

# Commonwealth Asset Management LP

## Part 2A of Form ADV

### The Brochure

11755 Wilshire Blvd, Suite 1700  
Los Angeles, CA 90025

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This brochure provides information about the qualifications and business practices of Commonwealth Asset Management LP (“CWAM”). If you have any questions about the contents of this brochure, please contact Natalie Smith, CWAM’s Chief Compliance Officer (“CCO”) at [ns@cwamgroup.com](mailto:ns@cwamgroup.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about CWAM is also available on the SEC’s website at: [www.advisorinfo.sec.gov](http://www.advisorinfo.sec.gov). Although CWAM may refer to itself as a “registered investment adviser” or describe itself as being “registered,” this registration with the SEC does not imply a certain level of skill or training.

## Material Changes

CWAM's office address changed to 11755 Wilshire Blvd, Suite 1700, Los Angeles, CA 90025.

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## Advisory Business

Commonwealth Asset Management LP ("CWAM") is a Delaware Limited Partnership formed in January 2019 and based in Los Angeles, California. CWAM is led by its indirect majority principal owner, Adam Fisher. Adam Fisher is the former Head of Global Macro and Real Estate at Soros Fund Management LLC ("Soros") and the former founder and CIO of Commonwealth Opportunity Capital, GP LLC ("CWOC").

CWAM is part of the Commonwealth Asset Management platform. The platform offers separate products in the two business lines of Global Macro and Real Estate. CWAM is the advisor for the Global Macro business. Prior to establishing CWAM, the founders and key investment professionals worked together as the core global macro investment team at Soros, and before that at CWOC. CWOC, a discretionary global macro platform, launched in 2008 and began the process of returning capital to investors in July 2017 when the investment team moved to Soros. The firm was founded and led by CIO Adam Fisher and offered two comingled hedge funds as well as multiple co-investment opportunities in both the liquid and illiquid space.

CWAM's advisory services generally consist of the purchase and sale of securities and other instruments on behalf of its Clients. CWAM generally employs macroeconomic principles to attempt to generate returns by positioning for price movements in credit, currencies, commodities, interest rates and equities in various global markets. CWAM's investment process is predicated on

a top down approach analyzing key fundamental macro drivers that exist during each business cycle including, but not limited to, economic activity, global risk premiums, monetary policy, capital account, current account balance, trade weighted currency reserves, output gap, political landscape and flow of funds.

CWAM may seek to achieve this goal by investing in any types of securities or other instruments, including without limitation equity, corporate debt, municipal or government securities, derivatives or any other type of security or other instrument.

CWAM tailors its advisory services to the individual needs of its Clients by negotiating the terms of its advisory contracts. CWAM may also tailor advisory services for Clients for legal, regulatory or tax reasons. Although the Firm does not typically provide tailored investment advice to the individual investors in the Funds, the general partners of the Funds and/or the Funds may enter into side letter agreements with certain investors which may modify such investors' rights or obligations under the operating agreements for a particular Fund.

CWAM provides discretionary investment advisory services to pooled investment vehicles (the "Funds"). Each investor in the Funds must be either: (1) a U.S. tax-exempt person which is an "accredited investor," as defined in Regulation D under the Securities Act, and a "qualified purchaser" or "knowledgeable employee," each as defined under the Company Act (and the regulations promulgated thereunder); or (2)(a) not a "U.S. Person," as defined in Rule 902 promulgated by the SEC, and (b) a "Non-United States person," as defined in Rule 4.7 under the U.S. Commodity Exchange Act (the "CEA"). These criteria are more fully described in the Subscription Agreement.

CWAM does not participate in wrap fee programs.

As of September 30, 2019, CWAM has \$0.0 in discretionary assets under management.

## **Fees and Compensation**

### **Management Fee**

As compensation for CWAM's services in managing the Commonwealth Asset Management Global Macro Master Fund Ltd ("Fund" or "the Fund"), the Fund will pay to CWAM a monthly management fee calculated as a percentage of the net assets of the Fund attributable to each Fund Series established with respect to a corresponding Series of Shares at the Fund level, as more fully described below (the Management Fee"). The Management Fee will be paid monthly in arrears based on the net assets of the Fund attributable to each such Fund Series as of the last day of each month (calculated prior to any reduction for Incentive Allocation and without regard to the effect of any month-end redemptions). The Management Fee will be prorated for any period that is less than a full month.

The applicable Management Fee payable to CWAM depends on whether the corresponding Series of Shares at the Fund level are Founders Class Shares or Class A Shares. The Management Fee in

respect of each Fund Series will be calculated at the rate of 1/12th of the applicable annual management fee rate (“Management Fee Rate”) as specified in the following table:

<b><u>Class of Shares</u></b>	<b><u>Management Fee Rate</u></b>
Founders Class Shares	1%
Class A Shares	1.5%

CWAM, in its discretion, may offer to waive, reduce or rebate all or any portion of the Management Fee for Shareholders that are members, employees or affiliates of CWAM, relatives of such persons, and for certain other Shareholders. No waiver, reduction or rebate of the Management Fee for any Shareholder will entitle any other Shareholder to any such waiver, modification or rebate.

### **Incentive Allocation**

As of each fiscal year-end, there will be reallocated to the Master Allocation Shares held by CWAM Cayman from each Fund Series that corresponds to a Series of Shares at the Fund level, an “Incentive Allocation” in the amount equal to a percentage of New Appreciation, if any, of such Fund Series (the “Incentive Allocation”).

The applicable Incentive Allocation allocable to the Master Allocation Shares depends on whether the Series of Shares at the Fund level corresponding to the relevant Fund Series are Founders Class Shares and Class A Shares. The Incentive Allocation in respect of each Fund Series will be equal to the percentage of New Appreciation (the “Incentive Allocation Rate”) as specified in the following table:

<b><u>Class of Shares</u></b>	<b><u>Incentive Allocation Rate</u></b>
Founders Class Shares	15%
Class A Shares	20%

CWAM, in its discretion, may waive, modify or rebate all or any portion of the Incentive Allocation for Shareholders that are members, employees or affiliates of CWAM, relatives of such persons, and for certain other investors. No waiver, modification or rebate of the Incentive Allocation for any Shareholder will entitle any other Shareholder to any such waiver, modification or rebate.

