

Snowcat Capital Management LP

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

Snowcat is a Registered Investment Adviser with the SEC. Registration as an investment adviser does not imply that Snowcat or any of its principals or employees possesses a particular level of skill or training in the investment advisory business or any other business.

Additional information about Snowcat is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2: Material Changes

This Brochure is Snowcat's update to its 120-day registration filing with the SEC. Since that filing, the Firm has begun to manage regulatory assets and those assets have been added to the brochure.

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Item 4: Advisory Business

Snowcat (hereinafter “**Snowcat**”, “**we**”, “**us**”, “**our**” or the “**Firm**”) is organized as a Delaware limited partnership with a principal place of business New York, New York.

Snowcat will provide discretionary investment management services to qualified investors through its private funds: Snowcat Fund International LP; Snowcat Fund LP; and Snowcat Master LP.

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

Following registration with the SEC, Snowcat manages the following private, pooled investment vehicles:

- Snowcat Fund International LP, a Cayman Islands exempted company (the “**Offshore Fund**”);
- Snowcat Fund LP, a Delaware limited partnership (the “**Onshore Fund**”); and
- Snowcat Master LP, a Cayman Islands exempted limited partnership (the “**Master Fund**”).

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

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

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

We do not currently participate in any Wrap Fee Programs.

The Firm has regulatory assets under management of \$106,000,000 as of September 2019, all managed on a discretionary basis.

Item 5: Fees and Compensation

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

Management Fee

Snowcat is paid an investment management fee (“**Management Fee**”) per annum of the net asset value of the Funds.

The Fee will range from 1.25% to 1.50%.

The Investment Manager, in its sole discretion, may waive or modify the Management Fee for any Investor.

Other Types of Fees or Expenses

In consideration of the Management Fee, Snowcat will provide office space and utilities; administrative services; and secretarial, clerical and other personnel to the Funds and the Master Fund. Snowcat will bear the costs of providing such goods and services, and all of its own overhead costs and expenses, except to the extent such goods, services, costs and expenses are: (i) provided for through soft dollars generated by the Master Fund, or (ii) are Funds (or Master Fund) expenses as provided below.

Snowcat will bear its own expenses and its pro rata share of the Master Fund's expenses, including, without limitation, the Management Fee; transaction-related expenses (which include all transaction-based expenses incurred in executing investments including brokerage commissions, expenses relating to short sales, clearing and settlement charges, expenses associated with consummating bank debt trades, dealer spreads, custodial fees, bank service fees, interest expenses and legal expenses associated with any potential transaction); investment-related travel expenses (which are travel expenses related to the purchase, sale or transmittal of, or due diligence regarding, the Master Fund's investments, whether or not such investments are consummated, incurred by the Investment Manager or the General Partner); professional fees (including, without limitation, expenses of consultants, investment bankers, attorneys, accountants and other experts and third party liquidation service specialists) relating to investments; fees and expenses relating to software tools (including Bloomberg), programs or other technology utilized in managing the Fund and Master Fund (including, without limitation, third-party software licensing, implementation, data management and recovery services, custom development costs and all costs and expenses of any order management systems utilized by the Investment Manager to manage the Fund and the Master Fund); expert networks; research and market data (including any computer hardware and connectivity hardware (e.g., telephone and fiber optic lines) incorporated into the cost of obtaining such research and market data); administrative expenses (including fees and expenses of the Administrator and the sub-administrator, if any); cybersecurity consultant fees and cybersecurity insurance; trade claim database; legal expenses in connection with the Fund's and the Master Fund's ongoing operations (including the updating of the Fund's offering documents, processing transfer requests, negotiations with prospective investors and extraordinary legal expenses, such as those related to litigation or regulatory investigations or proceedings); external accounting and valuation expenses (including pricing services and the cost of accounting software packages); audit and tax preparation and filing expenses; costs related to errors and omissions insurance and directors and officers insurance for the General Partner and the Investment Manager and their respective affiliates, the Board of Directors and the Governance Board and any AML officers; fees and expenses of the Board of Directors and the Governance Board; costs of printing and mailing offering materials, reports and notices; Investor-Related Taxes; corporate licensing; compliance and regulatory expenses of the Fund and Master Fund and the Investment Manager (including, without limitation, legal fees, filing fees and costs associated with FATCA compliance and any filings made by the Investment Manager relating to the Fund or the Master Fund, e.g., Form PF/Annex IV); AML officer fees and expenses; organizational expenses; expenses incurred in connection with the offering and sale of the Shares (including, without limitation, legal fees, registration and other filing fees and side letter negotiations, but excluding travel expenses) and other similar expenses related to the Fund and the Master Fund (other than any fees payable to any placement agent, which will be paid by the Investment Manager either directly or indirectly by reducing the

Management Fees owed to the Investment Manager); indemnification expenses; and extraordinary expenses.

Fund expenses will generally be borne on a pro-rata basis by all of the sub-series of Shares of the Shareholders; provided that certain Fund expenses incurred on behalf of or for the benefit of a particular Shareholder or Shareholders (including expenses associated with the redemptions of Shareholders, the Management Fee, expenses relating specifically to a Special Investment, a Co-Investment or a Special Co-Investment and any expenses which the Board of Directors determines, in its sole discretion, should be allocated to a particular Shareholder or Shareholders), may be charged only to the Shares of such Shareholders, as determined by the Board of Directors, in its sole discretion. To the extent that expenses to be borne by the Fund or the Master Fund are paid by the General Partner or the Investment Manager, the Fund or the Master Fund will reimburse such party for such expenses.

Investment expenses relating specifically to a Special Investment, a Co-Investment or a Special Co-Investment will be borne only by the Shareholders participating in such Special Investment, Co-Investment or Special Co-Investment, pro rata in accordance with their interests therein. If any of the expenses listed above are incurred jointly for the account of the Fund (or the Master Fund) as well as for any Other Accounts (as defined herein), such expenses will be allocated among the Fund (or the Master Fund) and such Other Accounts in proportion to the size of the investment made by each to which such expense relates, or in such other manner as the Board of Directors considers fair and equitable.

The Investment Manager may pay or advance to the Fund (and the Master Fund) funds to pay for the Fund's (and the Master Fund's) organizational expenses and expenses incurred in connection with the initial offering and sale of the Shares and other similar expenses related to the Fund (and the Master Fund). The Investment Manager is entitled to reimbursement from the Fund (or the Master Fund, as applicable) of all such funds.

Certain of the Fund's organizational and initial offering expenses may, for accounting purposes, be amortized by the Fund for up to a 60-month period. Amortization of such expenses over a period that is up to 60 months may be a divergence from the U.S. generally accepted accounting principles ("GAAP"), which can, in certain circumstances, result in a qualification of the Fund's annual audited financial statements, which are performed in accordance with GAAP. In such instances, the Investment Manager may decide to (i) avoid the qualification by recognizing the unamortized expenses or (ii) make GAAP-conforming changes for financial reporting purposes but amortize expenses for purposes of calculating the Fund's net asset value. There will be a divergence in the Fund's fiscal year-end net asset value and in the net asset value reported in the Fund's financial statements in any year where, pursuant to clause (ii), GAAP-conforming changes are made only to the Fund's financial statements for financial reporting purposes. If the Fund amortizes its expenses but terminates before such expenses are fully amortized or elects in its sole discretion to accelerate such amortization, the unamortized portion of the organizational expenses will be debited against the Fund's assets at that time. If a Shareholder redeems all or a portion of its Shares prior to the end of the 60-month period during which the Fund is amortizing expenses, the Fund may, but is not required to, accelerate a proportionate share of the unamortized expenses based upon the amount being redeemed and reduce redemption proceeds by the amount of such accelerated expenses.

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

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

We and our affiliates are entitled to a performance-based compensation. As a result, we and our affiliates do not face certain conflicts of interest that may arise when an investment adviser accepts performance-based fees from some clients, but not from other clients.

Performance-based allocation arrangements may create an incentive for us to recommend investments which may be riskier or more speculative than those which we would recommend under a different arrangement.

Item 7: Types of Clients

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

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

The descriptions set forth in this Brochure of specific advisory services that we offer to Clients, and investment strategies pursued, and investments made by us on behalf of our Clients, should not be understood to limit in any way our investment activities. We may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that we consider appropriate, subject to each Client's investment objectives and guidelines as set forth in the Offering Documents. The investment strategies we pursue are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any Client will be achieved.

Investment Objective

The Firm's objective is to preserve capital and provide superior long-term risk adjusted returns by investing opportunistically in credit and other event driven instruments that have a favorable risk/reward profile. The Firm will invest across a broad array of industries and strategies, across the capital structure of companies. There can be no assurance that the Firm will achieve its objective or avoid significant losses.

The Firm's primary investment focus is to invest in, or otherwise achieve exposure to, investment instruments of corporations that are undergoing stress, distress, or are subject to certain changes which, in the Investment Manager's view, cause a mispricing of those investment instruments. The Firm's investment approach will typically be long biased and seek to opportunistically invest in assets that the Investment Manager believes are undervalued relative to its analysis of a given situation's intrinsic value. This involves an approach to fundamental research that starts with industry thematic analysis and proceeds with detailed company-specific work. The Investment Manager is not, however, restricted in its use of short sales for investment, leveraging or hedging purposes. The Fund invests all its investable assets in the Master Fund.

Risk Management

The Investment Manager's approach to risk management is two-pronged with a focus on both position level risk and portfolio risk:

At the position level, risk management is incorporated throughout the investment process. The most important risk to consider is permanent loss of capital. To attempt to avoid this, the Investment Manager will perform downside analysis and seek to make investments that have limited downside when wrong. When underwriting an investment on behalf of the Master Fund, the Investment Manager will consider various risk scenarios and will stress test those scenarios, and will hedge identifiable commodity risks, if applicable. The Investment Manager does not define risk as the daily or monthly mark-to-market volatility of an investment and will only seek to avoid and hedge impairments to intrinsic value. Position sizing will be determined by expected downside if wrong and then adjusted for amount of upside asymmetry, conviction level, catalyst profile, market technicals and overall liquidity conditions. As part of the process, the Investment Manager will discuss and document thesis breakers up-front to help avoid any behavioral influences and biases when and if those events unfold.

At the portfolio level, risk management starts with portfolio construction and asset allocation. The Investment Manager will determine the appropriate allocation to various investment strategies for the Master Fund including, but not limited to, performing credit, stressed credit, distressed credit, trade and other claims, post reorganization equity and credit, distressed sovereign credit, distressed muni credit, and distressed structured credit depending on the market environment. Other risk exposures like industry concentration, commodity exposure, interest rates, political or binary outcomes will also be considered. The Investment Manager will attempt to monitor the Master Fund's investments so that the exposures are an intentional part of the investment thesis and not an unintended aggregation of unwanted risk. The Investment Manager believes that managing risk at the portfolio level goes beyond the level of diversification and understanding of various exposures, but also includes analyzing how positions are correlated to each other and to broader market moves or macroeconomic trends. Understanding this correlation is a critical input into the portfolio's risk/return profile. The Investment Manager expects to regularly perform scenario analysis and stress test the portfolio.

The Investment Manager will actively monitor the Master Fund's long-to-short position ratio, industry and company concentration, cash/credit default swap ("CDS") basis risk, portfolio liquidity by individual position and risk bucket, interest rate exposure and foreign exchange exposure. The Master Fund seeks to hedge currency and interest rate risk exposure, where believed appropriate. The primary risk metric is an estimation of potential downside for each investment. For long performing credit investments, extreme downside is estimated using a jump-to-default scenario that estimates the potential loss incurred if the performing issuer defaults on its obligations. For short performing credit investments, the potential loss is estimated using an extreme spread tightening scenario. For non-performing investments, downside is estimated using a worst-case scenario for an issuer's liabilities and asset value, usually as part of a restructuring process. The Investment Manager will consider the maximum loss that it believes can result from each position and seeks to keep total portfolio exposure within acceptable levels. The Investment Manager will analyze both upside and downside scenarios doing a full revaluation of the portfolio to credit spread widening and tightening, high-yield index beta adjusted scenarios and S&P scenarios.

