types of securities and other instruments.

Lack of Liquidity of Assets. Assets may, at any given time, include securities and other financial instruments or obligations which are thinly-traded or for which no market exists and/or which are restricted as to their transferability under applicable securities laws. The Adviser also builds concentrated investment positions in certain securities and instruments, which positions may constitute a significant portion (or in some cases, all) of the outstanding securities or instruments of the applicable issue or the daily trading volume of such securities or instruments. If a sale of such investments were required to be effected over a short period or at an inopportune time, such a sale would likely be possible only at substantial discounts. It may be extremely difficult to value any such investments accurately.

Prepayment Risk. The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to default and foreclosures) occur on loans underlying ABS and MBS will be affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. Generally, obligors tend to prepay their loans when prevailing interest rates fall below the interest rates on their loans. Although ABS are generally less likely to experience substantial prepayments than are MBS, certain of the factors that affect the rate of prepayments on MBS also affect the rate of prepayments on ABS. However, during any particular period, the predominant factors affecting prepayment rates on ABS and MBS may be different.

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

Interest Rate Risks. Generally, the value of fixed-income securities changes inversely with changes in interest rates. As interest rates rise, the market value of fixed-income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed-income securities tends to increase. This risk is greater for long-term securities than for short-term securities.

Index Risk. The Adviser may also invest in structured notes, variable rate ABS and MBS, including adjustable-rate mortgage securities ("ARMs"), which are backed by mortgages with variable rates, and certain classes of CMO derivatives, the rate of interest payable under which varies with a designated rate or index. The value of these investments is closely tied to the absolute levels of such rates or indices, or the market's perception of anticipated changes in those rates or indices. This introduces additional risk factors related to the movements in specific indices or interest rates which may be difficult or impossible to hedge, and which also interact in a complex fashion with prepayment risks.

Short Selling. Short selling involves selling securities which may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent such declines exceed the transaction costs and the costs of borrowing the securities. A short sale creates the risk of an unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Lower Credit Quality Securities. There are no restrictions on the credit quality of the investments of the Adviser. Securities in which the Adviser may invest may be deemed by rating companies to have substantial vulnerability to default in payment of interest and/or principal. Other securities may have the lowest quality ratings or may be unrated. Lower rated and unrated securities in which the Adviser may invest have large uncertainties or major risk exposures to adverse conditions, and are considered to be predominantly speculative. Generally, such securities offer a higher return potential than higher rated securities, but involve greater volatility of price and greater risk of loss of income and principal.

The market values of certain of these securities (such as subordinated securities) also tend to be more sensitive to changes in economic conditions than higher rated securities. Declining real estate values, in particular, will increase the risk of loss upon default, and may lead to a downgrading of the securities by rating agencies. The value of such ABS and MBS may also be affected by changes in the market's perception of the entity issuing or guaranteeing them, or by changes in government regulations and tax policies.

In general, the ratings of nationally recognized rating organizations represent the opinions of these agencies as to the quality of securities that they rate. These ratings may be used by the Adviser as initial criteria for the selection of portfolio securities. Such ratings, however, are relative and subjective; they are not absolute standards of quality and do not evaluate the market value risk of the securities. It is also possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events.

"Widening" Risk. For reasons not necessarily attributable to any of the risks enumerated above (for example, supply/demand imbalances or other market forces), the prices of the securities in which the Adviser invests may decline substantially. In particular, purchasing assets at what may appear to be "undervalued" levels is no guarantee that these assets will not be trading at even more "undervalued" levels at a time of valuation or at the time of sale. It may not be possible to predict, or to hedge against, such "spread widening" risk.

Valuation of Investments. The Adviser may invest in securities which are subject to legal or other restrictions on transfer or for which no liquid market exists or which are or become very-thinly traded. The market prices, if any, for such securities tend to be volatile and the Adviser may not be able to sell them when they desire to do so or to realize what they perceive to be their fair value in the event of a sale. The sale of restricted, illiquid or thinly-traded securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale.

Leverage and Financing Risk. The portfolios of the Adviser use leverage to enhance returns. Accordingly, the portfolio assets may be pledged in order to borrow additional funds for investment purposes. The investment return may also be leveraged with options, futures contracts, short sales, swaps, forwards and other derivative instruments and borrowing facilities. The amount of borrowings which the Adviser may have outstanding at any time may be significant in relation to its capital and may vary, depending on the nature of its investments.

Ability to Acquire Assets at Favorable Spreads; Competition and Supply. The Adviser's potential for current income and capital appreciation for its investors will depend, in large part, on the Adviser's ability to acquire investments on advantageous terms. The Adviser intends to purchase fixed income securities from investment banking firms, traders and portfolio managers, as well as from a variety of "loan suppliers" (typically banks, savings and loans, finance companies, mortgage bankers, construction firms and other firms involved in originating and packaging loans). In acquiring fixed income securities, the Adviser will compete with a broad spectrum of institutional investors, many of which have greater financial resources

than the Adviser. Increased competition for, or a reduction in the available supply of, qualifying investments could result in higher prices for, and thus lower yields on, such investments, which could further narrow the yield spread over borrowing costs.