### **Expenses**

CWAM is authorized to incur and pay in the name and on behalf of the Fund all expenses that it deems necessary or desirable, including all investment, administrative and operating expenses incurred directly by the Fund and the Fund’s *pro rata* share of the expenses of the Fund. Such expenses include, without limitation: (a) brokerage commissions and other transaction charges;

interest; fees and expenses incurred in the borrowing and lending of securities; the costs implicit in repurchase and reverse repurchase agreements; custodial fees and expenses; tax and other reporting expenses; external legal, compliance, accounting, audit and other professional fees and expenses (including fees charged in negotiating prime brokerage, ISDA Master Agreements and related custody and segregation agreements or other trading or financing arrangements); fees relating to investment banking and other financial services, whether payable to parties affiliated with CWAM or others; pricing services, market data and software fees; bank and wire service transaction fees; ticket charges; prime brokerage fees; give up fees; borrow costs; interest on margin account and other indebtedness and similar charges; investment research expenses (including, without limitation, travel, due diligence expenses and the costs of publications and periodicals) related to proposed investments or existing investments; governmental, registration, license and membership fees (including those payable to regulatory as well as self-regulatory organizations); and the costs and expenses related to the offer and sale of Shares; (b) the costs of trading and order management systems, computer terminals, research and/or data screens, as well as risk management and data services and systems (including, without limitation, the costs of utilizing and/or supporting risk-reporting technology required by consultants retained by or on behalf of institutional investors); (c) costs and expenses associated with or deriving from obtaining and maintaining exchange memberships; (d) taxes and other governmental charges, as well as any fees and expenses of the Fund's "partnership representative;" (e) all expenses incurred in connection with any threatened, pending or anticipated litigation, examination, inquiry, audit, subpoena or proceeding; (f) all expenses incurred as a result of the Fund's and the Fund's obligations to indemnify certain persons against losses, liabilities and expenses incurred in connection with the performance of their duties on behalf of, or the provision of services to, the Fund and/or the Fund; (g) all expenses and fees of third-party consultants which provide advice to CWAM relating to the operation of the Fund (including, without limitation, in respect of cybersecurity; but excluding advice in respect of its investment strategies); (h) all expenses and fees incurred in connection with any actual or proposed investment or other participation in, or any holding or disposition of any interest in, another investment entity, business entity or organization; (i) all other expenses and liabilities incurred in connection with or arising out of its business, including extraordinary or non-recurring charges; (j) fees and expenses of the Fund's and the Fund's directors; (k) insurance premiums (including, without limitation, errors and omissions, directors and officers and general liability insurance); (l) fees and expenses of the Fund's and the Fund's anti-money laundering officers; (m) fees and expenses of any independent investor representative (the "Independent Investor Representative"); (n) the Fund's *pro rata* share of the organizational, investment, administrative and operational expenses of the Fund; (o) administrative costs (including, without limitation, fees and expenses of the Administrator and its agents as well as any other third-party administrator which may be selected for the Fund) and the costs of middle-office and back-office support as provided by the Administrator or other third parties; (p) external costs and expenses relating to the Fund's, and CWAM's U.S. and non-U.S. regulatory and self-regulatory filings (including, without limitation, Forms 13D, 13F, 13G, 13H, PF, ADV, CTA-PQR and CPO-PQR (as applicable) and other filings and reports the preparation and submission of which currently or in the future may be required of CWAM or the Manager under applicable law); (q) ERISA bonding costs, if applicable; (r) costs resulting from any entities used in the course of the Fund's trading and investing; and (s) reimbursements due to CWAM for all such costs and expenses, if any, borne by CWAM on behalf of the Fund or any subsidiary entity.

To the extent such operating expenses are incurred for the benefit of the Fund and other entities affiliated with or advised by CWAM, CWAM will generally allocate such expenses among all such entities and the Fund *pro rata* based on the net asset value of such entities, provided that in certain circumstances where CWAM determines in its sole discretion that such entities benefit equally from such expenses, it may allocate such expenses equally among such entities. CWAM currently allocates all expenses *pro rata* based on the net asset value of such entities. However, CWAM may allocate certain transactional legal fees, portfolio analysis fees and pricing agent fees that benefit multiple advisory clients simultaneously regardless of size on the basis of the number of such advisory clients and not *pro rata* based on the net asset value of such advisory clients. The Fund will not bear office rent or salary expenses of CWAM's employees.

The Fund incurred the initial cost of its organization (including expenses of the initial offer, sale and distribution of Shares) and its *pro rata* share of the Fund's organizational expenses. Such organizational expenses, for NAV purposes, are currently being amortized on the books of the Fund over a period of 60 months from the commencement of the Fund's operations. Significant organizational and offering costs with respect to any subsequent closing may be similarly amortized. The amortization of organizational expenses may be accelerated in CWAM's discretion in order to avoid a qualified opinion on the Fund's financial statements. In the event that the Fund is dissolved prior to the completion of the amortization of the organizational expenses, the amortization period will end on the effective date of dissolution.

## **Performance Based Fees and Side-by-Side Management**

As stated in "Item 5 — Fees and Compensation" above, CWAM receives an incentive allocation that is based on capital appreciation of, or capital gains on, the Funds' assets. CWAM's eligibility to receive profit allocations, however, may create an incentive for CWAM to trade and invest the Funds' portfolios in a riskier or more speculative manner than CWAM otherwise would. The Company has adopted and implemented written compliance policies and procedures that are designed to address the above conflict of interest. Further, as a fiduciary, CWAM recognizes its duties to act in good faith and with fairness in all of its dealings with the Funds.

## **Types of Clients**

CWAM provides discretionary investment management advisory services to privately offered pooled investment vehicles. The private investment vehicles operate as pooled investment vehicles intended to provide management expertise and other advantages to clients. The private investment funds are generally organized in a "master-feeder" structure, where certain "feeder funds" (for example, an onshore private investment Delaware partnership and an offshore Cayman Islands exempted company) invest substantially all of their assets into a related "Fund," although the feeder funds may make direct investments for tax, legal or regulatory reasons.

Each investor in the Fund must be either: (1) a U.S. tax-exempt person which is an "accredited investor," as defined in Regulation D under the Securities Act, and a "qualified purchaser" or "knowledgeable employee," each as defined under the Company Act (and the regulations

promulgated thereunder); or (2)(a) not a “U.S. Person,” as defined in Rule 902 promulgated by the SEC, and (b) a “Non-United States person,” as defined in Rule 4.7 under the U.S. Commodity Exchange Act (the “CEA”). These criteria are more fully described in the Subscription Agreement. CWAM works with each client to establish an appropriate investment profile. Clients choose from growth, balanced, and conservative strategies, and can impose reasonable restrictions on CWAM’s management of their accounts.

<b><u>Class of Shares</u></b>	<b><u>Minimum Initial Investment</u></b>
Founders Class Shares	\$1,000,000
Class A Shares	\$1,000,000

The minimum additional investment for both Founders Class Shares and Class A Shares is \$100,000.

The Fund Board or CWAM may, in its respective sole discretion, agree to waive or reduce the minimum initial or subsequent subscription amounts with respect to one or more Shareholders, but in no event will the minimum initial investment be below \$100,000 or such other minimum amount prescribed under Cayman Islands law from time to time. CWAM may from time to time enter into letter agreements or other similar agreements (collectively, “Side Letters”) with one or more investors or shareholders of a collective investment vehicle which provide such investor or shareholder(s) with additional and/or different rights (including, without limitation, with respect to management fees, the performance allocations, withdrawals, access to information, minimum investment amounts and liquidity terms) than such shareholder(s) or investors have pursuant to general terms of such collective investment vehicle. CWAM will not be required to notify any or all of the other investors or shareholders of any such written agreements or any of the rights and/or terms or provisions thereof, nor will CWAM be required to offer such additional and/or different rights and/or terms to any or all of the other investors or shareholders.

*Loss Carryforwards.* The Fund will make an Incentive Allocation only if and to the extent the increase in the relevant investor’s capital account for the relevant period exceeds that investor’s “loss carryforward” amount (if any) associated with that capital account. Loss carryforward amounts will, in effect, reflect historical performance-based reductions in an investor’s capital account have not been “recovered” through subsequent performance-based increases. Thus, the Fund generally will not make an Incentive Allocation for an investor based on appreciation that merely restores losses that investor has experienced. This is sometimes referred to as a “high water mark” procedure. If an investor withdraws capital at a time when he or she or it has a loss carryforward, the loss carryforward will be reduced proportionately.