Portfolio risk will be reviewed daily by Ms. Pacholder in conjunction with the rest of the investment team, and quarterly, by a formal risk management committee which may be a subset of a larger agenda of the operational committee. Research analysts will also participate in quarterly portfolio reviews with Ms. Pacholder where each position is discussed with a rebuttable presumption of selling/covering.

Risk of Loss Factors

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

An investment involves significant risks and is suitable only for those persons who can bear the economic risk of the loss of their entire investment, who have limited need for liquidity in their investment, and who have met the conditions set forth in the Offering Documents. There can be no assurances that we will achieve our investment objectives. An investment carries with it the inherent risks associated with investments in publicly-traded stocks and bonds, options, and related instruments, including, without limitation, the risks described below. Each prospective investor should carefully review the Offering Documents and the documents referred to herein before deciding to invest with Snowcat Capital Management LP.

Risks Relating to Private Investment Funds Generally

Regulatory Changes for Hedge Funds. The legal, tax and regulatory environment worldwide for private investment funds (such as the Fund and the Master Fund) and their managers is evolving, and changes in the regulation of private investment funds, their managers and their trading and investing activities may have a material adverse effect on the ability of the Fund to pursue its investment program and the value of investments held by the Master Fund. There has been an increase in scrutiny of the alternative investment industry by governmental agencies and self-regulatory organizations. New laws and regulations or actions taken by regulators that restrict the ability of the Fund to pursue its investment program or conduct business with brokers and other counterparties could have a material adverse effect on the Fund and the Master Fund, the Fund and the investors' investments therein. Such laws and regulations may also materially increase the costs of operating the Fund and the Master Fund and the costs of executing and financing certain strategies utilized by the Master Fund, which costs are borne by the Fund. In addition, the Investment Manager may, in its sole discretion, cause the Fund or the Master Fund to be subject to certain laws and regulations if it believes that an investment or business activity is in the Fund's or the Master Fund's interest, even if such laws and regulations may have a detrimental effect on one or more Shareholders.

Dodd-Frank Act. The U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was enacted in July 2010. The Dodd-Frank Act has resulted in extensive rulemaking and regulatory changes that affect private fund managers, the funds that they manage and the financial industry as a whole. Additionally, under the Dodd-Frank Act, the SEC and the CFTC have mandated new recordkeeping, reporting, central clearing and mandatory trading on electronic facilities requirements for investment advisers, which add costs to the legal, operational and compliance obligations of the Investment Manager, the Fund and the Master Fund and increase the amount of time that the Investment Manager spends on non-investment-related activities. The Dodd-Frank Act affects a broad range of market participants with whom the Fund and the Master Fund may interact, including banks, non-bank financial institutions, rating agencies, mortgage brokers, credit unions, insurance

companies, payday lenders and broker-dealers and may change the way in which the Investment Manager conducts business with its brokers and other counterparties.

Impact of the AIFM Directive. The EU Directive 2011/61/EU on Alternative Investment Fund Managers (the “AIFM Directive”) has been implemented into the national law of the majority of member states of the EEA and is likely to be implemented in remaining EEA member states in the near term. The AIFM Directive sets out minimum conditions related to the marketing of interests in alternative investment funds (such as the Shares) in member states of the EEA. These conditions include requirements to register the Fund as being marketed in the relevant EEA member state, requirements to file periodic reports with the competent authority in the relevant EEA member state and requirements to comply with disclosure and reporting requirements in respect of investors in the relevant EEA member state. The AIFM Directive does not, however, prohibit an investor in a relevant EEA member state subscribing for Shares at their own initiative in circumstances where such Shares have not been marketed in such member state and the Fund may issue Shares to such investors. Investors should note that the Fund has not been registered as being marketed in any EEA member state and that the sale of Shares of the Fund will only be made to an investor based on such investor’s own initiative. Accordingly, no reports will be filed with the competent authority in any EEA member state by, or in respect of, the Fund and no investor shall be entitled to receive any disclosure or report that is mandated in respect of an alternative investment fund being marketed in any EEA member state.

Regulation in the Derivatives Industry. The Dodd-Frank Act has had a significant impact on the derivatives industry. The Dodd-Frank Act divides the regulatory responsibility for derivatives in the United States between the SEC and the CFTC, a distinction that does not exist in any other jurisdiction. The CFTC has regulatory authority over “swaps” and the SEC has regulatory authority over “security-based swaps”. As a result of this bifurcation and the different pace at which the agencies have promulgated necessary regulations, different transactions are subject to different levels of regulation in the U.S. In addition, there has been and will be extensive rulemaking related to derivative products by non-U.S. regulatory authorities. Differences between regulatory regimes may make it more difficult or costly for dealers, prime brokers, futures commission merchants (“FCMs”), custodians, exchanges, clearinghouses and other entities, such as the Master Fund and the Fund, to comply with and follow various regulatory regimes. There are significant legal, operational, technological and trading implications that result from the Dodd-Frank Act and related rules and regulations that may make it difficult or impossible for the Master Fund to enter into otherwise beneficial transactions.

Systemic Risk. Credit risk may arise through a default by or because of one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by or because of one institution may cause a Series of defaults by the other institutions. This is sometimes referred to as a “systemic risk” and may adversely affect financial intermediaries, such as clearing houses, banks, securities firms and exchanges with which the Master Fund interacts. A systemic failure could have material adverse consequences on the Master Fund and on the markets for the securities in which the Master Fund seeks to invest.

Assumption of Business, Terrorism and Catastrophe Risks. The Master Fund may be subject to the risk of loss arising from exposure that it may incur, indirectly, due to the occurrence of various events, including, without limitation, hurricanes, earthquakes, and other natural disasters, terrorism and other catastrophic events. These risks of loss can be substantial and could have a material adverse effect on the Fund and the Master Fund and the Shareholders’ investment in the Fund.

Cyber Security Breaches and Identity Theft. With the increased use of technologies such as the Internet and the dependence on computer systems to perform business and operational functions, portfolios (such as the Fund and the Master Fund) and their service providers may be prone to operational and information security risks resulting from cyber-attacks and/or technological malfunctions. In general, cyber-attacks are deliberate, but unintentional events may have similar effects. Cyber-attacks include, among others, stealing or corrupting data maintained online or digitally, preventing legitimate users from accessing information or services on a website, releasing confidential information without authorization, and causing operational disruption. Successful cyber-attacks against, or security breakdowns of, the Fund, the Master Fund, the Investment Manager, the General Partner or a custodian, or other affiliated or third-party service provider may adversely affect the Fund, the Master Fund or the Shareholders. For instance, cyber-attacks may interfere with the processing of transactions, affect the Fund's and the Master Fund's ability to calculate net asset value, cause the release of private Shareholder information or confidential Fund (and Master Fund) information, impede trading, cause reputational damage, and subject the Fund (and/or the Master Fund) to regulatory fines, penalties or financial losses, reimbursement or other compensation costs, and additional compliance costs. Cyber-attacks may render records of Fund and Master Fund assets and transactions, ownership of the Shares, and other data integral to the functioning of the Fund and the Master Fund inaccessible or inaccurate or incomplete. Each of the Fund and the Master Fund may also incur substantial costs for cyber security risk management in order to prevent cyber incidents in the future. The Fund, the Master Fund and the Shareholders could be negatively impacted as a result. While the Investment Manager has established business continuity plans and systems designed to minimize the risk of cyber-attacks through the use of technology, processes and controls, there are inherent limitations in such plans and systems, including the possibility that certain risks have not been identified given the evolving nature of this threat. Each of the Fund and the Master Fund relies on third-party service providers for many of its day-to-day operations, and will be subject to the risk that the protections and protocols implemented by those service providers will be ineffective to protect the Fund and the Master Fund from cyber-attack.

Central Clearing. In order to mitigate counterparty risk and systemic risk in general, various U.S. and international regulatory initiatives are underway to require certain derivatives to be cleared through a clearinghouse. In the United States, clearing requirements were part of the Dodd-Frank Act. The CFTC imposed its first clearing mandate on December 13, 2012, affecting certain interest rate and credit default swaps. It is expected that the CFTC and the SEC will introduce clearing requirements for other derivatives in the future. Trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearinghouse, the FCM, as well as possible SEC or CFTC mandated margin requirements. Clearing through FCMs has in certain cases led to losses caused by operational failure or fraud. As products become more standardized in order to be cleared, standardized derivatives may mean that the Master Fund may not be able to hedge its risks or express an investment view as well as it would using customizable derivatives available in the OTC markets. Compared to the OTC derivatives market, the Master Fund may be subject to more onerous and more frequent (daily or even intraday) margin calls from both the clearinghouse and the FCM. In addition, clearinghouse margin is dynamic and may be increased in times of market stress. Although standardized clearing for derivatives is intended to reduce risk (for instance, it may reduce the counterparty risk to the dealers to which the Master Fund would be exposed under OTC derivatives), it does not eliminate risk. Rather, standardized clearing transfers risk of default from the OTC derivatives dealer to the central clearinghouse, which may increase systemic risk, potentially more so than a failure by an OTC derivatives

counterparty. The failure of a clearinghouse, although less likely than the failure of a counterparty, could have a much more significant impact on the financial system. Because these clearinghouses are still developing and the related bankruptcy process is untested, it is difficult to speculate what the actual risks would be to the Master Fund related to the default of a clearinghouse. Also, a clearinghouse will likely require that the Master Fund relinquish control of its transactions if the clearinghouse were to become insolvent, and, therefore, the Master Fund would not be able to terminate and close out of a defaulting clearinghouse's positions, but would become subject to regulators' control over those positions. In such a circumstance, the Master Fund may not be able to take actions that it deems appropriate to lessen the impact of such clearinghouse's default. Applicable regulations may also require the Master Fund to make public information regarding its swaps volume, position size and/or trades, which could detrimentally impact the Master Fund's ability to achieve its investment objectives.

Risks Relating to Management

Lack of Operating History. The Fund, the Onshore Fund, the Master Fund, the General Partner and the Investment Manager are each newly formed entities and have no operating history upon which prospective Shareholders can evaluate their anticipated performance. The Principal has been using strategies similar to the strategies described herein in the past. However, there can be no assurance that the Master Fund will achieve results comparable to those that the investment professionals, including the Principal, have achieved in the past.

Dependence on the Investment Manager, the General Partner and Certain Personnel. The success of the Fund is dependent upon the ability of the Investment Manager to manage the Fund and effectively implement the Master Fund's investment program. The Fund's governing documents do not permit the Shareholders to participate in the management and affairs of the Fund. If the Fund were to incur substantial losses or were subject to an unusually high level of redemptions, the revenues of the Investment Manager may decline substantially. Such losses and/or redemptions may impair the Investment Manager's ability to retain employees, provide the same level of service to the Fund and continue operations. The loss of the services of the Investment Manager or the General Partner or their key personnel could have a material adverse effect on the Fund and the Shareholders' investments therein.

Dependence on Service Providers. The Fund and the Master Fund are dependent upon counterparties and the service providers disclosed in this Memorandum, including the General Partner, the Investment Manager and their respective affiliates, the Administrator, the Sub-Administrator, Legal Counsel (each, as defined below), the auditor, prime brokers, custodians and other service providers utilized by the Fund, the Master Fund and/or their respective affiliates from time to time (the "Service Providers"). Errors are inherent in the operations of any business, and although the Investment Manager will adopt measures to prevent and detect errors by, and misconduct of, counterparties and Service Providers, and transact with counterparties and Service Providers they believe to be reliable, such measures may not be effective in all cases. Errors or misconduct could have a material adverse effect on the Fund and the Shareholders' investments therein.