Risk of Decline in Value of Real Estate Collateral. The value of the real estate which underlies mortgage loans is subject to market conditions. Changes in the real estate market may adversely affect the value of the collateral and thereby lower the value to be derived from a liquidation. In addition, adverse changes in the real estate market increase the probability of default, as the incentive of the borrower to retain equity in the property declines. Furthermore, many of the properties which will secure loans in which the Funds have an interest may be suffering varying degrees of financial distress or may be located in economically distressed areas. Loans in which the Adviser has an interest may become non-performing for a wide variety of reasons, including, without limitation, because the mortgaged property is too highly leveraged (and, therefore, the property is unable to generate sufficient income to meet its debt service payments), the property is poorly managed, or because the mortgaged property has a high vacancy rate, has not been fully completed or is in need of rehabilitation. Such non-performing loans may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate, capitalization of interest payments and a substantial write-down of the principal of the loan. However, even if such restructuring were successfully accomplished, a risk exists that upon maturity of such mortgage loan, replacement "take-out" financing will not be available.

It is possible that loans in which the Adviser has an interest may be foreclosed. The foreclosure process may be lengthy and expensive. Borrowers may resist mortgage foreclosure actions by asserting numerous claims, counterclaims and defenses, including, without limitation, numerous lender liability claims and defenses, even when such assertions may have no basis in fact, in an effort to prolong the foreclosure action and force the lender into a modification of the loan or a favorable buy-out of the borrower's position. In some states, foreclosure actions can sometimes take several years or more to litigate. At any time prior to or during the foreclosure proceedings, the borrower may file for bankruptcy, which would have the effect of staying the foreclosure actions and further delaying the foreclosure process. Foreclosure litigation tends to create a negative public image of the mortgaged property and may result in disrupting the ongoing leasing, management and operation of the property.

Environmental Hazards. Under environmental laws enacted by the United States and the various states, owners of property may be liable for the cleanup and removal of hazardous substances even where the owner was not responsible for placing the hazardous substances on the property or where the property was contaminated prior to the time the owner took title. The kinds of hazardous substances for which liability may be incurred include, *inter alia*, chemicals and other materials commonly used by small businesses and manufacturing operations. The costs of removal and clean-up of hazardous substances and wastes can be extremely expensive and, in some cases, can exceed the value of a property. If any property acquired through foreclosure or otherwise by an entity in which the Adviser has an interest subsequently were found to have an environmental problem, such acquiring entity could incur substantial costs and suffer a complete loss of its investment in such property as well as of other assets. Similarly, real estate is subject to loss due to so-called "Special Hazards" (e.g., floods, earthquakes and hurricanes). It may be impractical or impossible to fully insure against such events and, should such an event occur, the acquiring entity could incur substantial costs and suffer a complete loss of its investment in such property.

**The following are the material risks associated with the types of securities that are recommended by the Adviser.**

Mortgage-Backed Securities (MBS). Mortgage-backed securities are subject to credit risk associated with the performance of the underlying mortgage properties. Factors such as consumer spending habits, local economic and competitive conditions, tenant occupancy rates and regulatory or zoning restrictions, or

the loss of a major tenant, may adversely affect the economic viability of a mortgaged property. In addition, these securities are subject to prepayment risk. Some securities have a structure that makes their reaction to interest rates and other factors difficult to predict, making their value highly volatile.

Commercial MBS (CMBS). 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 (as a "balloon payment"), 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 maturity default, which may have extensive consequences for the securities.

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, with the exception of various carve-outs for fraud. 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, which may further increase losses. 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.

Asset Backed Securities (ABS). Through the use of trusts and special purpose corporations, various types of assets, primarily automobile and credit card receivables, are securitized in pass-through structures similar to mortgage pass-through structures or in a pay-through structure.

ABS present certain risks that are not presented by MBS. Primarily, these securities do not have the benefit of the same security 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 state and Federal 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 value of an asset backed security 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.

Forward Trading. Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated;

there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward (and futures) trading to less than that which the Adviser would otherwise recommend. Neither the Commodity Futures Trading Commission nor banking authorities regulate forward currency trading through banks. In respect of such trading, the investor would be subject to the risk of counterparty failure or the inability or refusal by a counterparty to perform with respect to such contracts. Market illiquidity or disruption could result in major losses to the investor.

TBA Securities and Roll Transactions. To-be-announced forward contracts ("TBA securities") can be used to invest in agency MBS or to hedge other investments. A TBA security is a forward contract for the purchase or the sale of agency securities at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date, but the particular agency securities to be delivered are not identified until shortly before the TBA settlement date. Holders may choose, prior to settlement, to move the settlement of these securities to a later date by entering into an offsetting position (referred to as a "pair off"), net settling the paired off positions for cash, and simultaneously entering into a similar TBA contract for a later settlement date, which is commonly collectively referred to as a "dollar roll" transaction. Under certain market conditions, TBA dollar roll transactions may result in negative carry income whereby the agency securities purchased for a forward settlement date under the TBA contract are priced at a premium to agency securities for settlement in the current month. Under adverse conditions, instead of rolling TBA positions prior to the settlement date, holders could be required to take physical delivery of or to deliver the underlying securities and settle its obligations for cash.