*Certain Considerations.* Once made, an Incentive Allocation will not be reduced by losses incurred in later periods. This, and other factors, could encourage the Adviser to cause the Fund to make riskier investments than it might otherwise. CWAM generally does not expect to receive Incentive Allocations as to investments by CWAM Related Persons. The General Partner may designate an

affiliate to receive some or all of the amounts that the Funds' would otherwise reallocate to the General Partner as Incentive Allocations.

CWAM does not currently provide advisory services to any client which is not charged performance-based fees.

A portion of the compensation of several investment personnel of CWAM is tied (directly or indirectly) to the performance of recommendations/trades made by them.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

### **Global Macro Strategy & Investment Process**

For the majority of its Clients, CWAM will utilize an opportunistic global macro strategy. CWAM focuses on understanding the impact of economic, political and social events on the world's financial markets. CWAM employs macroeconomic principles to attempt to generate returns by positioning for price movements in credit, currencies, commodities, interest rates and equities in any global market. CWAM's investment process is predicated on a top-down approach, analyzing key fundamental macro drivers that exist during each business cycle including, but not limited to: economic activity, global risk premiums, monetary policy, capital account, current account balance, trade weighted currency reserves, output gap, political landscape and flow of funds. CWAM utilizes leverage to increase its exposure to investments and therefore potential for profits and losses, both through traditional borrowing and through the use of derivatives and other financial instruments.

CWAM's investment process is predicated on a top-down approach, analyzing key fundamental macro drivers including, but not limited to:

- ☐ Economic Activity
- ☐ Global Risk Premiums
- ☐ Monetary Policy
- ☐ Capital Account
- ☐ Current Account Balance
- ☐ Trade Weighted
- ☐ Currency Reserves
- ☐ Output Gap
- ☐ Political Landscape
- ☐ Flow of Funds
- ☐ GDP Growth & Inflation

This analysis informs CWAM's views on the global economy and leads to investment themes. CWAM then determines the most efficient trading mechanisms to express these views and analyzes the impact of trading themes on the entire portfolio. CWAM can use any financial instrument to express these views including but not limited to equities, fixed income, currencies and derivatives. The size and structure of the investment is carefully considered. The risk/reward of CWAM's investments and portfolio themes are constantly monitored as they are constantly competing for



capital against potential new ideas, themes, and vehicles. This section on risk factors is a summary of certain risks that may be applicable to an investment in a Client with respect to which the Global Macro Strategy is utilized. Fund investors should refer to each Client's offering documents and/or agreements related to investing with CWAM for additional information regarding risks.

CWAM's interpretation of the structural macro regime drives overall portfolio construction and shepherds underlying portfolio biases. The amount of residual beta the Fund will hold is a function of CWAM's belief in the persistence of the current macroeconomic regime. Factors analyzed during this regime assessment include, but are not limited to: economic activity, global risk premiums, monetary policy, capital account, current account balance, trade weighted currency reserves, output gap, political landscape and flow of funds.

The Fund may also have thematic portfolio expressions. These views may or may not form a natural add-on to the structural macro narrative, but they differ in that CWAM is not trying to harvest broader risk premium driven by the structural macro regime analysis from them. Instead, these themes earn their position in the portfolio through their own fundamental merits. Some themes sit comfortably within the established macro narrative, others may sit outside of or temporarily opposed to it and may even be partial portfolio hedges to the overall structural macro narrative.

Once opportunities are identified, CWAM then determines the most efficient trading mechanisms to express these views and analyzes the impact of trading themes on the entire portfolio. The size and structure of the investment is carefully considered. In trade structuring, CWAM takes into account the return and volatility expectation of each individual instrument as well as the correlation between the instruments within the portfolio on a current and forward-looking basis often with the intention to be able to hold such positions over the course of a year and beyond whilst realizing ex post Sharpe ratios consistent with the Fund's expectations.

Depending on conditions and trends in securities markets, the Fund may concentrate a significant percentage of its assets in a relatively small number of investments or positions. In addition, given the opportunistic nature of the Fund's investment strategy, there will be times when Fund capital is not fully deployed due to the relative lack of attractive investments in the market.

CWAM seeks to maintain on behalf of its Clients diversified portfolios across a variety of industries, issuers, asset classes and obligations. There can be no assurance that CWAM's investment objectives will be achieved or that investors will not lose some or all of their investment.

## **Risks**

***An investment in the Funds involves significant risks. You should invest only after consulting with your own independent qualified sources of investment and tax advice.***

***Neither the Funds nor CWAM can or does guarantee or represent that the Funds' investment program will be successful. As with any investment, an investor could lose some or all of his or her or its investment. An investment in the Funds is not a complete investment program and,***

*if you invest, that investment should represent only a portion of your overall asset management strategy. Among the risks involved with an investment in the Funds are the following.*

CWAM has exclusive and unrestricted discretion to invest the Fund's assets. The Funds' prospects depend upon CWAM's ability to develop and implement investment strategies that achieve the Fund's investment objectives. The following describes some of the risks that arise from relying on an investment adviser with such broad discretion and on CWAM in particular.

### **Structural and General Market Risks**

**Dependence on the Adviser; Investment Discretion.** The Fund's prospects depend upon CWAM's ability to develop and implement investment strategies that achieve the Fund's investment objectives. CWAM will select particular investments based on its analysis and subjective assessments of the variety of factors that it considers relevant to the prospects of those investments. Failures of that analysis or those assessments, as to particular investments or as to strategic direction and construction of the Fund's portfolio as a whole, may cause the Fund to incur losses or to miss profit opportunities on which it could otherwise have capitalized.

### **Reliance on Adam Fisher**

Adam Fisher is principally responsible for the Clients' investment activities. If Mr. Fisher is not available to the Firm, the Clients' performance could be adversely affected. The Firm will provide investors with prompt notice in the event that Mr. Fisher is not available to lead CWAM's investment activities.

**Limited Operating History.** Both CWAM and the Funds have a limited or no operating history. Further, prior investment performance of CWAM's key personnel does not necessarily indicate the Fund's prospects for profitability. Neither the Funds nor CWAM can or do give any assurance that the Funds will achieve profits or will not incur substantial losses. *Past performance is not necessarily indicative of future results.*

### **Other Business Activities of the Firm**

Neither the Firm nor any of its principals or employees are required to devote their full time to managing the Clients. They may conduct other businesses and provide investment management services to other funds or accounts, including, without limitation, other affiliated or unaffiliated investment funds and managed accounts (such as corporate or governmental benefit plans, institutional investors and high net worth individuals), some of whom may have objectives similar to those of the Firm's Clients. They may give advice and make recommendations to such other accounts, which may be the same, similar to or different from those rendered to Clients. The compensation arrangements with other clients may create incentives for the Firm or its principals or employees to favor such other clients. However, the Firm will not knowingly or deliberately favor any other account at the expense of the Clients. Decisions affecting the Clients may be made independently from such other accounts.