As the Fund and the Master Fund have no employees, the Fund and the Master Fund are reliant on the performance of the Service Providers and accordingly, any business interruptions or errors caused by such Service Providers could have an adverse effect on the Fund. Each Shareholder's relationship in respect of its Shares is with the Fund only. Accordingly, absent a direct contractual relationship between the Shareholder and the relevant Service Provider, no Shareholder will have any contractual claim against any Service Provider for any reason related to its services to the Fund or the Master Fund. Instead, the

proper plaintiff in an action in respect of which a wrongdoing is alleged to have been committed against the Fund by the relevant Service Provider is, prima facie, the Fund.

Retention and Motivation of Key Employees. The success of the Fund is dependent upon the talents and efforts of highly skilled individuals employed by the Investment Manager and the Investment Manager's ability to identify and willingness to provide acceptable compensation to attract, retain and motivate talented investment professionals and other employees.

There can be no assurance that the Investment Manager's investment professionals will continue to be associated with the Investment Manager throughout the life of the Fund, and the failure to attract or retain such investment professionals could have a material adverse effect on the Fund and the Shareholders' investments therein. Competition in the financial services industry for qualified employees is intense and there is no guarantee that, if lost, the talents of the Investment Manager's investment professionals could be replaced.

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

Increased Regulatory Oversight. Increased regulation and regulatory oversight of private investment funds and their managers may impose administrative burdens on the Investment Manager, including, without limitation, responding to examinations and other regulatory inquiries and implementing policies and procedures. Such administrative burdens may divert the Investment Manager's time, attention and resources from portfolio management activities. Such regulatory inquiries are generally confidential in nature, may involve a review of an individual's or a firm's activities or may involve studies of the industry or industry practices, as well as the practices of a particular institution.

Securities Law Compliance Risks. The domestic and foreign laws and regulations governing trading in the securities markets (and governing investing in other kinds of markets) are often complex and difficult to implement and monitor (and may be even more difficult to implement and monitor in light of the speed with which certain regulatory changes have been implemented in certain jurisdictions), especially in the context of a fund structured like the Fund and the Master Fund, and are subject to re-interpretation (or different interpretations from those applied by the Fund or the Master Fund in light of information currently available to the Investment Manager), which could expose the Fund, the Master Fund, the Investment Manager and their respective affiliates to liability.

Risks Relating to the Structure of the Fund and the Master Fund

Fees and Expenses. The fees and expenses of the Fund (through its investment in the Master Fund) may be significant. The Fund must generate sufficient income (through its investment in the Master Fund) to offset such fees and expenses to avoid a decrease in the net asset value of the Fund.

Absence of Regulatory Oversight. Generally, the Fund, the Master Fund and the Shares are not expected to be registered under the securities laws of the United States. In particular, neither the Fund nor the Master Fund be registered as an investment company under the Company Act, and, therefore, neither will be required to adhere to the restrictions and requirements under the Company Act. Accordingly, the provisions of the Company Act (which, among other things, require investment companies to have a majority of disinterested directors, require securities to be held in custody by a bank or broker in accordance with rules requiring the segregation of securities, prohibit the investment companies from engaging in certain transactions with its affiliates and regulate the relationship between advisers and investment companies) are not applicable.

The Fund and the Master Fund are or will be registered under the Mutual Funds Law (as defined below). Registration under the Mutual Funds Law does not involve a detailed examination of the merits of the Fund or the Master Fund or supervision of the investment activities or constitution of the investment portfolio of the Master Fund by the Cayman Islands government or the Cayman Islands Monetary Authority (the “Monetary Authority”). There is no financial obligation or compensation scheme imposed on or by the government of the Cayman Islands in favor of or available to the investors in the Fund.

Payment of Redemption Proceeds to Shareholders Based on Unaudited Data. The calculation and payment of a Shareholder’s redemption proceeds may be based on estimated and unaudited data. Accordingly, adjustments and revisions may be made to the Fund’s net asset value following the year-end audit of the Fund. Once paid, no revision to a Shareholder’s redemption proceeds will be made based upon audit adjustments (unless such adjustments or revisions can be corrected using holdback amounts taken in connection with a redemption of 95% or more of a sub-series of Shares). Thus, the Fund will not seek reimbursement in the event of any overpayment and will not pay additional amounts in the event of an underpayment. As a result, a redeeming Shareholder may be positively or negatively affected by a revision to the Fund’s net asset value. To the extent that such revisions to net asset value decrease the net asset value of the Fund, the outstanding Shares will be adversely affected by redemptions. Conversely, any increases in the net asset value of the Fund resulting from such adjustments will be entirely for the benefit of the outstanding Shares.

Effect of Substantial Redemptions. Substantial redemptions could be triggered by a number of events, including, without limitation, unsatisfactory performance, events in the markets, a significant change in personnel or management of the Investment Manager, legal or regulatory issues that investors perceive to have a bearing on the Fund, the Master Fund and/or the Investment Manager, or other events. Actions taken to meet substantial redemption requests from the Fund (as well as similar actions taken simultaneously by the Seed Investors as well as the investors of the Onshore Fund) could result in the Master Fund altering its investments at other than optimal times, prices of securities held by the Master Fund decreasing and in Master Fund expenses increasing (e.g., transaction costs and the costs of terminating agreements) and forced covering/sales to ensure proper margin ratios. The overall value of the Master Fund also may decrease because the liquidation value of certain assets may be materially less than their cost or mark-to-market value. The Master Fund may be forced to sell its more liquid positions, which may cause an imbalance in the portfolio that could have a material adverse effect on the remaining limited partners of the Master Fund (including, the Fund and the Onshore Fund) and, consequently, the Shareholders. Substantial redemptions from the Fund and the Onshore Fund could also significantly restrict the Master Fund’s ability to obtain financing or transact with derivatives counterparties needed for its investment strategies, which would have a further material adverse effect on the Fund’s performance. The Fund and the Investment Manager generally do not intend to disclose to

Shareholders the amount of pending redemptions or redemption requests and are under no obligation to make any such disclosure.

Where a redemption request is accepted, the Shares will be treated as having been redeemed with effect from the relevant Redemption Date irrespective of whether or not such redeeming Shareholder has been removed from the Fund's register of Shareholders or the redemption proceeds have been determined or remitted. Accordingly, on and from the relevant Redemption Date, Shareholders in their capacity as such will not be entitled to or be capable of exercising any rights arising under the Articles of Association with respect to Shares being redeemed save the right to receive the redemption proceeds and any dividend which has been declared prior to the relevant Redemption Date but not yet paid (in each case with respect to the Shares being redeemed). Such redeemed Shareholders will be creditors of the Fund with respect to the amount of the redemption. In an insolvent liquidation, redeemed Shareholders will rank behind ordinary creditors but ahead of Shareholders.

The Seed Investors. As described in "Summary of Terms—Seed Investors," the Seed Investors and their affiliates will have access to certain information that may not be available to other Shareholders and they may be able to act on such information (*e.g.*, withdraw their investments or subscribe for additional interests), which may result in certain risks to Shareholders, as described in "Access to Information and Effect on Redemptions" below.

Due to the size of the Seed Investors' aggregate investments in the Master Fund, the Fund may be materially adversely affected by withdrawals by any Seed Investor from the Master Fund. See "Effect of Substantial Redemptions" above. Except in the event of a Seed Investor exercising its special withdrawal rights, Shareholders generally will not be notified of a withdrawal by a Seed Investor, and, therefore, will not be able to redeem in advance of, or contemporaneously with, such withdrawal.

Amendments. Pursuant to the terms of the Articles of Association, the Share Rights (as defined below) applicable to any Series of Shares may be amended in a materially adverse way with the consent of the holders of not less than two-thirds of the net asset value of such Shares as set forth below. Accordingly, provided the requisite consent is obtained, the redemption rights of any Shareholder as described herein are subject to change at any time. Redemption rights that may be affected include, without limitation, the notice period for redemptions, the frequency of redemptions and the time and mechanism that the Fund may use to pay redemption proceeds. The amendment of the redemption rights of all Shareholders could adversely affect the net asset value of a sub-series of Shares of a non-consenting Shareholder if the value of the Fund's investments (through the Master Fund) depreciate following the time such Shareholder would have redeemed Shares from such sub-series, but was prevented from doing so by the new, more restrictive redemption rights.

Limited Liquidity. An investment in the Fund has limited liquidity because Shareholders will generally have only limited rights to redeem Shares A Shares, Series B Shares and Series E Shares from the Fund (including, being subject to the 25% Gate), and no rights to redeem any Series C Shares or Series CS Shares. Additionally, Shareholders will generally have only limited rights to transfer their Shares, and the Fund has the right to suspend redemptions, as described herein. Because of the restrictions on redemptions and transfers, an investment in the Fund is a relatively illiquid investment and involves a high degree of risk. Additionally, the Shareholders may not redeem their Series S Shares until such Special Investment is realized or the Investment Manager determines that such Special Investment should no longer be designated as such. Shareholders must be prepared to bear the financial risks of an investment in the Fund for an indefinite period of time. Only by persons financially able to maintain their

investment and who can accept a loss of all of their investment should consider becoming Shareholders.

Access to Information and Effect on Redemptions. In response to questions and requests and in connection with due diligence meetings and other communications, the Funds and the Investment Manager may provide, and will provide, with respect to the Seed Investors, additional information to certain Shareholders and prospective Shareholders that is not distributed to other Shareholders and prospective Shareholders. Such information may affect (i) a prospective Shareholder's decision to invest in the Fund, and (ii) Shareholders' (which may include personnel and affiliates of the Investment Manager) decision to redeem their Shares, potentially at higher values than other Shareholders. Any such redemptions may result in reduced liquidity for other Shareholders and, in order to meet larger or more frequent redemptions, the Fund (and the Master Fund) may need to maintain a greater amount of cash and cash-equivalent investments than it would otherwise maintain, which may reduce the overall performance of the Fund (and the Master Fund). Each Shareholder is responsible for asking such questions as it believes are necessary in order to make its own investment decisions, must decide for itself whether the limited information provided by the Investment Manager, the General Partner and the Fund is sufficient for its needs and must accept the foregoing risks.

Governmental Entity Investors. Governmental entities, including, but not limited to, pension plans maintained by governmental agencies and instrumentalities, may invest in the Fund. Investment in the Fund by certain governmental entities may subject the Fund and/or the Investment Manager or its affiliates to increased regulatory burdens and public disclosures about the Fund, its investors and its activities.

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

Contingency Reserves and Holdbacks. The Fund may, at any time and from time to time, establish reserves (whether or not in accordance with GAAP) for estimated or accrued expenses, liabilities or contingencies, including in connection with the dissolution of the Fund. If reserves are established that are not in accordance with GAAP, they will be treated in the same manner as reserves that are in accordance with GAAP, *i.e.*, in the period in which they

are taken they will be treated as an expense of the Fund (and will reduce the net assets of the Fund), and, if and to the extent that they are subsequently reversed, they will be taken into income in the period of such reversal (and will to that extent increase the net assets of the Fund). At the time such reserve is taken, the Fund may (but is not required to) provide that income from any subsequent reversal will be attributed solely to persons who were invested when the reserve was taken. The establishment of such reserves will not insulate any portion of the Fund's assets from being at risk, and the Fund may make investment decisions relating to assets so reserved as it determines appropriate.

In addition to the power of the Fund to establish reserves, the Fund may hold back a portion of the amount payable to a Shareholder in respect of a redemption (whether such redemption is voluntary or compulsory) to satisfy contingent or expected liabilities. The amount of the redemption proceeds held back will be determined by the Fund in its sole discretion, taking into account such factors as it considers relevant with respect to any contingent or expected liability. Such holdbacks will reduce the amount paid to a redeeming Shareholder. The unused portion of any holdback will be distributed to the Shareholder to which the holdback applied after the Fund has determined that the need therefor has ceased.