Structured Notes. The structured note market evolved as a way to give investors exposure to indices and risks which were otherwise not available to them. For example, U.S. fund managers restricted to dollar-denominated instruments issued by an agency of the U.S. government, but who sought exposure to the yen, might have purchased a SallieMae structured note, paying, in dollars, a coupon linked by some formula to the dollar/yen exchange rate. The coupon attached to a structured note could depend on a wide variety of indices: U.S. or foreign interest rates, U.S. or foreign swap rates, foreign exchange rates or equity indices. The value of such a structured note is closely linked to the level of the relevant index (or indices). Moreover, the coupon may have an optional or contingent dependence on an index (or indices) increasing the complexity of any related hedge.

CMOs and MBS Derivatives. The CMO and stripped MBS markets were developed specifically to reallocate the various risks inherent in MBS across various bond classes ("tranches"). For example, CMO "companion" classes typically experience much greater average life variability than other CMO classes or MBS pass-throughs. Interest only pass-through securities experience greater yield variability relative to changes in prepayments. "Inverse floaters" experience greater variability of returns relative to changes in interest rates. To the extent that the Adviser concentrates its investments in these or other "derivative" securities, the prepayment risks, interest rate risks and hedging risks associated with such securities will be severely magnified.

Whole Loan Mortgages. Unlike "credit enhanced" MBS, whole loan mortgages, both commercial and residential, generally are not government guaranteed or privately insured. A whole loan mortgage is directly exposed to losses resulting from default and foreclosure. Therefore, the value of the underlying property, the creditworthiness of the borrower and the priority of the lien are each of great importance.

Whether or not the Adviser has participated in the negotiation of the terms of any such mortgages, there can be no assurance as to the adequacy of the protection of the interests of the Funds, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests.

Whole loan mortgages have risks above and beyond those discussed above. For example, whole loan mortgages are subject to "special hazard" risk (property damage caused by hazards, such as earthquakes or environmental hazards, not covered by standard property insurance policies), and to bankruptcy risk (reduction in a borrower's mortgage debt by a bankruptcy court). In addition, claims may be assessed against the Funds on account of their positions as mortgage holder or property owner, including responsibility for tax payments, environmental hazards and other liabilities.

In the case of commercial loans, they may be further bifurcated into subordinate B-Notes and Mezzanine loans which are not securities and share similar risks to whole loans described above. In the case of a B-Note, an investor is exposed to a subordinate structure of the whole loan secured by the property but subordinate to the A-Note in priority of principal and interest. Mezzanine loans are even further subordinated and are secured by the equity interest of the borrower in a property. In the case of a default under a mezzanine loan, the only security is a foreclosure of the equity interest in the borrower which would give the lender direct ownership of the underlying real estate, subject to the senior mortgages. The ultimate stabilization and sale of a property may or may not generate sufficient proceeds to satisfy the original outstanding balance of the Mezzanine loan.

Subordinated Securities. Investments in subordinated ABS and MBS involve greater credit risk of default than the senior classes of the issue or series. Many of the default related risks of whole loan mortgages will be magnified in subordinated securities. (See "Whole Loan Mortgages".) Default risks may be pronounced in the case of ABS and MBS secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying loans. Certain subordinated securities ("first loss 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. CMBS B-Pieces which represent the non-investment grade securities in a CMBS deal have no subordination and absorb losses from any mortgage loan default in the pool. This also applies to B-Pieces of Freddie Mac securitizations. Such securities therefore possess some of the attributes typically associated with equity investments.

Trading in Commodity Interests, Options and Swap Agreements. The prices of commodities contracts and derivative instruments, including futures and options, and payments pursuant to swap agreements, may be highly volatile and are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events.

The Adviser may purchase and sell ("write") options on securities, currencies and commodities on national and international exchanges and over-the-counter markets. The seller ("writer") of a put option which is covered (e.g., the writer has a short position in the underlying instrument) assumes the risk of an increase in the market price of the underlying instrument above the sales price (in establishing the short position) of the underlying instrument, plus the premium received, and gives up the opportunity for gain on the underlying instrument below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying instrument below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option. If the buyer of the put holds the underlying instrument, the loss on the put will be offset, in whole or in part, by any gain on the underlying instrument.

Loans of Portfolio Securities. The Funds may lend their portfolio securities. By doing so, the Adviser attempts to increase the Funds' income through the receipt of interest on the loan. In the event of the bankruptcy of the other party to a securities loan, the Funds could experience delays in recovering the securities they lent. To the extent that the value of the securities lent has increased, a loss could be experienced if such securities are not recovered.