**Mark-to-Market**

The Firm may, in its sole and absolute discretion, mark-to-market certain investments. If an investment is marked-to-market and thereafter declines in value, then a performance fee may be payable with respect to appreciation in such investment, which appreciation is never realized.

**Limited Ability to Redeem**

There are restrictions on redemptions and interests in the Funds are not freely tradable. Hence, an investment in a Fund is a relatively illiquid investment. An investment in a Fund should only be considered by persons financially able to maintain their investments for a substantial period of time and who can afford a loss of all or a substantial part of their investments.

**Possibility of Losses**

An investment in a Client is speculative and involves a high degree of risk, including the risk that the entire amount invested may be lost. The value of interests in the Funds will fluctuate based upon a multitude of factors, including the financial condition, results of operations and prospects of the issuers of the underlying securities, acquired, governmental intervention, market conditions, and local, regional, national and global economic conditions. Therefore, investors may lose all or a portion of their principal invested in a Client if the Client's trading strategies are not successful.

**Differential Access to Information**

The Firm will execute transactions on behalf of Clients with other market participants who may have market information or intelligence superior to that available to the Firm. From time to time, a Client may incur substantial losses caused by an information disadvantage.

**General Economic and Market Conditions; Disruptions.** The Fund's investment results will be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, trade barriers, currency exchange controls, and national and international political circumstances. These and other general economic and market-oriented factors may affect the level and volatility of securities prices and the liquidity of the Fund's investments, in turn potentially impairing the Fund's profitability or resulting in losses. In particular, volatility and illiquidity may be increased by factors in countries and markets in which the Fund invests such as: relatively shallow levels of trading; relatively strong impact of central bank intervention in the foreign exchange markets; the relatively large impact of investment funds moving in and out of those markets; relatively poor levels and quality of information disclosure by companies; relative laxity of regulations covering the corporate governance of listed companies; and relatively under-developed regulations covering the trading of securities.

Disruptions in financial markets can significantly affect the prospects of companies in which the Fund invests, CWAM's ability to assess those prospects, and the Fund's ability to adapt its portfolio and market exposures. In 2007 and 2008, a global "credit crisis" caused rapid and violent swings in all markets. The effects of that crisis on markets (including effects caused by governmental intervention, discussed below) may continue, and markets may be less predictable than they historically have been. In the summer and early fall of 2011 global economic disruptions caused additional dramatic swings in securities prices. In 2012 and 2015, developments in Europe caused significant price swings. And 2016 saw historic levels of price volatility and declines across

international markets. More recently, the imposition of unprecedented trade tariffs by the United States could adversely affect the companies in which the Fund invests, and the possibility of similar retaliatory measures being taken by other countries may adversely impact global markets generally. Other types of disruptions could emerge, including as a result of political or economic developments outside the markets in which the Fund mainly invests, that have similar, or even more dramatic, effects on the markets in which the Fund invests. The Fund could incur major losses in the event of disrupted markets and other extraordinary events in which historical pricing relationships become materially distorted. The risk of loss from pricing distortions can be compounded by the fact that in disrupted markets previously liquid positions can become illiquid, making it difficult or impossible to close them out if the markets are moving against them.

### **Possible Ineffectiveness of Risk Reduction Techniques**

The Firm may employ various risk reduction strategies designed to minimize the risk of the Clients' trading positions. A substantial risk remains, nonetheless, that such strategies will not always be possible to implement, and when possible will not always be effective in limiting losses. If the Firm analyzes market conditions incorrectly, or employs a risk reduction strategy that does not correlate well with the Client's investments, such risk reduction techniques could increase rather than mitigate losses. These risk reduction techniques may also increase the volatility of the Client and/or result in a loss if the counterparty to the transaction does not perform as promised. Moreover, even though the Firm may employ "stop loss" orders on individual positions, there is no assurance that any such order will be executed at or near the desired "stop loss" level.

**Counterparty and Custody Risk.** Investment funds such as the Fund must place most of their assets in the custody of institutions, such as brokerage firms and banks, which may hold those on the books of depositaries and other intermediaries in the institutions' own name (i.e., in "street name"). The Fund is subject to the risk that these firms and/or other brokers, counterparties, clearinghouses, or exchanges with which the Fund deals, could default on their obligations to the Fund, causing material losses to the Fund. Bankruptcy or fraud at one of these institutions could also impair the Fund's operational capabilities or capital position. Securities and other assets the Fund deposits with custodians or brokers may not be clearly identified as being the Fund's assets, causing the Fund to be exposed to credit risk with regard to those custodians or brokers. The Fund generally will only be an unsecured creditor of its trading counterparties in the event of bankruptcy or administration of those counterparties and in some jurisdictions the same may be true of the Fund's relationship to its brokers. The Fund attempts to limit its brokerage and custody transactions to well-capitalized and established banks and brokerage firms in an effort to mitigate these risks, but the collapse in 2008 of the seemingly well-capitalized and established Bear Stearns and Lehman Brothers demonstrates that there are limits to the effectiveness of this approach in avoiding counterparty losses.

**Reliance on Third Party Service Providers.** CWAM and the Funds rely heavily on custodians, prime brokers, executing brokers and counterparties, and the Administrator for a variety of services that are essential to the Funds' operations, including executing, clearing and settling portfolio transactions, reporting transactions and positions, financial reporting, processing subscriptions and redemptions, and monitoring and providing information for regulatory reporting and related purposes. If any of these service providers fails to perform its services accurately and effectively, in particular if a service provider or its personnel were to engage in fraud or theft or make material

errors in performing services, a Fund's operations could be materially impaired or the Fund could lose assets. Among other things, portfolio transactions the Adviser ordered might not be effected or the Adviser might take action based on erroneous information. Any such failures, errors, fraud or other misconduct could cause the Fund to suffer losses.

**Reliance on Technology; Cybercrime.** The Funds will rely heavily on computer hardware and software, online services, and other computer-related or electronic technology and equipment to facilitate the Funds' operations and investment activities. Should events beyond CWAM's control cause a disruption in the operation of any of that technology or equipment, the Fund may experience losses, liabilities, or other adverse effects. In particular, the Funds are subject to risks associated with a breach in their cybersecurity. Cybersecurity is a generic term used to describe the technology, processes, and practices designed to protect networks, systems, computers, programs, and data from "hacking" by other computer users, other unauthorized access, and the resulting damage and disruption of hardware and software systems, loss or corruption of data, and misappropriation of confidential information. If a cybersecurity breach occurs, the Funds may incur substantial costs, including those associated with: forensic analysis of the origin and scope of the breach; increased and upgraded cybersecurity; investment losses from sabotaged trading systems; identity theft; unauthorized use of proprietary information; litigation; adverse investor reaction; the dissemination of confidential and proprietary information; and reputational damage. Any such breach could expose both the Funds and CWAM to civil liability, as well as regulatory inquiry and/or action. In addition, any such breach could cause substantial redemptions from the Feeders. Investors could also be exposed to additional losses as a result of unauthorized use of their personal information.

#### **Reliance on Corporate Management and Financial Reporting**

CWAM selects investments for a Client in part on the basis of information and data filed by issuers of securities with various government regulators and publicly available or made directly available to CWAM by such issuers or third parties. Although CWAM will evaluate all such information and data and seek independent corroboration when it considers it appropriate and reasonably available, CWAM may not be in a position to confirm the completeness, genuineness or accuracy of such information and data. CWAM is dependent upon the integrity of the management of such issuers and of such third parties as well as the financial reporting process in general. Recurring instances have demonstrated the material losses that investors such as a Client can incur as a result of corporate mismanagement, fraud and accounting irregularities.