Special Investments. As discussed elsewhere herein, generally only an investor that has elected to participate in Special Investment at the time of its initial subscription to the Fund at the time a Special Investment is designated will own Series S Shares attributable to such Special Investment. Accordingly, because Special Investments may have varying performance, the return on investment among Shareholders may vary significantly depending on (i) when a Shareholder purchased Shares and (ii) whether a Shareholder elected to participate in Special Investments.

Return of capital and realization of gains, if any, by the Master Fund in respect of any Special Investment, generally will occur only upon the partial or complete disposition of such Special Investment. While any such Special Investment may be sold at any time, it is not generally expected that this will occur for a number of years after such a Special Investment has been made. Prior to such time, there generally will be no current return on such Special Investment.

Although the Fund generally intends to limit a Shareholder's participation in Special Investments to such Shareholder's applicable 15% Limit, because Follow-On Investments and hedging with respect to Special Investments are not subject to such limitation and due to performance-related fluctuations of the net asset value of a Shareholder's Shares A Shares and Series B Shares, a Shareholder may have exposure to Special Investments which is greater than 15% of the net asset value of its Series B Shares and Series A Shares, if any.

Co-Investments with Third Parties. The Master Fund may co-invest with third parties through joint ventures or other entities. Such investments may involve risks not present in investments where a third party is not involved, including the possibility that a co-venturer or partner of the Master Fund may at any time have economic or business interests or goals which are inconsistent with those of the Master Fund, or may be in a position to take action contrary to the Fund's investment objectives. In addition, the Master Fund may be liable for actions of its co-venturers or partners. Therefore, Shareholders participating in Series C Shares and/or Series CS Shares will be subject to additional risks that will not apply to non-participating Shareholders.

Cross-Series Liability; Special Investments and Co-Investments are Not Separate Legal Entities. Each of the Fund and the Master Fund will issue Shares in sub-series or limited partnership interests in series, as applicable. In addition, the Fund is a single legal entity and

there is no limited recourse protection for any series of Shares or limited partnership interests of the Master Fund thereof. Creditors of the Fund may enforce claims against all assets of the Fund and creditors of the Master Fund may enforce claims against all assets of the Master Fund. Thus, all assets of the Fund may be available to meet all liabilities of the Fund and all assets of the Master Fund may be available to meet all liabilities of the Master Fund. In practice, cross-Series and sub-series liability is only expected to arise where liabilities referable to one Series or sub-series are in excess of the assets referable to such Series or sub-series and it is unable to meet all liabilities attributed to it. In such a case, the assets of the Fund attributable to other Series or sub-series may be applied to cover such liability excess and the value of the contributing Series or sub-series will be reduced as a result. In addition, in the event that the assets attributable to one Series or sub-series of Shares were completely depleted by losses or liabilities, a creditor could enforce a claim against the remaining assets of the Fund, including assets of the other Series or sub-series of Shares.

Therefore, a Shareholder may be subject to a risk of partial or total loss of their investment as a result of the negative performance of a Special Investment, a Co-Investment or a Special Co-Investment, regardless of whether it has an interest in such Special Investment, Co-Investment or Special Co-Investment. A Shareholder may not have an interest in any Special Investment due to the fact that such Shareholder either (i) was not admitted as a Shareholder at the time such Special Investment was designated, (ii) elected not to participate in Special Investments, (iii) redeemed all or a portion of its Shares (other than any Series S Shares in which it previously had an interest) prior to the Master Fund's investment in any such newly designated Special Investment or (iv) has reached its 15% Limit. In addition, only Shareholders holding the corresponding sub-series of Series C Shares or Series CS Shares, as applicable, will be participating in a Co-Investment or a Special Co-Investment. In such instances, the negative performance of a Special Investment, a Co-Investment or a Special Co-Investment in which only certain Shareholders participate could jeopardize the assets held by the Master Fund generally.

Subscription Monies. Where a subscription for Shares is accepted, the Shares will be treated as having been issued with effect from the relevant subscription date irrespective of whether there is an administrative delay in updating the books and records or register of the Fund until after the relevant subscription date. The subscription amount will accordingly be subject to investment risk in the Fund from the relevant subscription date.

Litigation Expenses May Adversely Affect Returns. The indemnification provisions of the Investment Management Agreement and the Master Fund Partnership Agreement legally obligate the Fund to pay its share of any litigation or settlement costs to the extent a claim is asserted against the Fund, the Master Fund, the General Partner, the Investment Manager or any of their respective officers, directors or employees; provided such persons have met the standard of care entitling them to be indemnified. Litigation can be very expensive, even when the underlying claims have no merit, and litigation costs are notoriously difficult to predict. In the event the Investment Manager's activities result in material litigation, it could adversely affect the returns that investors receive.

Litigation Expenses May Be Borne by Subsequent Investors. Litigation costs may be expensed as incurred, and therefore the Fund (through its investment in the Master Fund) may pay for litigation expenses associated with historical investments that are no longer material to the Master Fund. Alternatively, if such expenses are expected to be material in a particular case, the Fund may create a reserve to pay the estimated expenses. In both cases, the Fund and the Master Fund may expense any litigation costs, or record any litigation reserves, in the period in which the expense is incurred or the reserve created, which may be subsequent to the period in which the gains that resulted in the litigation were generated. In general, both the Fund and the Master Fund will not be required to, and it is not anticipated

that it will, attempt to reallocate any litigation or similar expenses or reserves to prior periods. This practice could result in an allocation of expenses to Shareholders by the Fund other than those who benefited from the investment or other activity that resulted in the expenses. For example, new Shareholders may effectively bear the Fund's share of litigation costs for investments that generated profits that were realized before they became a Shareholder. Conversely, Shareholders who redeem their Shares prior to the initiation of litigation may effectively receive the benefit of the Fund's share of investments without paying all of the costs associated with those investments. Finally, because the Fund and the Master Fund will not be obligated to reallocate litigation costs to prior periods in which the gains were realized, the Investment Manager will not be obligated to refund any Management Fees paid in those prior periods, nor will the General Partner be obligated to return any Incentive Allocation or Carried Interest allocated in those prior periods, in each case, derived from gains on investments that later result in significant litigation costs.

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

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

ASC 740—Accounting Changes; Effect on Net Asset Value. Pursuant to FASB ASC 740 ("ASC 740"), which provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in financial statements, the Fund is required to determine whether a tax position, based on its technical merits, meets a more-likely-than-not recognition threshold that the position will be sustained upon examination. As a result of such a determination, the Fund may be required to recognize a contingent tax liability in its net asset value calculation if the related tax position meets the recognition criterion in ASC 740 and, conversely, may be required to unrecognize a contingent tax liability in its net asset value calculation if the related tax position does not meet the recognition criterion in ASC 740. In addition, the net asset value of the Fund may be adjusted if an uncertain tax position is settled. Recognition and measurement of each tax position, including any tax position for which there is a lack of authority and audit experience, is determined by the Board of Directors, in its sole discretion, based on discussions with the Investment Manager, tax advisers and the auditor and based on the facts and circumstances known at the time. There can be no assurance that any such determination will not change over time. Adjustments made to the net asset value of the Fund in connection with the recognition or unrecognition of contingent tax liabilities

may have a material positive or negative effect on certain Shareholders and prospective Shareholders, depending on the circumstances.

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

The assets of the Master Fund will generally be held in accounts maintained for it by its prime brokers or in accounts with other market participants, including non-U.S. sub-custodians selected by the prime brokers. The accounts generally will not be segregated, bankruptcy-remote accounts titled in the owner's name and, therefore, a failure of any broker or market participant is likely to have a greater adverse impact than if the assets, or the accounts in which they are held, were registered in the name of the Master Fund. In addition, because the Master Fund's securities generally will not be held in margin accounts, and the prime brokers will have the ability to loan those securities to other persons, the Master Fund's ability to recover all of its assets in the context of a bankruptcy or other failure of a prime broker may be further limited.

Many of the markets in which the Master Fund will affect transactions are not "exchange-based," such as "over-the-counter" or "interdealer" markets. The stability and liquidity of over-the-counter transactions depends in large part on the creditworthiness of the parties to the transactions. The participants in such markets are typically not subject to the credit evaluation and regulatory oversight to which members of "exchange-based" markets are subject. The lack of evaluation and oversight of over-the-counter markets exposes the Master Fund to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Master Fund to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Master Fund has concentrated its transactions with a single or small group of counterparties. Generally, the Master Fund will not be restricted from dealing with any particular counterparties. The Investment Manager's evaluation of the creditworthiness of counterparties may not prove sufficient. The lack of a complete and "foolproof" evaluation of the financial capabilities of the Master Fund's counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Master Fund.

If there is a default by a counterparty, the Master Fund under most normal circumstances will have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the net asset value of the Master Fund being less than if the Master Fund had not entered into the transaction. Furthermore, there is a risk that any of such counterparties could become insolvent and/or the subject of insolvency proceedings. In such case, the recovery of the Master Fund's securities from such counterparty or the payment of claims therefor may be

significantly delayed, and the Master Fund may recover substantially less than the full value of the securities entrusted to such counterparty.

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

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

Currency Risks. The Master Fund may invest a portion of its assets in securities denominated in non-U.S. currency and in other financial instruments, the price of which will be determined by reference to those currencies, whereas the Shares are denominated and valued in U.S. dollars. Investments that are denominated in non-U.S. currency are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Dramatic fluctuations in the value of a country's currency could have an adverse impact on the profitability of the Master Fund. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments. To the extent that the U.S. dollar appreciates relative to these currencies, the U.S. dollar value of these investments is likely to be adversely affected. In addition, if the currency in which the Master Fund receives dividends, interest or other types of payments (such as liquidating payments) declines in value against the U.S. dollar before such payments are distributed, the U.S. dollar value of these payments could be adversely affected if not sufficiently hedged. Furthermore, the ability of the Master Fund and companies in which it invests to convert freely between the U.S. dollar and other currencies may be restricted or limited and, in a number of instances, exchange rates and currency conversion are controlled directly or indirectly by governments or related entities. Inflation in the countries where the Master Fund makes investments may adversely affect the Master Fund's results and value.

The Investment Manager intends, but is under no obligation, to employ hedging techniques to minimize these risks, but there can be no assurance that such strategies will be effective. In particular, the Master Fund may seek to offset the risks associated with such exposure, in part, through foreign exchange transactions. The markets in which foreign exchange transactions are effected are highly volatile, highly specialized and highly technical. Significant changes, including changes in liquidity and prices, can occur in such markets within very short periods of time, often within minutes. Foreign exchange trading risks include, but are not limited to, exchange rate risk, interest rate risk and potential interference by foreign governments through regulation of local exchange markets, foreign investment, or particular transactions in foreign currency.

Risks Related to Investment Strategy

Risk of Loss. No guarantee or representation is made that the Master Fund's investment program, including, without limitation, the Master Fund's investment objective, diversification strategies or risk monitoring goals, will be successful. Investment results may vary substantially over time. No assurance can be made that profits will be achieved or that substantial or complete losses will not be incurred. Past investment results of the investments otherwise made by the investment professionals of the Investment Manager, including the Principal, are not necessarily indicative of the Master Fund's or the Investment Manager's future performance.

Investment and Trading Risks in General. Inherent in any investment in securities is the risk of losing the invested capital. The Investment Manager believes that the Master Fund's investment program and the Investment Manager's research techniques moderate this risk through a careful selection of securities and investment opportunities, as well as through the application of the Investment Manager's ongoing qualitative and quantitative risk assessment and management program. However, no guarantee or representation is made that the Master Fund's investment program will be successful or profitable, and investment results may vary substantially over time. The Master Fund's investment program will utilize investment techniques such as option and derivative transactions, margin transactions, short sales, and futures and forward contracts, which can, in certain circumstances, exacerbate the adverse impact of any loss or adverse event to which the Master Fund (and thus the Fund) may be subject.