Real Estate Investment Trusts (REITs). Securities issued by entities that invest in real estate, such as real estate investment trusts ("REITs"), generally will be subject to the risks incident to the ownership and operation of commercial real estate and/or risks incident to the making of nonrecourse mortgage loans secured by real estate. Such risks include, without limitation, the risks associated with both the domestic and international general economic climates; local real estate conditions; risks due to dependence on cash flow; risks and operating problems arising out of the absence of certain construction materials; changes in supply of, or demand for, competing properties in an area (as a result, for instance, of over-building); the financial condition of tenants, buyers and sellers of properties; changes in availability of debt financing; energy and supply shortages; changes in the tax, real estate, environmental, and zoning laws and regulations; various uninsured or uninsurable risks; natural disasters; and the ability of third-party borrowers to manage the real properties. In addition, such entities may incur the burdens of ownership of real property, which include the paying of expenses and taxes, maintaining such property and any improvements thereon, and ultimately disposing of such property. REITs in which the Adviser invests client accounts are affected by underlying real estate values, which may have an exaggerated effect to the extent that REITs in which the Adviser invests concentrate investments in particular geographic regions or property types. Investments in REITs are also subject to the risk of interest rate volatility. Further, rising interest rates will cause investors in REITs to demand a higher annual yield from future distributions, which will in turn decrease market prices for equity securities issued by REITs.

U.S. REITs are generally operated in a manner that qualifies as a REIT for U.S. federal income tax purposes. Qualification as a REIT is based on satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements. If a REIT were to fail to qualify as such for any taxable year, it would be subject to federal income tax, including any applicable alternative minimum tax, on its taxable income at regular corporate rates, and dividends paid to the REIT's stockholders would not be deductible by in computing the REIT's taxable income. Any resulting corporate tax liability could be substantial and would reduce the amount of cash available for distribution to the REIT's stockholders, which in turn could have an adverse impact on the value of the REIT's stock. Unless entitled to relief under certain IRS tax code provisions, the REIT also would be disqualified from taxation as a REIT for the four taxable years following the year in which it failed to qualify as a REIT.

Litigation. There have been and may be from time to time legal proceedings against or by the issuers of securities or instruments in which the Adviser invests as well as the underlying borrowers, sponsors, properties, trustees, servicers, businesses or other agents or service providers or their respective affiliates related to such issuers or their businesses. The Adviser and the Funds could be plaintiffs, defendants or related parties in such legal proceedings. Additionally, from time to time the Adviser or the Funds may hold or acquire controlling or directing investor rights to approve actions or decisions on behalf of the trusts, vehicles or investments, including, without limitation, whether to initiate, continue or conclude legal proceedings or foreclosures. Any such litigation or disputes could materially affect the returns experienced by the Funds with respect to such investments and could result in the Funds incurring significant legal fees or litigation costs, judgments or settlement payments. Such litigation or disputes may also divert the attention of the Adviser's personnel from their regular work duties or cause the Adviser or the Funds to attract unwanted media attention or adversely affect their reputations.

## **Additional Risks Relating to the Adviser**

Cybersecurity Risk. The information and technology systems of the Adviser and of key service providers to the Adviser and its clients may be vulnerable to potential damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Although the Adviser has implemented various measures designed to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, it may be necessary for the Adviser to make a significant investment to fix or replace them and to seek to remedy the effect of these issues. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in the operations of the Adviser or its client accounts and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information.

Risk Management Failures. Although the Adviser attempts to identify, monitor and manage significant risks, these efforts do not take all risks into account and there can be no assurance that these efforts will be effective. Moreover, many risk management techniques, including those employed by the Adviser, are based on historical market behavior, but future market behavior may be entirely different and, accordingly, the risk management techniques employed on behalf of clients may be incomplete or altogether ineffective. Similarly, the Adviser may be ineffective in implementing or applying risk management techniques. Any inadequacy or failure in risk management efforts could result in material losses to clients.

Systems and Operational Risk. The Adviser relies heavily on certain internally developed financial, accounting, data processing and other operational systems as well as services or systems that are provided by third party service providers, including prime brokers, the third party administrator, market counterparties and others. Many of these systems and services require manual input and are susceptible to error. These programs or systems may be subject to certain defects, failures or interruptions. For example, the Adviser and its clients could be exposed to errors made in the confirmation or settlement of transactions, from transactions not being properly booked, evaluated or accounted for or related to other similar disruptions in the clients' operations. In addition, despite certain measures established by the Adviser and third party service providers to safeguard information in these systems, the Adviser, clients and their third party service providers are subject to risks associated with a breach in cybersecurity which may result in damage and disruption to hardware and software systems, loss or corruption of data and/or misappropriation of confidential information. Any such errors and/or disruptions may lead to financial losses, the disruption of the client trading activities, liability under applicable law, regulatory intervention or reputational damage.

**For more detailed information on the risks associated with the investment strategies, methods and analyses and with the types of securities invested in or recommended in connection with the Funds, please refer to the specific offering memorandum of the relevant Fund. The descriptions set forth in this Brochure of specific services that the Adviser offers should not be understood to limit in any way the Adviser's activities. The Adviser may offer any services, engage in any activity and make any advisory decision, including any not described in this Brochure, that the Adviser considers appropriate or necessary in the fulfillment of its fiduciary obligation or that it believes is in the best interests of its clients.**

## **Item 9: Disciplinary Information**

This Item is not applicable.

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

The Adviser is registered as a commodity pool operator with the Commodity Futures Trading Commission (the “**CFTC**”) and is a member of the National Futures Association (the “**NFA**”). In connection with the Adviser’s registration as a commodity pool operator, certain of the Adviser’s management persons and business development staff are registered with the NFA as principals and associated persons of the Adviser.