#### **Rating Agency Uncertainty**

Downgrading of issuers and/or investment assets in which a Client has invested could lead to substantial losses, and CWAM may not be able to rely with confidence on the ratings given to issuers in which CWAM is considering investing on behalf of a Client. The ratings of a number of asset-backed securities have proved to have materially understated the actual risks of such securities, leading to severe losses by institutional investors who acquired such securities on the strength of their ratings.

**Idle Funds.** While CWAM will attempt to keep the Fund's assets invested, there may be periods when a portion of its assets are in cash, cash equivalents, or other short-term investments. The

investment return on those “idle funds” is not expected to meet the overall return objective CWAM seeks through the Fund’s investment program.

**No Limitations on Strategies.** There are no limitations on the investment strategies which the Adviser may use when investing the Fund’s assets. The Adviser will opportunistically implement whatever strategies or discretionary approaches it believes from time to time may be best suited to prevailing market conditions. For some of these strategies, no specific “risk factors” are described below. Nevertheless, such strategies should be considered to be speculative, volatile and, in general, no less risky than other strategies. Over time, the strategies implemented on behalf of the Fund can be expected to expand, evolve, and change, perhaps materially. The Adviser will not be required to implement any particular strategies and may discontinue employing any particular strategy on behalf of the Fund, whether or not such strategies are specifically described in its respective offering memorandum, and without notice to investors. There can be no assurance that the various investment strategies which the Adviser expects from time to time to develop and implement for the Fund will be successful or that strategies that have been successful will continue to be profitable.

### ***RISKS ARISING FROM PARTICULAR ACTIVITIES OR TYPES OF SECURITIES***

**No Limitations on Financial Instruments.** The Fund may invest in a broad array of financial instruments and there is no limitation on the instruments in which the Fund may invest—consistent with the Fund’s investment strategy. The choice of investment instruments can materially affect a Fund’s results. Even if the Adviser correctly predicts future market movements, certain instruments may respond unexpectedly to such movements, resulting in unanticipated losses.

**Concentration of Investments.** The Fund will not be as diversified as many other investment funds. The investment management agreement does not require the Adviser to limit investments that could create excessive concentration in a particular company or industry, nor must the Fund divest positions when appreciation (or other positions’ depreciation) causes them to comprise an outsized portion of the Fund’s portfolio, and the Fund may at times have a relatively large portion of its capital exposed to a relatively small number of positions and/or a particular industry. Accordingly, losses in one or more large positions, or a downturn in an industry in which the Fund is concentrated, could materially adversely affect the Fund’s performance and could have a materially adverse effect on the Fund’s overall financial condition.

All investment and trading activities risk the loss of capital. The following describe some of the risks to which the Fund’s portfolio will, or may, be subject.

**Equity Securities.** The Fund may invest in equity and equity-related securities. Equity securities fluctuate in value in response to many factors, including the activities, results of operations, and financial condition of individual companies, the business market in which individual companies compete, industry market conditions, interest rates, and general economic environments. In addition, events such as domestic and international political instability, terrorism, and natural disasters may be unforeseeable and contribute to market volatility in ways that may adversely affect investments made by the Fund.

**Investments Based on Valuation.** The Fund will invest in securities the Adviser believes are undervalued and may sell short securities the Adviser believes are overvalued. Identifying investment opportunities of these kinds is a difficult task, and neither the Fund nor the Adviser can

provide any assurance that the Adviser will succeed at it. While investments in undervalued securities offer opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses and short sales based on expectations that market participants will come to agree that a stock is overpriced can theoretically involve even higher risks. The Fund may be required to hold positions for a substantial period before market prices reflect the Adviser's beliefs about their value. Returns generated from the Fund's investments may not adequately compensate for the business and financial risks assumed.

**Leverage of Issuers.** The Fund's investments will include securities of companies with leveraged capital structures, which could be subject to increased exposure to adverse economic factors, such as an increase in interest rates, a downturn in the economy, or further deterioration in the economic conditions of such company or its industry. Similarly, the Fund may invest in entities that are unable to generate sufficient cash flow to meet principal and interest payments on their indebtedness. Accordingly, the value of the Fund investment in such an entity could be significantly reduced or even eliminated due to further credit deterioration.

**Short Selling.** The Fund may sell securities short as a regular part of its investing activities. In a short sale, the Fund sells securities it does not own, in the expectation that the market price will decline and the Fund will be able to buy replacement securities later at a lower price. To accomplish this, the Fund borrows the securities from a broker or other third party. It "closes" the position by "returning" the security (buying a replacement security on the lender's behalf). This "return" obligation does not typically have a specified "maturity" date and the lender generally may require replacement of the securities whenever it chooses. A short sale theoretically involves the risk of unlimited loss; the price at which the Fund must buy "replacement" securities could increase without limit. The Fund may experience losses on short positions that are not offset by gains on long positions.

As collateral for its return obligation, the Fund must leave the proceeds of its short sales with the lender—generally a prime broker. Ordinarily, all the Fund's assets held by a prime broker will serve as collateral not only for the Fund's short sale return obligation, but also for any other credit the prime broker extends and any other obligations the Fund owes the prime broker. If the amount of the Fund's return obligation were to increase significantly due to increases in a short-sold security's price, or if the value of collateral were to decrease, the Fund could be required to deliver additional cash or other collateral to the relevant prime broker. But, if substantially all the Fund's assets were already serving as collateral, it is unlikely that the Fund would be able to meet such a demand, and the prime broker would likely cause the Fund to "buy-in" or "close" some or all of its short positions. Such a "buy-in" could well be at a time and on terms that are adverse to the Fund. Less dramatically, market-driven increases in short-sale-related liabilities and reductions in collateral value could also reduce the Fund's ability to effect transactions or distribute cash to fund withdrawals from a Fund. Lenders such as the prime brokers have great discretion in their decisions regarding adequacy of collateral, and the Fund's short-selling activities, and actions that depend on availability of assets not being relied on for collateral (*e.g.*, distributing cash) could be curtailed, potentially significantly and without notice.

In 2008, regulators in the United States, the United Kingdom, and several other countries, significantly changed the regulations that govern short selling, settlements of short-sale transactions, lending to facilitate short sales, disclosure of short positions, and other aspects of short-selling activities. Those actions, taken on short notice, significantly affected some positions and some market participants, including through forced buy-ins under adverse circumstances and

even “double” buy-ins. In 2011 and again in 2012, regulators in several European countries imposed additional interim limitations on short selling and in 2012 imposed significant permanent reporting requirements. Short selling practices remain the subject of political controversy and changes in short-selling-related regulations may continue to occur, again potentially with little notice. The Fund could suffer losses on short-selling activities as a direct or indirect result of those changes, and its ability to use short selling as a part of its overall investment activities could be limited or made less effective or profitable.