The Investment Manager will not, in general, attempt to measure or hedge all market or other risks inherent in the Master Fund's portfolio, and will seek to measure and hedge certain risks, if at all, only partially. Specifically, the Investment Manager may choose not, or may determine that it is economically unattractive, to hedge certain risks, instead relying on diversification in an attempt to mitigate the risks.

General Economic and Market Risk. The success of the Master Fund's activities also will be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of the Master Fund's investments) or regulations (or their interpretation), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors will affect the level and volatility of the prices of securities, commodities and other financial instruments and the liquidity of the Master Fund's investments. Illiquidity or significant changes in volatility could impair the Master Fund's (and thus the Fund's) profitability or result in losses.

The Master Fund invests in the U.S. and a number of other countries. The economies of non-U.S. countries may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, relative currency appreciation or depreciation, asset reinvestment opportunities, resource self-sufficiency and balance of payments position. Further, certain economies are heavily dependent upon international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. The economies of certain non-U.S. countries may be based, predominantly, on only a few industries and may be vulnerable to changes in trade conditions and may have higher levels of debt or inflation than others.

Concentrated Investment Strategy. The Master Fund will not be broadly diversified, but rather will concentrate on distressed credit investments across the credit spectrum. The undiversified nature of the Master Fund's trading can be expected to result in increased performance volatility and risk. The result of such concentration of investments is that a loss in any such position could materially reduce the Master Fund's (and thus the Fund's) capital.

Special Situation Investments. The Master Fund may invest in securities issued by companies involved in acquisitions (as either buyer or seller), tender offers and spin-offs as well as recapitalizations, financial restructurings, work-outs, bankruptcies or other catalyst-driven situations (such as a regulatory change that may impact an industry, an issuer-defining event such as a major lawsuit or inversion, etc.). Such investments may have limited liquidity and may be difficult or costly to establish or unwind. In any type of special situation, there is the risk that a contemplated transaction will not occur, may not be completed on the terms originally contemplated or may take considerable time to complete, or that an anticipated change or development may take a different course than predicted or may occur in a timeframe that is different than projected. Furthermore, failure to anticipate changes in the circumstances affecting these types of investments may result in permanent losses, where the Master Fund may be unable to recoup some or all of its investment. Investments of this type are complex in their analysis, require significant resources, may involve substantial financial and business risk and can result in significant losses to the Master Fund (and thus the Fund).

General Risks Associated with Credit Strategies. The Master Fund will invest in credit instruments issued by distressed and bankrupt issuers, including debt obligations that are in covenant or payment default. Evaluating reorganizations and bankruptcies can be a complex, time consuming and expensive process that requires specialized expertise. Although such investments have the potential to achieve significant returns, they involve a high degree of risk, and may fail to show any return for a considerable period of time or result in substantial or complete loss. There is no assurance the Investment Manager will accurately evaluate the prospects for a profitable return on the Master Fund's investments. While exit from distressed trading strategies may come through recovery and/or appreciation and subsequent sale in financial markets, other means of exit take alternate and sometimes suboptimal forms, including, but not limited to: (i) a refinancing, sometimes providing for redemption of positions held by the Master Fund; (ii) reset terms and conditions, including but not limited to a longer tenure and/or a diminished coupon; (iii) conversion of debt instruments to further subordinated debt, hybrid, or equity securities; (iv) sale of the entire company to a strategic or financial buyer; (v) government nationalization; (vi) liquidation of assets or creation of liquidation trusts for assets; and (vii) cash settlement of claims from others involved in restructuring.

Certain of these exit strategies may go beyond the expected tenure of the trading strategy and adversely impact liquidity, volatility and pricing. Many of the events within a bankruptcy case are adversarial and often beyond the control of creditors. There can be no assurances that the Master Fund will be able to adequately exercise and/or enforce its full rights under the stated terms of its investments, or that any actions taken by the Master Fund will be either beneficial or not harmful to final recovery value. In some situations, the market of available dealers for distressed positions may constrict and could impact the willingness to purchase or repurchase at an expected or modeled fair market value. Consequently, the Master Fund may sometimes exit positions at times or under conditions different than initially anticipated and accept substantial losses.

High-Yield and Distressed Securities. The Master Fund expects to trade high-yield and distressed credit instruments and securities such as bonds, loans or other fixed income

securities including, without limitation, “higher yielding” (including non-investment grade) debt securities. These instruments are subject to substantial risk of default, bankruptcy, moratorium, *etc.*, as they are by definition issued by or referenced to issuers in precarious and often declining financial condition. Additionally, such investments are generally not exchange traded and, as a result, these financial instruments trade in the over-the-counter marketplace, which is less transparent and has wider bid/ask spreads than the exchange-traded marketplace. The Master Fund may invest in bonds and loans of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. Also, the market for credit spreads is often inefficient and illiquid, making it difficult to accurately calculate discounting spreads for valuing financial instruments. High yield investments face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer’s inability to meet timely interest and principal payments. High yield investments are generally more volatile and may or may not be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured by substantially all of the issuer’s assets. High yield investments may also not be protected by financial covenants or limitations on additional indebtedness. The mispricings on which the Master Fund will attempt to capitalize in its investing reflect both the risk and the uncertainty of high-yield and distressed investments. Moreover, to the extent that the Master Fund invests in distressed sovereign debt obligations, it will be subject to additional risks and considerations not present in private distressed securities, including the uncertainties involved in enforcing and collecting debt obligations against sovereign nations, which may be affected by world events, changes in U.S. foreign policy and other factors outside of the control of the Investment Manager.

The market values of certain of these lower-rated and unrated debt investments tend to reflect individual corporate developments to a greater extent than do higher-rated securities which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such investments are often highly leveraged and may not have available to them more traditional methods of financing. It is possible that a major economic recession could severely disrupt the market for such securities and may have an adverse impact on the value of such securities. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such investments to repay principal and pay interest thereon and increase the incidence of default of such securities.

The long-term and illiquid nature of many of these investments increases their risk, as the Master Fund will generally be unable to exit these investments in order either to recognize profits or limit losses. High-yield and distressed securities exhibit high mark-to-market volatility, require extensive due diligence and medium- to long-term holding periods, are generally illiquid and demand constant monitoring and carefully engineered exit strategies.

Nature of Reorganization Proceedings. Investments in the debt or equity of companies involved in reorganization proceedings typically entail a number of risks that do not normally apply to investments in financially sound companies. For example, if the Investment Manager’s evaluation of the anticipated outcome of a reorganization or the timing of such outcome should prove incorrect, the Master Fund could experience losses. A wide variety of considerations make any evaluation of the outcome of an investment in such a company uncertain. Such considerations include, for example, the possibility of litigation between the participants in a reorganization or liquidation proceeding or a requirement to obtain mandatory or discretionary consents from various governmental authorities or others. The uncertainties inherent in evaluating such investments may be increased by legal and practical

considerations which limit the access of the Investment Manager to reliable and timely information concerning material developments affecting a company, or which cause lengthy delays in the completion of a reorganization or liquidation proceeding. Competition from other investors may also render it difficult or impossible for the Master Fund to achieve intended results or promptly effect transactions.

Some of the investments of the Master Fund may require active monitoring and representation on official and unofficial creditors committees for the company. Accordingly, the Master Fund may, but is not obligated to, seek representation on such committees from time to time if the Investment Manager, in its discretion, determines that such representation is necessary or advisable to protect or further the Master Fund's interests. Serving on an official or unofficial committee increases the possibility that the Master Fund will be deemed an "insider" or a "fiduciary" of the company it has so assisted and may restrict the Master Fund's trading of its investments in such company. Should such assistance be provided before a company enters bankruptcy proceedings, the Bankruptcy Court, under certain conditions such as a finding of fraud or inequitable conduct, may invoke the doctrine of "equitable subordination" with respect to any claim or equity interest held by the Master Fund in such company and subordinate any such claim or equity interest in whole or in part to other claims or equity interests in such company. Claims of equitable subordination may also arise outside of the context of the Master Fund's managerial activities. In addition, if representation on a creditors committee of a company causes the Master Fund or the Investment Manager to be deemed an affiliate or related party of the company, the securities of such company held by the Master Fund may become restricted securities, which are not freely tradable. As the Master Fund will indemnify the Investment Manager or any other person serving on a committee on its behalf for claims arising from breaches of those obligations, indemnification payments could adversely affect the return on the Master Fund's investment in a reorganization company.

Fraudulent Conveyance Considerations. Various laws enacted for the protection of creditors may apply to certain investments that are debt obligations, although the existence and applicability of such laws will vary from jurisdiction to jurisdiction. For example, if a court were to find that the borrower did not receive fair consideration or reasonably equivalent value for incurring indebtedness evidenced by an investment and the grant of any security interest or other lien securing such investment, and, after giving effect to such indebtedness, the borrower (i) was insolvent, (ii) was engaged in a business for which the assets remaining in such borrower constituted unreasonably small capital or (iii) intended to incur or believed that it would incur debts beyond its ability to pay such debts as they mature, such court could invalidate such indebtedness and such security interest or other lien as fraudulent conveyances, subordinate such indebtedness to existing or future creditors of the borrower or recover amounts previously paid by the borrower (including to the Master Fund) in satisfaction of such indebtedness or proceeds of such security interest or other lien previously applied in satisfaction of such indebtedness. In addition, if an issuer in which the Master Fund has an investment becomes insolvent, any payment made on such investment may be subject to avoidance as a "preference" if made within a certain period of time (which may be as long as one year) before insolvency.

In general, if payments on an investment are avoidable, whether as fraudulent conveyances or preferences, such payments can be recaptured either from the initial recipient or from subsequent transferees of such payments. To the extent that any such payments are recaptured from the Master Fund, the resulting loss will be borne by investors in the Master Fund.

“Widening” Risk. For reasons not necessarily attributable to any of the risks set forth herein (for example, supply/demand imbalances or other market forces), the prices of the securities in which the Master Fund will invest 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 lower levels at a time of valuation or at the time of sale. Similarly, shorting assets at what may appear to be “overvalued” levels is no guarantee that these assets will not be trading at even more “overvalued” levels at the time of valuation or at the time of sale. It may not be possible to predict, or to hedge against, such “spread widening” risk.

Spread Trading Risks. The Master Fund’s trading activities may involve spreads between two or more instruments (i.e., equity securities and debt securities convertible into such equity securities), such as the use of inter- and intra-company capital structure arbitrage strategies. To the extent the price relationships between such positions remain constant, no gain or loss on the positions will occur. Such positions do, however, entail a substantial risk that the price differential could change unfavorably.

Leverage and Borrowing.

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

Borrowing for Cash Management Purposes. The Master Fund has the authority to borrow for cash management purposes, such as to satisfy withdrawal requests.

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

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

Interest Rate Risk. The Master Fund is subject to interest rate risk. Generally, the value of fixed income securities will change 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. The risk will be greater for long-term securities than for short term securities. The Investment Manager seeks to minimize the exposure of its portfolio to interest rate changes through the use of interest rate

swaps, interest rate futures, interest rate options and/or other financial instruments. However, there can be no guarantee that the Investment Manager will be successful in fully mitigating the impact of interest rate changes on the Master Fund's portfolio. To the extent that interest rate assumptions underlie the thesis of a particular position, fluctuations in interest rates could invalidate those underlying assumptions.

The Federal Reserve and other central banks around the world have lowered interest rates to historically low levels. It is reasonable to assume that, if and when normal economic conditions return, interest rates will rise. Rising interest rates could lead to material losses in the Master Fund and interest rate increases generally will increase the interest carrying costs to the Master Fund of borrowed securities, as well as the cost of leverage, if any, used by the Master Fund.