Metacapital Management, LLC, an affiliate of the Adviser that is under common control with the Adviser, acts as the general partner of certain of the Funds and has delegated to the Adviser its commodity pool operator responsibilities with respect to such Funds. As general partner of such Funds, Metacapital Management, LLC receives the performance allocations described in Item 5 of this Brochure.

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

The Adviser has adopted a Code of Ethics (the “**Code**”) that obligates the Adviser and its related persons to put the interests of the Adviser’s clients before their own interests and to act honestly and fairly in all respects in their dealings with clients. All of the Adviser’s personnel are also required to comply with applicable federal securities laws. Clients or prospective clients may obtain a copy of the Code by contacting Daniel Caffarelli, the Adviser’s Chief Compliance Officer, by email at [dcaffarelli@metacapital.com](mailto:dcaffarelli@metacapital.com) or by telephone at (212) 300-0500. See below for further provisions of the Code as they relate to the pre-clearing and reporting of securities transactions by related persons.

The Code addresses conflicts of interest that could arise between the Adviser or the Adviser’s personnel and the Adviser’s clients. Among other points, the Code includes policies and procedures regarding the Adviser’s personnel (i) holding certain financial interests and engaging in personal securities transactions, (ii) accepting payments, gifts or free services from firms with whom the Adviser works, (iii) making bribes or offering payments to obtain or retain business, (iv) making certain political contributions and (v) maintaining the confidentiality and security of confidential information of the Adviser and its clients.

The Adviser has adopted policies and procedures governing gifts and business entertainment that require the disclosure of gifts and entertainment received and the pre-clearance by the Chief Compliance Officer of gifts and business entertainment in excess of certain thresholds.

The Adviser, in the course of its investment management and other activities (e.g., board or creditor committee service), may come into possession of confidential or material nonpublic information about issuers, including issuers in which the Adviser or its related persons have invested or seek to invest on behalf of clients. The Adviser is prohibited from improperly disclosing or using such information for its own benefit or for the benefit of any other person, regardless of whether such other person is a client. The Adviser maintains and enforces written policies and procedures that prohibit the communication of such information to persons who do not have a legitimate need to know such information and to assure that the Adviser is meeting its obligations to its clients and remains in compliance with applicable law. In certain circumstances, the Adviser may possess certain confidential or material, nonpublic information that, if disclosed, might be material to a decision to buy, sell or hold a security, but the Adviser will be prohibited from communicating such information to the client or using such information for the client’s benefit. In such circumstances, the Adviser will have no responsibility or liability to the client for not disclosing such information to the client (or the fact that the Adviser possesses such information), or not using such information for the client’s benefit, as a result of following the Adviser’s policies and procedures designed to provide reasonable assurances that it is complying with applicable law.

The Adviser does not trade on behalf of the Funds in securities or instruments in which the Adviser or its related persons have a material financial interest.

Related persons of the Adviser hold investments in one of the Funds in excess of 25% of such Fund's net asset value. If the Adviser effects a cross trade between (i) a Fund in which the Adviser or its related persons hold in excess of 25% of the Fund and (ii) another client of the Adviser, such cross trades would be considered to be a principal transaction with the Adviser. The Adviser will comply with the applicable requirements of the Advisers Act when conducting such principal transactions and undertake such transactions only when doing so is in the best interests of the Funds and in accordance with the Cross Trade procedures described in Item 6. The Adviser will disclose the terms of any such principal transactions to the independent directors of the Funds or, if the Adviser manages a separate account or fund-of-one, the owner of the account or investor in the fund-of-one prior to the settlement of the transaction and obtain such parties' consent to the principal transaction.

As of the date of this Brochure, the Adviser has not caused a Fund to invest in another Fund of the Adviser. The organizational and offering documentation of certain of the Funds, however, authorize the Adviser to invest the Funds' capital in another vehicle or account investment managed by the Adviser or for which the Adviser or its affiliate acts as the general partner. The Adviser and its principals and personnel hold significant interests in the commingled Funds that the Adviser manages. The allocation of one Fund to another Fund creates a conflict of interest because the Adviser has an incentive to make such an investment based in part on its own financial interests of supporting the second Fund, rather than solely the interests of the allocating Fund. The Adviser addresses these conflicts of interest by waiving investment advisory fees by the second Fund so as not to charge double fees. Additionally, certain of the feeder Funds managed by the Adviser authorize the selection of one or more persons not affiliated with the Adviser to serve on a committee, the purpose of which would be to consider and, on behalf of such Funds' investors, approve or disapprove, to the extent required by law, principal and other related party transactions.

The Code specifies that the Adviser's employees and their covered accounts (as defined in the Code) are not permitted to:

- Trade while in possession of inside information or encourage others to do so;
- Trade in advance of or based upon knowledge of a proprietary or client trading position, order, or planned order;
- Trade a security on which an employee trading prohibition has been posted on the Adviser's Restricted List;
- Participate in new public offerings (IPOs or follow-ons) of equity, equity linked and corporate debt securities registered with the SEC, unless approved by the Adviser's Chief Compliance Officer;
- Trade individual mortgage-backed or asset-backed securities; or
- Otherwise engage in personal trading that conflicts with duties owed to the Adviser or its clients.