**Options.** The Fund may trade equity and other types of options. Options trading is highly speculative and may entail risks greater than investing in other securities. Option prices are generally more volatile than other securities’ prices. When trading options, the Fund is speculating on market fluctuations of securities and securities exchange indices while investing only a small percentage of the value of the securities underlying the options. A change in the market price of the underlying securities or underlying market index would cause a much greater change in the price of the option contract. In addition, if the Fund buys options that it does not sell or exercise, it will suffer the loss of the premium paid. To the extent the Fund sells (writes) options and must deliver the underlying securities at the option price, the Fund has a theoretically unlimited risk of loss if the price of the underlying securities increases. If the Fund must buy those underlying securities, it risks the loss of the difference between the market price of the securities and the option price. Any gain or loss derived from the sale or exercise of an option will be reduced or increased, respectively, by the amount of the premium paid. The expenses of option investing include commissions payable on the purchase and on the exercise or sale of an option.

**Small and Medium Capitalization Stocks.** The Fund may invest in stocks of companies with relatively small- or medium-sized market capitalizations. While the Adviser believes these stocks can provide significant potential for appreciation, they can involve higher risks than investments in stocks of larger companies. For example, prices of small-capitalization and some medium-capitalization stocks are often more volatile than prices of large-capitalization stocks and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) may be higher than for larger, “blue-chip” companies. In addition, thin trading in some small- and medium-capitalization stocks may make those stocks less liquid than large- capitalization stocks.

**Substantial Positions in Portfolio Companies.** The Fund may from time to time acquire positions in the securities of particular companies that, by themselves or when combined with positions held in other investment funds and accounts the Adviser manages, comprise a substantial percentage of those companies’ outstanding securities. The Adviser and/or the Fund may be required to file with the SEC and/or other regulatory authorities reports of beneficial ownership of securities. In these cases, it may be difficult to liquidate or reduce the Fund’s position in these securities, preventing the Fund from realizing profit or avoiding loss. In addition, there may be other circumstances under which the aggregate holdings of a security by the Fund and other accounts the Adviser manages, or the Adviser’s involvement with the security’s issuer, limit the Fund’s ability to liquidate or reduce its position. The Adviser may at times attempt to influence management of a particular company or exercise control of a company.

**Timing of Gains and Losses; Volatility.** The Fund may need to hold some of its positions for significant periods before their success or failure becomes apparent or any gains can be realized. It may take longer for successful positions to realize their potential than for unsuccessful ones to reveal their weaknesses. Market prices of portfolio positions may be expected to fluctuate



significantly over the Fund's holding periods, causing a Fund's performance to be volatile over the short term.

**Debt Instruments.** The Fund may invest in debt or other fixed-income instruments, including bonds and debentures. Particular types of debt instruments are subject to various risks that are specific to the ways in which they are structured, the industries and markets in which their issuers participate, the assets underlying the instruments, the impact of applicable tax or regulatory factors, and numerous other specific factors. But the values and prices of all debt instruments are subject, in substantially the same way (albeit with differing levels of sensitivity), to credit risk, market risk, and interest rate risk.

- *Credit risk* is the risk that a fixed income security will decline in price, or fail to pay interest or principal when due, because the issuer of the security experiences a decline in its financial status.
- *Market risk* relates to the changes in the market perceptions of the risk of an issuer, country, or region. The market values of debt instruments, particularly non-investment grade debt, may be more volatile than the values of other investments and, during periods of economic uncertainty and change, the market price of these investments can decrease rapidly and dramatically.
- *Interest rate risks* include: (i) if interest rates increase, the value of fixed income securities will generally decline; (ii) during periods of rising interest rates, the average life of certain fixed income securities may be extended because of slower than expected principal payments, which may lock in a below market interest rate, increase the security's duration, and reduce the value of the security (*i.e.*, extension risk); and (iii) during periods of declining interest rates, the issuer of a security may exercise its option to prepay principal earlier than scheduled, forcing the Fund to invest in lower yielding securities (*i.e.*, call or prepayment risk). The following is a list of some of the types of debt instruments in which the Fund may invest or trade and some of the particular risks that may be involved in those instruments. The Fund may buy any of these types of debt instruments in circumstances in which they are non-performing, or possibly in bankruptcy, and in those circumstances they would also be subject to the other risks related to distressed investing described elsewhere.
- *Non-U.S. Sovereign Debt.* The Fund may invest in securities issued by non-U.S. sovereign nations directly or through the use of derivatives. The default risk of such sovereign issuers and, therefore, the market prices of these instruments varies widely from country to country and by issuer within particular countries. It is also subject to wide fluctuation based on both local and global political factors. For example, continued uncertainty over European governments' financial support programs and policy decisions, including the possibility that certain European Union member states may default, experience similar financial troubles and/or abandon the European Union and the Euro currency entirely, has been a destabilizing economic force for some time, and sovereign credit issues can be expected from time to time to further disrupt the global markets, possibly with material adverse effects on a Fund. The fallout from these developments could have a significant impact on the stability and credit ratings of various European countries and financial institutions with exposure to European sovereign debt, and even the continued viability of the European Union and the Euro currency. The markets for sovereign debt instruments are subject to profound intervention by

governments, which could also significantly affect prices and liquidity of the instruments. Such instruments are subject to currency risks.

- *Non-Investment Grade (High Yield) Instruments.* Bonds and other debt instruments are often traded in established securities markets, and their prices vary based on factors that influence those markets. Non-investment grade, or “high yield” instruments, are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be speculative. In the United States, these are generally debt securities that are not rated or are rated below investment grade (for example, below BBB by Standard & Poor’s Rating Group or Baa by Moody’s Investors Service, Inc.) by a nationally recognized statistical rating organization. They are also generally considered to be subject to greater risk than securities with higher ratings, because their yields and prices tend to fluctuate more than those for higher-rated instruments, and the market for lower-rated securities is less liquid and less active. Trading and investing in non-investment grade instruments can be highly speculative.
- *Bank Loans and Participations.* Bank loans, participations in bank loans, and similar investments are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a “fraudulent conveyance” under relevant creditors’ rights laws; (ii) so-called “lender liability” claims by the issuer of the obligations; (iii) environmental liabilities that may arise from collateral securing the obligations; and (iv) limitations on the Fund’s ability to directly enforce its rights. They may also involve transactional risks: the Fund may experience significant delays in the settlement of certain loan and/or bank debt transactions, particularly in the case of investments that are or become distressed. Until a transaction is settled, the Fund will be subject to counterparty insolvency risk. Pursuant to certain insolvency laws, a counterparty may have the ability to reject or terminate an unsettled loan transaction. If a counterparty rejects an unsettled transaction, the Fund might lose any increase in value with respect to such loan that accrued while the transaction was unsettled. The Fund may also invest in loan participations where it has no direct contractual relationship with the underlying borrower. In those cases, the Fund generally would depend on the lender to enforce its rights and obligations under the loan arrangements in the event of a borrower default and would generally have no voting rights as to the borrower, as the lenders typically retains those rights. Participation investments are subject to the credit risk of the lender (as well as the borrower) since they will depend upon the lender forwarding payments of principal and interest received on the underlying loan. A lender could default on its obligations to the Fund, resulting in substantial losses to the Feeder Funds.
- *Non-Traditional Debt Investments.* The Fund may acquire all manner of obligations, including trade or other receivables, possibly issued by credit-impaired obligors. These receivables, claims, or other obligations may not have any maturity and may not be secured. As with other types of debt instruments, they involve the risk of loss in case of default or insolvency of the obligor, particularly if the obligation is unsecured. In addition, these obligations may be subject to payment defenses, such as warranty claims, claims for failure to provide the product or services, or counterclaims for breaches by the supplier of the underlying goods or services. They are generally relatively illiquid.
- *Municipal Securities.* Municipal securities are generally issued or guaranteed by a state or local government or agency. They may be issued to raise money for public purposes,