Default Risk. It is generally anticipated that conventional debt will be paid as due, barring unexpected developments. Nonetheless, there exists the risk of default. The Investment Manager will attempt to reduce default risk through diversification and research (both on a country-by-country and issuer-by-issuer basis).

The Investment Manager recognizes that economic disruptions in a country in which the Master Fund is invested may lead to a material, if not complete, loss on the Master Fund's investment in that economy. The Investment Manager will diversify country risk by investing in a number of different countries and will attempt to position the Master Fund's portfolio so as to reduce the risk of "domino effect" defaults across related economies. However, the Investment Manager has no means of predicting where political or economic unrest will develop. The Master Fund may suffer from major defaults in the countries in which it is invested, while at the same time other sectors in general might be profitable for other investors.

Sovereign Risk. Government interference with international transactions in its currency or the debt obligations of itself or its nationals through various means, including, without limitation, regulation of the local exchange market, restrictions on foreign investment by residents, limits on flows of investment funds from abroad and debt moratoria, may expose the Master Fund, to unanticipated losses.

There are increasing concerns regarding the ability of multiple sovereign entities to continue to meet their debt obligations. In particular, ratings agencies have recently downgraded the credit ratings of various countries. Many economies are facing acute fiscal pressures as they struggle to balance budgetary austerity with stagnant growth. Many observers predict that a depressed economic environment will cause budget deficits in these economies to expand in the short term and further increase the perceived risk of a default, thereby rendering access to capital markets even more expensive and compounding the debt problem.

Lack of Effective Securities Interests. Certain higher risk debt investors make a policy of acquiring only secured debt so that they have good assurances of receiving back their principal even in the event of a default. In the case of the Master Fund, on the other hand, the Investment Manager recognizes that certain instruments may not be paid in full and, in fact, may be a complete loss. In addition, when the Master Fund holds participations in a loan, the Master Fund may not have the right to vote for or waive enforcement of any default by an obligor, and/or the selling institution may not consider the interests of the Master Fund in connection with its actions.

Active Management. The Investment Manager may from time to time attempt to exert management control over the reorganization process of some of the Master Fund's portfolio companies. Active management is unusually resource-intensive and the Investment Manager's more limited resources may put it at a competitive disadvantage.

Short Selling. A short sale in equity creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Master Fund of buying those securities to cover the short position. In credit short sales the risk of loss is generally limited by spread tightening to risk free rate or zero bound in the case of CDS. There can be no assurance that the Master Fund will be able to maintain the ability to borrow securities sold short. In such cases, the Master Fund can be "bought in" (*i.e.*, forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Short strategies can also be implemented synthetically through various instruments and be used with respect to indices or in the over-the-counter market and with respect to futures and other instruments. In some cases of synthetic short sales, there is no floating supply of an underlying instrument with which to cover or close out a short position and the Master Fund may be entirely dependent on the willingness of over-the-counter market makers to quote prices at which the synthetic short position may be unwound. There can be no assurance that such market makers will be willing to make such quotes. Short strategies can also be implemented on a leveraged basis. Lastly, even though the Master Fund secures a "good borrow" of the security sold short at the time of execution, the lending institution may recall the lent security at any time, thereby forcing the Master Fund to purchase the security at the then-prevailing market price, which may be higher than the price at which such security was originally sold short by the Master Fund.

Hedging Transactions. The Master Fund may utilize financial instruments both for investment purposes and for risk management purposes in order to: (i) protect against possible changes in the market value of the Master Fund's investment portfolio resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect the Master Fund's unrealized gains in the value of the Master Fund's investment portfolio; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in the Master Fund's portfolio; (v) hedge against a directional trade; (vi) hedge the interest rate or currency exchange rate on any of the Master Fund's liabilities or assets; (vii) protect against any increase in the price of any securities the Master Fund anticipates purchasing at a later date; or (viii) satisfy any other purpose that the Investment Manager deems appropriate.

Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of portfolio positions or prevent losses, although hedging does typically reduce the risk of loss. On the other hand, the hedging transactions also limit the opportunity for gain if the value of a portfolio position should increase. Moreover, it should be noted that (i) the Investment Manager may determine not to hedge against, or may not anticipate, certain risks, (ii) the portfolio will always be exposed to certain risks that cannot be hedged and (iii) there is no guarantee that a hedge will be properly implemented, will function in the manner anticipated or will not be adversely effected by changes in the applicable law or regulation.

The success of the Master Fund's hedging transactions to a significant degree will be subject to the ability of the Investment Manager to correctly assess the relationships between groupings of securities within the Master Fund's portfolio. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price

movements in the portfolio position being hedged may vary. Since the characteristics of many securities change as markets change or time passes, the success of any hedging strategy will also be subject to the ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While the Master Fund may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Master Fund than if it had not engaged in such hedging transactions. For a variety of reasons, the Investment Manager may not seek to establish a perfect correlation between the hedging instruments utilized and the portfolio holdings being hedged. Such an imperfect correlation may prevent the Master Fund from achieving the intended hedge or expose the Master Fund to risk of loss. The Master Fund will not be required to hedge any particular risk in connection with a particular transaction or its portfolios generally. Moreover, it should be noted that the portfolio will always be exposed to certain risks that may not be hedged. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the Master Fund's portfolio holdings.

Currency hedging activities that the Master Fund engages in may require the use of a portion of the Master Fund's assets for margin or settlement payments or other purposes. For example, the Master Fund may from time to time be required to make margin, settlement or other payments, including intra-month, in connection with the use of certain hedging instruments. Counterparties to any currency hedging activities may demand payments on short notice, including intra-day. As a result, the Master Fund may liquidate assets sooner than it otherwise would have in order to have available cash to meet current or future margin calls, settlement or other payments, or for other purposes. Moreover, due to volatility in the currency markets and changing market circumstances, the Investment Manager may not be able to accurately predict future margin requirements, which may result in the Master Fund holding excess or insufficient cash and liquid securities for such purposes. Where the Master Fund does not have cash or assets available for such purposes, the Master Fund may be required to dispose of assets at disadvantageous prices or might fail to comply with certain of its contractual obligations. Such failures could, without limitation, include failing to meet margin calls or settlement or other payment obligations. If the Master Fund were to default on any of its material contractual obligations, the Master Fund would likely be materially adversely affected.

Competition; Potential Strategy Saturation. Despite the specialized, "niche" character of the Master Fund's portfolio, the Master Fund will compete with numerous other private investment funds and financial institutions (both diversified and specialized Master Funds), as well as other investors, which pursue similar strategies and many of which have resources substantially greater than the Master Fund's.

The amount of capital committed to "alternative investment strategies" and credit related strategies has increased dramatically during recent years and at the same time, market conditions have become significantly more adverse to many of such strategies than they were in previous years. The profit potential of the Master Fund may be materially reduced as a result of the "saturation" of the alternative investment field.

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

Other Litigation Situations. The Master Fund may seek to invest in companies involved in litigation or restructuring on the basis of the Investment Manager's assessment of the likely outcome of such litigation and/or the impact of the bankruptcy process on the company. The Master Fund may also invest in companies that are likely to be subject to reorganization, including as a result of a major litigation involving such company. Predicting the outcome of litigation or restructuring is speculative by nature and could involve lengthy delays following an appeal or an indirect attack on the outcome. The Investment Manager may invest in issuers which were — as entities, at the senior management level or both — the subject of criminal and administrative proceedings. These investments involve a particularly high degree of risk and uncertainty due to the unpredictability (and often politically motivated and discretionary) outcome of such proceedings and the risk of government cancellation of franchises and licenses necessary for continued operations.

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

Cash Management. The Master Fund may hold cash or money market instruments. The percentage of the Master Fund invested in and among such holdings varies and depends on various factors, including market conditions and purchases and redemptions of Shares. The Master Fund may agree to certain restrictions on the liquidity of the underlying cash or money market instruments in exchange for a more favorable interest rate or increased capacity (e.g., "time deposits"). Furthermore, when instruments other than demand deposits of cash are held (e.g., money market instruments or short-term securities), there may be greater market risk, illiquidity risk or the risk of operational delays in converting the instrument into cash. Demand deposits in cash are generally not collateralized and would give rise to an unsecured claim in the event of the bankruptcy of the deposit-taking institution.

Risks Related to Methods of Analysis

Fundamental Analysis. Certain trading decisions made by the Investment Manager may be based on fundamental analysis. Data on which fundamental analysis relies may be inaccurate or may be generally available to other market participants. Fundamental market information is subject to interpretation. To the extent that the Investment Manager misinterprets the meaning of certain data, the Master Fund (and thus the Fund) may incur losses.

Reliance on Corporate Management and Financial Reporting. Many of the strategies implemented by the Master Fund rely on the financial information made available by the issuers in which the Master Fund invests. The Investment Manager will have no ability to independently verify the financial information disseminated by the many issuers in which the Master Fund invests and is dependent upon the integrity of both the management of these issuers and the financial reporting process in general. Past events have demonstrated the material losses which investors can incur as a result of corporate mismanagement, fraud and accounting irregularities.

The issuers (or reference companies) of high-yield and distressed credit instruments are often in declining financial condition – indicating at once that their management has underperformed and the need for such management to avoid bankruptcy or insolvency.

Uncertain Exit Positions. The Investment Manager is unable to predict with confidence what, if any, exit points exist for many of the Master Fund's positions. It is impossible to predict how much of an identified misvaluation the market will rectify over any given period of time; thus it will be correspondingly difficult to determine how long to hold (and finance) certain positions.

Risks Related to Specific Investments

Debt Instruments. The debt instruments in which the Master Fund will invest may be subject to price volatility due to various factors including, but not limited to, changes in interest rates, market perception of the creditworthiness of the issuer and general market liquidity. The Master Fund will invest in non-investment grade debt securities, which are typically subject to greater market fluctuations and risks of loss of income and principal than lower yielding, investment grade securities and are often influenced by many of the same unpredictable factors which affect equity prices. In addition to the sensitivity of debt securities to overall interest-rate movements, debt securities involve a fundamental credit risk based on the issuer's ability to make principal and interest payments on the debt it issues. The Master Fund's investments in debt instruments may experience substantial losses due to adverse changes in interest rates and the market's perception of any particular issuer's creditworthiness, which may inhibit such issuer's ability to refinance, restructure or otherwise experience recovery. The Master Fund also will invest in certain hybrid debt arrangements, which are subject to risks in addition to the conventional risks of general interest-rate movements and the issuer's ability to pay the debt in accordance with its terms.

Distressed Securities. The Master Fund may invest in securities issued by companies in weak and/or deteriorating financial condition, experiencing poor operating results, needing substantial capital investment, facing special competitive or product obsolescence problems or involved in bankruptcy or reorganization proceedings. Securities of this type may involve substantial financial and business risks, which are often heightened by an inability to obtain reliable information about the issuers. Among the risks inherent in investments in troubled companies is the fact that it frequently may be difficult to obtain information as to the true condition of such companies. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies' securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the Master Fund will correctly evaluate the value of the assets underlying distressed securities or the prospects for a successful reorganization or similar action. Investments of this type are complex in their analysis, require significant resources and may involve substantial financial and business risk and can result in significant or even total losses to the Master Fund.

The market for distressed securities is expected to be less liquid than the market for securities of companies that are not distressed. A substantial length of time may be required to liquidate such securities. Furthermore, at times, a major portion of an issue of distressed securities

may be held by relatively few investors, and the market may be limited to a narrow range of potential counterparties, such as institutions and investment banks. Under adverse market or economic conditions or in the event of adverse changes in the financial condition of the issuer, the Master Fund may find it more difficult to sell such securities when the Investment Manager believes it advisable to do so or may only be able to sell such securities at a loss. The Master Fund may also find it more difficult to determine the fair market value of distressed securities for purposes of computing the Master Fund's net asset value. In some cases, the Master Fund may be prohibited by contract from selling distressed securities for a period of time. There is, therefore, a significant risk that the investment by the Master Fund in companies involved in distressed securities could expose the Master Fund to significant losses.