The Code does not prohibit the Adviser's employees from making personal investments in open and closed end mutual funds, exchange traded funds or public REITs, even if such funds or REITs hold MBS, ABS or mortgage loans, unless such funds or REITs are included on the Adviser's Restricted List.

The Adviser or its principals and personnel have investments in the same or similar or related securities as some of the investment positions effected by the Adviser on behalf of the Funds. Such common holdings present a conflict when, because of the information an Adviser has, the Adviser or its personnel are in a position to trade in a manner that could adversely affect the Funds (e.g., place their own trades before or after Fund trades are executed in order to benefit from any price movements due to the Funds' trades). In addition to affecting the Adviser's or its personnel's objectivity, these practices by the Adviser or its personnel may also harm the Funds by adversely affecting the price at which the Funds' trades are executed. The Adviser has adopted the following procedures in an effort to minimize such conflicts: The Adviser's Code prohibits the Adviser or its personnel from executing personal securities transactions in any securities on the Adviser's Restricted List maintained by the Chief Compliance Officer. The Adviser's personnel are required to disclose the holdings in their personal accounts upon commencement of employment with the Adviser and on an annual basis thereafter. The Adviser's personnel are also required to provide duplicate monthly or quarterly brokerage statements for their covered accounts. Trading in the personal accounts of the Adviser's personnel is reviewed by the Adviser's compliance staff.

To the extent that the Adviser or a related person or any of their employees own securities that the Adviser or its related person also recommends to clients (if any), such clients' proxies (if any) will be voted according to predetermined guidelines rather than subject to the Adviser's (or its related person's) discretion. Please refer to Item 17 for further information regarding the Adviser's proxy voting policy and procedures.

## **Item 12: Brokerage Practices**

The Adviser predominantly transacts in the fixed income markets where transactions are generally not subject to standard commissions and involve a large number and type of securities that trade bilaterally between parties and not on exchanges. Accordingly, the focus of the Adviser's best execution policies and procedures is on the conflicts of interest associated with executing fixed income transactions. The Adviser has established a best execution committee to assist in the application and maintenance of the Adviser's best execution policies and procedures. The Adviser considers a number of factors in selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation. Such factors include the full range of the broker's services; the net price for the transaction or series of transactions; the broker's reputation, financial strength and stability, efficiency of execution and error resolution; the broker's inventory of securities and ability to execute difficult trades and finance purchased securities (including the terms and haircuts of such financing); the broker's operational facilities (including back office efficiency); the broker's ability to report risk and pricing data regarding a client's accounts and portfolios; and the value of research provided. In selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation, the Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost (if applicable). It is not the Adviser's practice to negotiate "execution only" commission rates; thus a Fund may be deemed to be paying for research, brokerage or other services provided by a broker-dealer which are included in the commission rate.

When the Adviser uses brokerage commissions (or markups or markdowns) to obtain research or other products or services, the Adviser receives a benefit because the Adviser does not have to produce or pay for the research, products or services received from the broker. Accordingly, the Adviser may have an incentive to select or recommend a broker based on the Adviser's interest in receiving the research, products or services, which can create a conflict of interest between the Adviser's interests and the Funds' interests in receiving the most favorable execution.

The Adviser has not entered into any formal "soft dollar" agreements with respect to the Funds' brokerage commissions to obtain research and brokerage services. The Adviser, however, receives research or

other products or services from the Funds' broker-dealers. Such brokers do not charge the Adviser or the Funds for such research or services. The research services received include, but are not limited to, research reports (including market research, economic forecasts and fundamental and technical advice on securities); risk and pricing data and information; security and instrument valuations; access to risk modelling software or applications providing analysis of securities portfolios; attendance at certain seminars and conferences; and discussions with research analysts. The brokerage services received include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an adviser and a broker-dealer and other relevant parties such as custodians); software that provides trade analytics and trading strategies; clearance and settlement in connection with a trade; and post trade matching of trade information.

To the extent that the Adviser establishes formal soft dollar arrangements with the Funds' or clients' brokerage accounts in the future, except for services that would be an expense of the Funds or clients pursuant to the Funds' or clients' disclosure and investment management documents, or as otherwise described herein, the Adviser will limit the use of such soft dollars to obtain research and brokerage services to services that constitute research and brokerage services within the meaning of Section 28(e) of the Securities Exchange Act of 1934, as amended ("**Section 28(e)**"). Additionally, in some instances the Adviser may receive a product or service that may be used only partially for functions within Section 28(e) (e.g. an order management system, trade analytical software or proxy services). In such instances, the Adviser will make a good faith effort to determine the relative proportion of the product or service used to assist the Adviser in carrying out its investment decision-making responsibilities and the relative proportion used for administrative or other purposes outside Section 28(e). Except for services that would be an expense of the Funds or clients pursuant to the Funds' or clients' disclosure and investment management documents, or as otherwise described herein, the proportion of the product or service attributable to assisting the Adviser in carrying out its investment decision-making responsibilities will be paid through commissions generated by client transactions and the proportion attributable to administrative or other purposes outside Section 28(e) will be paid for by the Adviser from its own resources.

Research and brokerage services obtained from a broker-dealer may be used by the Adviser in its other investment activities and may not benefit all Funds.