including general financing for or financing for public facilities, or for private purposes, including financing for specific projects. They may be issued in anticipation of future revenues and may be backed by the full taxing power of a government, the revenues from a specific project, or the credit of a private organization. Their value may be affected by uncertainties about a specific municipality or other issuer or in the municipal market generally, possibly related to legislation or litigation involving the taxation of municipal securities or the rights of municipal securities holders. In recent years, the credit quality of many local governments has degraded significantly and holders of municipal securities have faced significant losses due to municipal insolvencies. Uncertainties about particular governments' obligations, including pensions and unfunded benefits obligations, have significantly negatively affected the markets for many municipal securities and may be expected to continue to do so.

- *Asset-Backed Securities.* Asset-Backed Securities (“ABS”) typically represent an interest in a pool of assets such as credit card receivables, automobile loans, or home equity loans, and have yield and maturity, characteristics corresponding to their underlying assets. Unlike traditional debt securities, which may pay a fixed rate of interest until maturity when the entire principal amount comes due, payments on certain ABS include both interest and a partial payment of principal. This partial payment of principal may consist of a scheduled principal payment as well as an unscheduled payment from the voluntary prepayment, refinancing, or foreclosure of the underlying loans. As a result of these unscheduled payments of principal, or prepayments on the underlying securities, the price and yield of ABS can be adversely affected. For example, during periods of declining interest rates, prepayments can be expected to accelerate, and the Fund would be required to reinvest the proceeds at the lower interest rates then available. Prepayments of loans that underlie securities purchased at a premium could result in capital losses because the premium may not have been fully amortized at the time the obligation is prepaid. In addition, like other interest-bearing securities, the values of ABS generally fall when interest rates rise, but when interest rates fall, their potential for capital appreciation is limited due to the existence of the prepayment option.
- *Mortgage-Backed Securities.* Mortgage-backed securities are securitized pools of mortgage loans. They include Residential Mortgage Backed Securities (“RMBS”) and Commercial Mortgage Backed Securities (“CMBS”). The underlying mortgage loans may be of various types (including Alt-A, subprime and pay-option adjustable rate mortgages, in addition to traditional first-lien mortgages). The securities the Fund buys (or sells) may represent any of a number of types of participations in the principal and interest payments from those mortgages. They are subject to all the risks inherent in asset-backed securities and, in addition, to risks specific to their underlying assets. These include, among others (i) the impact of prepayment and perceptions of prepayment patterns on prices of the securities; (ii) the impact on underlying real estate conditions, borrower creditworthiness, and local default rates and other economic conditions and changes; (iii) the impact of real estate market forces on prepayment patterns and foreclosure realization; (iv) changes in the structure and effectiveness of government-sponsored enterprises that participate in the mortgage markets, such as Fannie Mae, Freddie Mac, and Ginnie Mae; and (v) changes in regulations that affect origination, collection, and securitization of mortgage loans.
- *Other Securitized Products.* Securitized products may include, in addition to the asset-backed

investments described above, collateralized debt obligations and synthetic credit portfolio transactions. Structured products are generally subject to the risks of asset-backed securities, including prepayment, credit, liquidity, market, structural, legal, and interest risks. They may also be subject to special risks related to their particular structure. For example, synthetic portfolio transactions may be structured with two or more tranches, each of which receives different proportions of the interest and principal distributions on a pool of credit assets. The yield to maturity of any given tranche may be extremely sensitive to the default rate in the underlying reference portfolio.

- *Mezzanine Debt Securities.* Mezzanine debt securities are generally unrated or below investment grade rated investments that have greater credit and liquidity risk than more highly rated debt obligations. Mezzanine debt securities are typically issued in traditional private placements or in connection with acquisitions and other business combinations and have no trading market. Moreover, mezzanine debt securities are generally unsecured and subordinate to other obligations of the obligor and are subject to many of the same risks as those associated with high-yield debt securities. Adverse changes in the financial condition of the obligor of mezzanine debt securities or in general economic conditions (including, for example, a substantial period of rising interest rates or declining earnings) or both may impair the ability of the obligor to make payment of principal and interest. Issuers of mezzanine debt securities may be highly leveraged, and their relatively high debt-to-equity ratios create increased risks that their operations might not generate sufficient cash flow to service their debt obligations.
- *U.S. Government Securities.* Debt instruments issued or guaranteed by the U.S. Treasury or by an agency or instrumentality of the U.S. Government are generally considered high quality and less affected by credit quality factors than other instruments. However, not all U.S. Government securities are backed by the full faith and credit of the United States. For example, securities issued by the Federal Farm Credit Banks Funding Corporation are supported only by the credit of the entity that issued them. Even full faith and credit securities are subject to price fluctuations caused by interest rate fluctuations, as well as market disruptions.
- *Secured Loans.* The Fund may invest in secured debt, which involve various degrees of risk of a loss of capital. The factors affecting an issuer's secured leveraged loans, and its overall capital structure, are complex. Some secured loans may not necessarily have priority over all other debt of an issuer. For example, some secured loans may permit other secured obligations (such as overdrafts, swaps or other derivatives made available by members of the syndicate to the company), or involve secured loans only on specified assets of an issuer (*e.g.*, excluding real estate). Issuers of secured loans may have more than one tranche of secured debt outstanding each with secured debt on separate collateral. In the event of Chapter 11 filing by an issuer, the Bankruptcy Reform Act of 1978, as amended (the "Bankruptcy Code") authorizes the issuer to use a creditor's collateral and to obtain additional credit by grant of a priority lien on its property, senior even to liens that were first in priority prior to the filing, as long as the issuer provides what the presiding bankruptcy judge considers to be "adequate protection" which may but need not always consist of the grant of replacement or additional liens or the making of cash payments to the affected secured creditor. The imposition of priority liens on the Fund's collateral would adversely affect the priority of the liens and claims held by the Fund and could adversely affect the Fund's recovery on the affected loans.

Any secured debt is secured only to the extent of its lien and only to the extent of underlying assets or incremental proceeds on already secured assets. Moreover, underlying assets are subject to credit, liquidity, and interest rate risk.

- *Online Marketplace Loans.* The Fund may invest in loans, or participations in loans, originated through so-called online marketplaces or “platforms” (including what have also been called “peer-to-peer” or “marketplace” lending platforms) (“OM Loans”). Such OM Loans may be consumer loans or small business loans, will generally be unsecured, and will generally have terms of five years or less. OM Loans are originated, issued, and serviced in ways that are relatively novel, and they present risks and uncertainties that some of the debt instruments discussed above do not. The performance of the Fund’s investments in OM Loans will depend primarily on the interest rates those OM Loans pay and the payment performance of those OM Loans (primarily default rates). There is very little historical information about the performance of OM Loans in different economic and interest rate environments. Changes in various economic conditions, as well as developments with particular origination platforms and other participants involved with those investments, could have unpredictable results on the performance of the Fund’s OM Loans. Because there is no currently reliable secondary market for OM Loans, the Fund will not necessarily be able to access significant liquidity with respect to its OM Loan investments.