Defaulted Securities. The Master Fund may invest in the securities of companies involved in bankruptcy proceedings, reorganizations and financial restructurings and may have a more active participation in the affairs of the issuer than is generally assumed by an investor. This may subject the Master Fund to litigation risks or prevent (or otherwise limit) the Master Fund from disposing of securities. In a bankruptcy or other proceeding, the Master Fund as a creditor may be unable to enforce its claims or rights in any collateral or may have its claims or security interest in any collateral challenged, disallowed or subordinated to the claims or security interests of other creditors. While the Master Fund attempts to avoid taking the types of actions that would lead to equitable subordination or creditor liability, there can be no assurance that such claims will not be asserted or that the Master Fund will be able to successfully defend against them. If the Master Fund's investment in such securities is significant, the Master Fund may receive a higher proportion of post-reorganization securities (as discussed below) than cash payments after any bankruptcy proceeding, reorganization or financial restructuring of a company.

Bank Loans. The Master Fund will invest in loans and participations therein originated by banks and other financial institutions. These investments may include highly leveraged loans to borrowers whose credit is rated below investment grade. Such loans are typically private corporate loans that are negotiated by one or more commercial banks or financial institutions and syndicated among a group of commercial banks and financial institutions. In order to induce the lenders to extend credit and to offer a favorable interest rate, the borrower often provides the lenders with extensive information about its business that is not generally available to the public. To the extent that the Master Fund obtains such information and it is material and nonpublic, the Master Fund will be unable to trade in the securities of the borrower until the information is disclosed to the public or otherwise ceases to be material, nonpublic information.

The Master Fund may invest directly or through participations in loans with revolving credit features or other commitments or guarantees to lend funds in the future. A failure by the Master Fund to advance requested funds to a borrower could result in claims against the Master Fund and in possible assertions of offsets against amounts previously lent.

The Master Fund may acquire interests in bank loans and other debt obligations either directly (by way of sale or assignment) or indirectly (by way of participation). The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution. A participation interest in a portion of a debt obligation typically results in a contractual relationship with only the institution acting as a lender under the credit agreement, not with the borrower. As a holder of a participation interest, the Master Fund generally will have no right to exercise the rights of the lender under the credit agreement, including the right to enforce compliance by the

borrower with the terms of the loan agreement, approve amendments or waivers of terms, nor will the Master Fund have any rights of set-off against the borrower, and the Master Fund may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. As a result, the Master Fund will be exposed to the credit risk of both the borrower and the institution selling the participation.

Nature of Reorganization Proceedings. Investments in the debt or equity of companies involved in reorganization proceedings typically entail a number of risks that do not normally apply to investments in financially sound companies. For example, if the Investment Manager's evaluation of the anticipated outcome of a reorganization or the timing of such outcome should prove incorrect, the Master Fund could experience losses. A wide variety of considerations make any evaluation of the outcome of an investment in such a company uncertain. Such considerations include, for example, the possibility of litigation between the participants in a reorganization or liquidation proceeding or a requirement to obtain mandatory or discretionary consents from various governmental authorities or others. The uncertainties inherent in evaluating such investments may be increased by legal and practical considerations which limit the access of the Investment Manager to reliable and timely information concerning material developments affecting a company, or which cause lengthy delays in the completion of a reorganization or liquidation proceeding. Competition from other investors may also render it difficult or impossible for the Master Fund to achieve intended results or promptly effect transactions.

Some of the investments of the Master Fund may require active monitoring and representation on official and unofficial creditors committees for the company. Accordingly, the Master Fund may, but is not obligated to, seek representation on such committees from time to time if the Investment Manager, in its discretion, determines that such representation is necessary or advisable to protect or further the Master Fund's interests. Serving on an official or unofficial committee increases the possibility that the Master Fund will be deemed an "insider" or a "fiduciary" of the company it has so assisted and may restrict the Master Fund's trading of its investments in such company. Should such assistance be provided before a company enters bankruptcy proceedings, the Bankruptcy Court, under certain conditions such as a finding of fraud or inequitable conduct, may invoke the doctrine of "equitable subordination" with respect to any claim or equity interest held by the Master Fund in such company and subordinate any such claim or equity interest in whole or in part to other claims or equity interests in such company. Claims of equitable subordination may also arise outside of the context of the Master Fund's managerial activities. In addition, if representation on a creditors committee of a company causes the Master Fund or the Investment Manager to be deemed an affiliate or related party of the company, the securities of such company held by the Master Fund may become restricted securities, which are not freely tradable. As the Master Fund will indemnify the Investment Manager or any other person serving on a committee on its behalf for claims arising from breaches of those obligations, indemnification payments could adversely affect the return on the Master Fund's investment in a reorganization company.

Post-Reorganization Securities. Post-reorganization securities typically entail a higher degree of risk than investments in securities of companies that have not undergone a reorganization or restructuring. Moreover, post-reorganization securities can be subject to heavy selling or downward pricing pressure after the completion of a bankruptcy reorganization or restructuring. If the Investment Manager's evaluation of the anticipated outcome of an investment situation should prove incorrect, the Master Fund could experience a loss. Unlike certain distressed investors that focus on investing in senior securities that typically receive

cash or debt in a reorganization, the Master Fund's investment approach may result in the receipt of post-reorganization equity securities, which may be subject to greater risk than debt securities.

Convertible Securities. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or a different issuer within a particular period of time at a specified price or formula. A convertible security generally entitles its holder to receive interest or a dividend until the convertible security matures or is redeemed or converted. Convertible securities generally: (i) have higher yields than the dividends on the underlying common stocks, but lower yields than non-convertible securities of a comparable duration; (ii) are less volatile in price than the underlying common stock due to their fixed-income characteristics; (iii) have a significant option component to their value which is directly impacted by the prevailing market volatility and interest rates; and (iv) provide the potential for capital appreciation if the market price of the underlying common stock increases.

The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion feature) and its "conversion value" (the security's worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates (with investment value declining as interest rates increase) as well as market volatility (with the conversion value increasing as market volatility increases). The credit standing of the issuer and other factors may also have an effect on investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent that the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases (as with an option) as the convertible security approaches maturity.

A convertible security may be subject to redemption at the option of the issuer. If a convertible security held by the Fund is called for redemption, the Fund will be required either to permit the issuer to redeem the security or convert it into the underlying common stock. Either of these actions could have an adverse effect on the value of the position.

Municipal Revenue Bond Risks. The Fund may make investments in taxable and tax-exempt municipal revenue bonds. Such bonds are typically issued by or on behalf of states, territories and possessions of the United States, the District of Columbia and their political subdivisions, agencies or instrumentalities to obtain funds for a wide range of public facilities including housing projects, industrial projects, hospitals, schools, mass transportation, stadiums, waterworks and sewer systems and highways. In addition, certain types of industrial development bonds are issued by or on behalf of public authorities to obtain funds for many types of local, privately operated facilities (such debt instruments are considered municipal obligations if the interest paid on them is exempt from U.S. federal income tax). Revenue bonds are municipal bonds that finance income-producing projects and are payable only from the revenue derived from a particular project, facility or specific revenue source. Unlike general obligation bonds, revenue bonds are not payable from the general taxing power of the municipality and holders of revenue bonds typically have no claims on the issuer's other

resources. The primary source of repayment and collateral for revenue bonds generally consists of the following items:

- (a) revenue from the underlying project (fees, rent, tolls, concessions, etc.);
- (b) generally, a senior lien on the underlying asset; and
- (c) an obligation for repayment by the sponsor.

Municipal revenue bonds carry a higher default risk than general obligation bonds. Not only are they not backed by the full faith and credit of a municipality, but the income from the projects funded by revenue bonds cannot be predicted with certainty. If the projects do not produce enough revenue, the bonds may default. The success of revenue bonds ultimately depends on the projects' ability to produce revenue. The bonds in which the Fund expects to invest will typically already be experiencing financial or operational difficulties, which heightens the risk that sufficient revenue will not be generated. If the Fund is unable to manage and rehabilitate the assets underlying such bonds and improve the prospect for revenue generation, the value of the Fund's investment in such bonds will likely decline.

The value of the Fund's investments in municipal revenue bonds will be affected by local, state, regional and national factors. These may include economic or policy changes, erosion of the tax base, legislative changes (especially those regarding taxes) and the possibility of credit problems. Any such changes or events may adversely affect the value of the Fund's investments.

Equities. The Master Fund may invest its capital in long and short positions in equities, deferred interest obligations and other investments which do not produce current income for the Master Fund. Equity prices are directly affected by issuer-specific events, as well as general market conditions. In addition, in many countries investing in equity is subject to heightened regulatory and self-regulatory scrutiny as compared to investing in debt or other financial instruments.

Trade and Other General Unsecured Claims. The Master Fund will acquire interests in claims of trade creditors and other general unsecured claim holders of a debtor ("Trade Claims"). Trade Claims generally include, but are not limited to, claims of suppliers for goods delivered and not paid, claims for unpaid services rendered, claims for contract rejections and claims related to litigation. Trade Claims are typically unsecured and may, in unusual circumstances, be subordinated to other unsecured obligations of the debtor. The repayment of Trade Claims is subject to significant uncertainties, including potential set-off by the debtor as well as the other uncertainties with respect to other distressed securities. Trade Claim risks also include the potential reclassification/subordination of the claims. In addition, the Trade Claims market is inefficient and as such liquidity, (*i.e.*, the ability to re-sell a claim) is often times limited. Certain Trade Claim investments may be highly illiquid and may require one month or more to monetize. Trade Claims also carry an increased administrative time/cost component relative to other unsecured obligations. Lastly, the timing of distributions for Trade Claims is often unknown and can take place later than other *pari passu* unsecured obligations of the debtor. A Trade Claim may be transferred or assigned after a petition in bankruptcy is filed, including after a proof of claim has been filed. The Master Fund's investments in Trade Claims and high risk receivables may also entail special risks including, but not limited to, fraud on the part of the assignor of the Trade Claim as well as logistical and mechanical issues which may affect the ability of the Master Fund or its agent to collect the claim in whole or in part.

Derivative Instruments Generally. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-

performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk. Derivatives traded over-the-counter may not have an authoritative source of valuation and the models used to value such derivatives are subject to change. Special risks may apply in the future that cannot be determined at this time with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available.

Call Options. The seller (writer) of a call option which is covered (*i.e.*, the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security less the premium received, and gives up the opportunity for gain on the underlying security above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The securities necessary to satisfy the exercise of an uncovered call option may be unavailable for purchase, except at much higher prices, thereby reducing or eliminating the value of the premium. Purchasing securities to cover the exercise of an uncovered call option can cause the price of the securities to increase, thereby exacerbating the loss. The buyer of a call option assumes the risk of losing its entire premium investment in the call option.

Put Options. The seller (writer) of a put option which is covered (*i.e.*, the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sales price (in establishing the short position) of the underlying security plus the premium received, and gives up the opportunity for gain on the underlying security if the market price falls 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 security 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.

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

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

Swaps. Whether the Master Fund's use of swap agreements or swaptions will be successful will depend on the Investment Manager's ability to select appropriate transactions for the Master Fund. Swap agreements and options on swap agreements ("swaptions") can be

individually negotiated and structured to include exposure to a variety of different types of investments, asset classes or market factors. Depending on their structure, swap agreements may increase or decrease the holder's exposure to, for example, equity securities, long-term or short-term interest rates, foreign currency values, credit spreads or other factors. Swap agreements can take many different forms and are known by a variety of names. Swap transactions may be highly illiquid and may increase or decrease the volatility of the Master Fund's portfolio. Moreover, the Master Fund bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty. The Master Fund will also bear the risk of loss related to swap agreements, for example, for breaches of such agreements or the failure of the Master Fund to post or maintain required collateral. It is possible that developments in the swap markets, including potential government regulation, could adversely affect the Master Fund's ability to terminate swap transactions or to realize amounts to be received under such transactions.