The Adviser has accepted investments in certain of the Funds from customers of or vehicles managed by affiliates of certain of the broker-dealers with whom the Adviser effects transactions on behalf of the Funds. Additionally, from time to time the Adviser participates in capital introduction programs arranged by broker-dealers, including firms that serve as prime brokers to one or more of the Funds or recommend the Funds as an investment to the brokers' customers. The Adviser may place client portfolio transactions with firms who have made such recommendations or provided capital introduction opportunities, if the Adviser determines that it is otherwise consistent with seeking best execution. In no event will the Adviser select a broker-dealer as a means of remuneration for recommending the Adviser or any other product managed by the Adviser (or an affiliate) or affording the Adviser with the opportunity to participate in capital introduction programs.

The Adviser will select the specific broker with whom the Adviser will execute transactions on behalf of the Funds. The Adviser does not request or require that a Fund (or investor in a Fund) direct the Adviser to execute transactions through a specified broker-dealer. The Adviser does not permit a Fund (or investor in a Fund) to direct brokerage. For separate accounts or funds-of-one, the separate account owner or fund-of-one investor may require the Adviser to use a specific broker to effect transactions, and to the extent that the separate account owner or fund-of-one investor requires the Adviser to use a specific broker to effect transactions, such account may incur additional costs. Such costs may include

higher brokerage and commission rates, less favorable execution of transactions, and the potential of exclusion from certain transactions due to the inability of the particular broker-dealer in question to provide adequate execution of all types of transactions.

### Aggregation of Orders

When appropriate, the Adviser may, but is not required to, aggregate client orders to achieve more efficient execution or to provide for equitable treatment among accounts. The Adviser will generally follow the guidelines set forth below in aggregating client orders for securities, including any orders placed for private investment vehicles:

- no investment advisory client will be favored over any other investment advisory client;
- each client that participates in an aggregated order will participate at the average or same price for such individual order, as applicable;
- transaction costs will be shared pro rata based on each client's participation in the transaction;
- if an aggregated order is filled in its entirety, it will be allocated among clients in accordance with the allocation instruction(s) provided for such order and if an aggregated order is partially filled, the order will be allocated among clients pro rata to the original order, subject to any specific allocation instructions provided for such order, in each case pursuant to the policies and procedures described in Item 6;
- the Adviser's books and records will separately reflect the securities held by, and bought and sold for, each client account;
- the Adviser will not receive additional compensation or remuneration as a result of the aggregation of an order; and
- the Adviser will provide individual investment advice and treatment to each advisory client, in accordance with the investment management agreement and/or fund disclosure documents, as applicable to each advisory client.

Adjustments or changes may be made to the above guidelines under certain circumstances, such as to avoid odd lots, excessively small allocations or as a result of an instrument's minimum trading size.

See Item 6 in this Brochure regarding information on the Adviser's allocation policies.

### **Item 13: Review of Accounts**

Each Fund's investment portfolio is monitored or reviewed by the Adviser's portfolio managers each day on which markets are open for trading in New York, New York in connection with the Adviser's discretionary investment management of the Funds' investment portfolios. The Adviser's Operations team reviews and monitors on a daily, weekly and monthly basis the Funds' profit and loss calculations, net asset value calculations, risk guidelines and trade reconciliations performed by the Funds' administrators, among other items and reports.

Investors in the Funds typically receive unaudited monthly preliminary and final net asset value and performance statements as well as a summary of fund risk measurements from the Adviser or the Funds' administrators. Investors in the Funds also receive audited financial information annually. Such reports

may be delivered electronically to the investors in accordance with the Funds' subscription and other agreements.

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

The Adviser receives certain research or other products or services from broker-dealers. The receipt of such research, products or services creates an incentive for the Adviser to select or recommend broker-dealers based on the Adviser's interest in receiving the research, products or services and may result in the selection of a broker-dealer on the basis of considerations that are not limited to the lowest commission rates or may result in higher transaction costs than would otherwise be obtainable by the Adviser on behalf of its clients. See Item 12 in this Brochure for additional information regarding the Adviser's Brokerage Practices.

From time to time, the Adviser may compensate third parties for client referrals. The referral relationship will be outlined in a contract between the third party and the Adviser. Such referral activities will be conducted in accordance with Rule 206(4)-3 under the Advisers Act, as well as relevant SEC guidance. In general, third party solicitors may receive a portion of the fees otherwise payable to the Adviser. The Adviser has entered into such arrangements with respect to certain of the Funds. Additionally, the Adviser has entered into arrangements with third-parties who solicit or market investors for interests in the Adviser's commingled Funds.

#### **Item 15: Custody**

With respect to certain of the Funds, the Adviser and/or Metacapital Management, LLC are deemed to have custody of the Funds' funds and securities by virtue of their status as investment manager or general partner, respectively, of the Funds or their authorization to instruct such Funds' custodians to withdraw client funds or securities. To comply with Rule 206(4)-2 under the Advisers Act, the Adviser reasonably believes that all investors in the Funds for which the Adviser or its affiliate are deemed to have custody of client funds and securities will be provided with audited financial statements for such Funds within 120 days of the end of the respective Fund's fiscal year. Such investors should carefully review the audited financial statements of the Funds upon receipt.

#### **Item 16: Investment Discretion**

The Adviser provides investment advisory services on a discretionary basis to the Funds. Prior to assuming full discretion in managing a client's assets, the Adviser enters into an investment management agreement or other agreement that sets forth the scope of the Adviser's discretion. The Adviser has the full authority to determine the type, amount and timing of the securities, instruments and investments to be purchased and sold for the Funds (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines). Because of the differences in client investment objectives and strategies, risk tolerances, tax status and other criteria, there may be differences among clients in invested positions and securities held.

The Adviser may provide certain clients or investors in a Fund with the opportunity to co-invest in certain investments to which the Adviser has access. Participation in such opportunities may be limited to a select number of clients or investors based on the Adviser's consideration of factors, including but not limited to: (i) whether the potential co-investor has expressed an interest in participating in co-investment opportunities; (ii) the Adviser's evaluation of the potential co-investor's size and financial resources; (iii) the ability of the potential co-investor to expeditiously participate in the investment opportunity without harming or otherwise prejudicing the other clients participating; (iv) the Adviser's perception of whether the investment opportunity may subject the potential co-investor to legal, regulatory or other burdens

that make it less likely that the potential co-investor would accept the investment opportunity; (v) whether the Adviser believes that allocating the investment opportunity to a potential co-investor will help establish, recognize or strengthen the Adviser's relationship with the potential co-investor or provide indirect, longer-term benefits to current or future clients or to the Adviser; (vi) confidentiality concerns that may arise in connection with providing the potential co-investor with specific information regarding the investment opportunity; and (vii) other factors deemed relevant by the Adviser. Co-investment opportunities may not be available to all of the Adviser's clients or investors.

As stated in Item 4, the Adviser provides advice to the Funds based on the specific investment objectives and strategies of each Fund and the Adviser does not tailor advisory services to the individual needs of investors in the Funds. Individual investors in the Funds do not have the ability to impose limitations on the Adviser's authority. Prospective investors should carefully review the Funds' offering documents to ensure that they understand the Funds' structure and operations and the Adviser's authority with respect to the Funds.

If it appears that a trade error has occurred, the Adviser will review the relevant facts and circumstances to determine an appropriate course of action. Trading errors in an advisory account that are caused by the Adviser will be corrected, to the extent the error can be corrected, so as not to harm any client. The Adviser has discretion to resolve a particular error in any manner that it deems appropriate and consistent with the above stated policy. Losses from trade errors that do not result from the Adviser's gross negligence, willful misconduct or violation of the standard of care applicable to the client account are borne by the client account or as otherwise provided in the applicable client documentation. The Adviser is not responsible for the errors of other persons, including third party brokers and custodians, unless otherwise expressly agreed to by the Adviser.

#### **Item 17: Voting Client Securities**

In managing the Funds, the Adviser's investment strategies focus primarily on fixed income securities and derivative instruments and not equity securities with voting rights. Therefore, the Adviser does not receive a significant amount of proxies relating to the securities owned by the Funds. To the extent the Funds receive proxies, investors in the Funds cannot direct votes on behalf of the Funds.

To the extent the Adviser has been delegated proxy voting authority on behalf of a Fund, the Adviser complies with its proxy voting policies and procedures that are designed to ensure that in cases where the Adviser votes proxies with respect to Fund securities, such proxies are voted in the best interests of the Funds. The Adviser believes that voting proxies in accordance with the following guidelines is in the best interests of the Funds. Generally, the Adviser will vote in favor of routine corporate housekeeping proposals, including election of directors (where no corporate governance issues are implicated), selection of auditors, and increases in or reclassification of common stock. The Adviser will generally vote against proposals that make it more difficult to replace members of a board of directors. For all other proposals, the Adviser will determine whether a proposal is in the best interests of the Funds and may take into account the following factors, among others: (i) whether the proposal was recommended by management and the Adviser's opinion of management; (ii) whether the proposal acts to entrench existing management; and (iii) whether the proposal fairly compensates management for past and future performance. The Adviser will abstain from voting or affirmatively decide not to vote if the Adviser determines that abstention or not voting is in the best interests of the Funds. In making this determination, the Adviser will consider various factors, including, but not limited to, (i) the costs associated with exercising the proxy (e.g., translation or travel costs) and (ii) any legal restrictions on trading resulting from the exercise of a proxy.

To the extent that the Funds receive proxies, the Chief Compliance Officer will identify any conflicts that exist between the interests of the Adviser and the Funds. This examination will include a review of the relationship of the Adviser and its affiliates with the issuer of each security and any of the issuer's affiliates to determine if the issuer is a client of the Adviser or an affiliate of the Adviser or has some other relationship with the Adviser or a client of the Adviser. If a material conflict exists, the Adviser will determine whether voting in accordance with the voting guidelines and factors described above is in the best interests of the Fund.

Clients may contact the Chief Compliance Officer, Daniel Caffarelli, via e-mail at [dcaffarelli@metacapital.com](mailto:dcaffarelli@metacapital.com) or telephone at (212) 300-0500, in order to obtain information on how the Adviser voted such client's proxies, and to request a copy of these policies and procedures.

#### **Item 18: Financial Information**

This Item is not applicable.