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

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

the insolvency or bankruptcy of such parties could also subject the Master Fund to the risk of loss.

Credit Default Swaps. The Master Fund may purchase and sell credit derivative contracts – primarily credit default swaps – both for hedging and other purposes. The typical credit default swap contract requires the seller to pay to the buyer, in the event that a particular reference entity experiences specified credit events, the difference between the notional amount of the contract and the value of a portfolio of securities issued by the reference entity that the buyer delivers to the seller. In return, the buyer agrees to make periodic payments equal to a fixed percentage of the notional amount of the contract. The Master Fund may also sell credit default swaps on a basket of reference entities as part of a synthetic collateralized debt obligation transaction.

As a buyer of credit default swaps, the Master Fund will be exposed to the risk that deliverable securities will not be available in the market, or will be available only at unfavorable prices, as would be the case in a so-called “short squeeze.” While the credit default swap market auction protocols reduce this risk, it is still possible that an auction will not be organized or will be unsuccessful. In certain instances of issuer defaults or restructurings (for those credit default swaps for which restructuring is specified as a credit event), it has been unclear under the standard industry documentation for credit default swaps whether or not a “credit event” triggering the seller’s payment obligation has occurred. The creation of the new ISDA Credit Derivative Determination Committee (the “Determination Committee”) is intended to reduce this uncertainty and create uniformity across the market, although it is possible that the Determinations Committee will not be able to reach a resolution or do so on a timely basis. In either of these cases, the Master Fund would not be able to realize the full value of the credit default swap upon a default by the reference entity.

As a seller of credit default swaps, the Master Fund will incur leveraged exposure to the credit of the reference entity and is subject to many of the same risks it would incur if it were holding debt securities issued by the reference entity. However, the Master Fund will not have any legal recourse against the reference entity and will not benefit from any collateral securing the reference entity’s debt obligations. In addition, the credit default swap buyer will have broad discretion to select which of the reference entity’s debt obligations to deliver to the Master Fund following a credit event and will likely choose the obligations with the lowest market value in order to maximize the payment obligations of the Master Fund.

Credit default swaps generally trade on the basis of theoretical pricing and valuation models, which may not accurately value such swap positions when established or when subsequently traded or unwound under actual market conditions.

It appears that there are likely to be widespread defaults under certain credit default swaps as a result of the current credit market disruptions. The credit derivative market may become subject to increased regulation, which could increase costs or even prevent participation by the Master Fund.

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

Illiquid Investments. The Master Fund may invest in illiquid securities or other instruments, including both listed and unlisted instruments. Additionally, investments may become illiquid due to market conditions. The success of these investments is typically dependent not only upon the performance of such companies, but also upon the Investment Manager's ability to engineer effective "exit strategies" in order to realize any enterprise value created or to force the companies to create liquidity opportunities. These investments may consume a substantial amount of the Investment Manager's time. The market prices, if any, for these securities tend to be volatile and may not be readily ascertainable, and the Master Fund may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The Master Fund may be contractually prohibited from disposing of certain of these investments for a specified period of time. The sale of restricted and/or illiquid securities often requires more time and may result in higher brokerage charges than does the sale of more liquid securities. The limited liquidity of these investments may subject them to more extensive fluctuations in value and may impair the ability of the Master Fund to exit such investments in times of adversity. Companies whose securities are not publicly-traded generally will not be subject to public disclosure and other investor protection requirements applicable to publicly-traded securities. Illiquid positions also may be difficult to value and such valuation may require the exercise of substantial discretion by the Investment Manager.

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

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

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

Master Fund under such laws and regulations are unavailable for transactions on foreign exchanges and with foreign counterparties.

Risks Related to U.S. Federal Income Tax

Uncertainty and Complexity of Tax Treatment. The tax aspects of an investment in the Fund are complicated and complex and, in many cases, uncertain. Statutory provisions and administrative regulations have been interpreted inconsistently by the courts. Additionally, some statutory provisions remain to be interpreted by administrative regulations. No assurances can be provided that legislative, administrative or judicial changes will not occur which will alter, either prospectively or retroactively, the U.S. tax considerations or risk factors discussed in this Memorandum. Investors will thus be subject to the risk caused by the uncertainty of the tax consequences with respect to an investment in the Fund. Each prospective investor should have the tax aspects of an investment in the Fund reviewed by professional advisors familiar with such investor's personal tax situation and with the tax laws and regulations applicable to the investor and private investment vehicles. Prospective investors are strongly urged to review the discussion below under "Tax Aspects" for a more complete discussion of certain of the tax risks inherent in the acquisition of Shares and to consult their own independent tax advisors.

Risk of Adverse Determination. There can be no assurance that the conclusions set forth in this Memorandum will not be challenged successfully by the U.S. Internal Revenue Service (the "IRS") or another applicable taxing authority, or significantly modified by new legislation, changes in the IRS's positions, or court decisions. The Fund has not applied for, nor does it expect to apply for, any advance rulings from the IRS or any other applicable taxing authority with respect to any of the tax consequences described in this Memorandum. No representation or warranty of any kind is made by the Fund or the Investment Manager with respect to the tax consequences relating to an investment in the Fund. The Fund may take positions with respect to certain tax issues which depend on legal and other interpretive conclusions not yet resolved by the IRS, other applicable taxing authorities or courts. Should any such positions be successfully challenged by the IRS or any other applicable taxing authority, there could be a materially adverse effect on the Fund.

Tax Audit. An audit of the Fund by the IRS or any other applicable taxing authority could result in adjustments to the tax consequences initially reported by the Fund, which examination could affect the after-tax returns of a Shareholder's investment in the Fund. If such audit adjustments result in an increase in the Fund's tax liability for any year, the Fund may also be liable for interest and penalties with respect to the amount of underpayment. The legal and accounting costs incurred in connection with any audit of the Fund's tax returns will be borne by the Fund. The cost of any audit of a Shareholder's tax return will be borne solely by that Shareholder.

Tax Considerations Taken into Account. The General Partner may take tax considerations into account in determining when the Fund's investments (through the Master Fund) should be sold or otherwise disposed of, and may assume certain market risk and incur certain expenses in this regard to achieve favorable tax treatment of a transaction; however, no assurances can be provided that any such favorable tax treatment will be achieved.

Tax-Exempt Investors. Certain prospective investors that are generally tax-exempt for U.S. income tax purposes may be subject to U.S. federal and state laws, rules and regulations that regulate their participation in the Fund, or their engaging directly or indirectly through an investment in the Fund, in certain investment strategies that the Master Fund may utilize from

time-to-time (e.g., short-sales of securities and the use of leverage, the purchase and sale of options and limited diversification). While the Fund believes the Master Fund's investment program is generally appropriate for U.S. tax-exempt investors for which an investment in the Fund would otherwise be suitable, each type of tax-exempt organization may be subject to different laws, rules and regulations, and prospective investors should consult with their own advisers as to the advisability and tax consequences of an investment in the Fund. Investments in the Fund by entities subject to ERISA, and other tax-exempt entities, require special consideration. Trustees or administrators of such entities are urged to review carefully the matters discussed in this Memorandum.

Non-U.S. Taxation. With respect to certain countries, there is a possibility of expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains or other income, limitations on the removal of funds or other assets of the Fund, political or social instability or diplomatic developments that could affect investments in those countries. An issuer of securities may be domiciled in a country other than the country in whose currency the instrument is denominated. The values and relative yields of investments in the securities markets of different countries, and their associated risks, are expected to change independently of each other.

Shareholder Level Taxation. Tax consequences to each Shareholder will depend on tax laws in that Shareholder's jurisdiction. Shareholders should consult their professional advisors as to the possible tax consequences of subscribing for, buying, holding, selling, transferring or redeeming Shares under the laws of their country of citizenship, residence or domicile.

Tax Changes. Investors will be subject to the risk that changes to the tax law may adversely affect the tax consequences of their investment in the Fund. Changes in existing tax laws or regulations and their interpretation may be enacted after the date of this Memorandum, possibly with retroactive effect, and could alter the income tax consequences of an investment in the Fund. Certain provisions of the Code may be further amended or interpreted in a manner adverse to the Fund, in which event any benefits derived from an investment in the Fund may be adversely affected. No assurance can be given that legislative, administrative or judicial changes that could alter, either prospectively or retroactively, the U.S. tax considerations or risk factors discussed in this Memorandum will not occur.

Recently Enacted Tax Reform Legislation. Recently enacted U.S. tax reform legislation made significant changes to the rules potentially applicable to the Fund and its Shareholders. Certain of these new rules are complex and, pending guidance that may be forthcoming, the impact on the Fund and its Shareholders may be unclear. Prospective Shareholders should consult their own tax advisors regarding potential changes in any tax laws, potentially with retroactive effect.

The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in the Fund. Prospective Shareholders should read the Memorandum in its entirety, as well as the organizational documents of the Fund and consult with their own advisers before deciding whether to invest in the Fund.

Item 9: Disciplinary Information

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

Item 10: Other Financial Industry Activities and Affiliations

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

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

Code of Ethics

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

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

- The interests of the Clients must be placed first at all times.
- All investment transactions (including personal investment transactions) must be conducted consistent with this Code, and in such a manner as to avoid any actual or potential conflict of interest, or any abuse of an Employee’s position of trust and responsibility.
- Employees must not misrepresent Snowcat or their role within the Firm.
- Employees should not take inappropriate advantage of their positions with Snowcat; and
- Employees must comply with all applicable federal securities laws.

Employees are not permitted to maintain personal brokerage accounts for the purpose of trading “**Reportable Securities**” (as defined in the Code of Ethics, and which includes a wide variety of investments such as stocks, bonds, fixed income, options, warrants, futures, and derivatives) except for the purpose of holding or liquidating any such holdings after the commencement of employment. Employees are permitted to liquidate positions held at the time of employment in Reportable Securities (a “**Liquidating Trade**”) subject to pre-clearance by the CCO. Employees are prohibited from participating in Initial Public Offerings (“**IPOs**”). Employees are also prohibited from personally, or on behalf of a Client, purchasing or selling securities that appear on the Firm’s Restricted List.

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

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

Item 12: Brokerage Practices

Snowcat is authorized to determine the broker-dealer to be used for executing securities transaction for the Funds. In selecting broker-dealers to execute transactions, we do not need to solicit competitive bids and do not have an obligation to seek the lowest available commission cost. It is not our practice to negotiate “execution only” commission rates; therefore, the Funds may be deemed to be paying for research, brokerage or other services provided by the broker which are included in the commission rate.

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

Best Execution

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

Soft Dollars

The Firm may use “**Soft Dollars**”. In such cases, Soft Dollar credits, generated by the Fund’s trading activities, would be used to purchase brokerage and research services or products that would otherwise have been Fund expense. We intend to keep any such arrangements within the parameters of the safe harbor of Section 28(e) of the Exchange Act.

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

The provision by a broker of research and other services and property to us creates an incentive for us to select such broker since we would not have to pay for such research and other services and property as opposed to solely seeking the most favorable execution for a client. Any research, services or property provided by a broker may benefit any client and such benefits may not be proportionate to commission dollars related to the provision of such research, services or property.

Item 13: Review of Accounts

Our Portfolio Manager and investment professionals continuously monitor and analyze the transactions, positions, and investment levels of the Fund to ensure that they conform with the investment objectives and guidelines that are stated in the Fund’s Offering Documents. In these reviews, the Firm pays particular attention to any changes in the investment’s

fundamentals, overall risk management and changes in the markets that may affect price levels.

Account Reporting

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

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

Item 14: Client Referrals and Other Compensation

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

Item 15: Custody

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

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

Item 16: Investment Discretion

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

Item 17: Voting Client Securities

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

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

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

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

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

Item 18: Financial Information

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