**Convertible Securities, Rights, and Warrants.** The Fund may invest in hybrid securities that may be exchanged for, converted into, or exercised to acquire a predetermined number of shares of an issuer’s common stock at the option of the holder during a specified time period (such as convertible preferred stocks, convertible debentures, stock purchase rights, and warrants). Convertible securities generally pay interest or dividends and provide for participation in the appreciation of the underlying common stock but at a lower level of risk because the yield is higher and the security is senior to common stock.

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 privilege) and its “conversion value” (the security’s worth, at market value, if converted into the underlying common stock). The credit standing of the issuer and other factors may also affect the investment value of a convertible security. 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 the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security is increasingly influenced by its conversion value.

Convertible securities may also include warrants, often publicly traded, that give a holder the right to purchase at any time during a specified period a predetermined number of shares of common stock at a fixed price but that do not pay a fixed dividend. Their value depends primarily on the relationship of the exercise price to the current and anticipated price of the underlying securities.

**Risks of Investing in Non-U.S. Securities.** The Fund may invest and trade in securities of non-U.S. companies or governmental entities, and in securities, commodity interests, and derivative contracts and instruments denominated in currencies other than U.S. dollars. Such securities and other instruments can subject the Fund to risks not typically associated with investing in securities and commodity interests in the United States. The following are some of the more significant risks associated with this type of investing.

- *Political and Economic Instability.* Many non-U.S. economies and markets are relatively unstable due to, among other things, volatile internal political environments, relatively unstable monetary systems, and/or external political risks. Some governments participate in their economies through ownership or regulation in ways that can have a significant effect on securities prices. The economies of some countries depend heavily on international trade and can be adversely affected by the enactment of trade barriers or changes in the economic condition of their trading partners. In some countries, especially developing or emerging countries, political or diplomatic developments could lead to programs that would adversely affect investments, such as confiscatory taxation or expropriation.
- *Currency Fluctuations.* The Fund may invest in securities denominated in foreign currencies. A change in the value against the U.S. dollar of a currency in which an investment is denominated causes a corresponding change in the U.S. dollar value of the investment. Some foreign countries maintain their currencies at artificial levels relative to the U.S. dollar. This type of system can lead to sudden and large adjustments in the currency, which can in turn result in losses to foreign investors. The Fund may enter into futures and foreign currency transactions to attempt to reduce its foreign currency exposure. These techniques may reduce, but will not eliminate, the risk of loss due to unfavorable currency fluctuations and they tend to limit any potential gain that might result from favorable currency fluctuations. Some countries restrict conversion of their currency into foreign currencies, including the U.S. dollar, and for some currencies, there is no significant foreign exchange market.
- *Characteristics of Foreign Securities Markets.* Many foreign securities markets are not as developed or efficient as those in the United States and may be more volatile than the U.S. markets. In particular, there is generally less government supervision and regulation of many foreign exchanges, brokers, and listed companies than in the United States. Further, trading volumes in many markets are lower than in U.S. markets, resulting in reduced liquidity and potentially rapid and erratic price fluctuations. Commissions for trades on foreign exchanges may be higher than negotiated commissions on U.S. exchanges and custody expenses may be higher as well. Settlement practices for transactions in foreign markets may involve delays beyond periods customary in the United States, possibly requiring the Fund to borrow funds or securities to satisfy its obligations arising out of other transactions. In addition, there could be more “failed settlements,” which can result in losses to the Fund.
- *Less Company Information and Regulation.* There is less publicly available information about many foreign companies than about U.S. companies. This may make it more difficult for the Adviser to keep informed of corporate actions that may affect the price of a particular security. Further, many foreign countries lack uniform accounting, auditing, and financial reporting standards, practices, and requirements. These factors can make it difficult to analyze and compare the performance of foreign companies.
- *Restrictions on Investment and Repatriation.* Some countries impose restrictions and controls regarding investment by foreigners. Among other things, they may require prior governmental approvals, impose limits on the amount or types of securities that may be held by foreigners, or impose limits on the types of companies in which foreigners may invest. These restrictions may at times limit or preclude the Fund’s investment in certain countries and may increase the Fund’s costs. Indirect foreign investment may, in some cases, be permitted through

investment funds that have been specifically authorized for that purpose. Because of the limited number of authorizations granted in such countries, however, units or shares in most of the investment funds authorized in those countries may at times trade at a substantial premium over the value of their underlying assets. There can be no certainty that these premiums will be maintained and if the restrictions on direct foreign investment in the relevant country were significantly liberalized, premiums might be reduced, eliminated altogether, or turned into a discount. In addition, certain foreign countries impose restrictions and controls on repatriation of investment income and capital.

- *Foreign Taxes.* Dividend and interest payments on certain foreign securities owned by the Fund may be subject to foreign withholding taxes, as may realized capital gains. Such taxes will reduce net proceeds to the Fund.
- *Depository Receipts.* The Fund may pursue some non-U.S. investing through American Depositary Receipts (“ADRs”), Global Depositary Receipts (“GDRs”), European Depositary Receipts (“EDRs”), or other similar securities representing ownership of foreign securities (collectively, “Depository Receipts”). Depository Receipts generally evidence an ownership interest in a corresponding foreign security on deposit with a financial institution. Transactions in Depository Receipts usually do not settle in the same currency in which the underlying securities are denominated or traded. Generally, ADRs, in registered form, are designed for use in the U.S. securities markets and EDRs, in bearer form, are designed for use in European securities markets. GDRs may be traded in any public or private securities markets and may represent securities held by institutions located anywhere in the world.

Investing through Depository Receipts involves substantially the same risks as investing directly in non-U.S. securities.

**Distressed Investments.** The Fund may invest in “distressed” securities — claims and obligations of issuers that are experiencing significant financial or business difficulties. Investments may include loans, loan participations, trade claims held by trade or other creditors, stocks, partnership interests, and similar financial instruments, executory contracts, and options or participations therein not publicly traded. The Fund may lose a substantial portion or all of its investment in a distressed situation or may be required to accept cash or securities with a value less than its investment. Among the risks inherent in investments in entities experiencing significant financial or business difficulties is the fact that it frequently may be difficult to obtain information as to the true condition of the issuers. These investments also may be adversely affected by state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability, and the bankruptcy court’s discretionary power to disallow, subordinate, or disenfranchise particular claims. The market prices of distressed entity investments are subject to abrupt and erratic market movements and above average price volatility, and the spread between the bid and asked prices of these investments may be greater than normally expected. In trading distressed securities, litigation is sometimes required, which can be time-consuming and expensive and can frequently lead to unpredicted delays or losses. To the extent the 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 Adviser’s control.

**Bankruptcy Proceedings.** There are a number of significant risks when investing in companies involved, or that may have been involved, in bankruptcy proceedings, including the following. First, many events in a bankruptcy are the product of contested matters and adversary proceedings which are beyond the control of the creditors. Second, a bankruptcy filing may have adverse and permanent effects on a company. For instance, the company may lose its market position and key employees and otherwise become incapable of restoring itself as a viable entity. Further, if the proceeding is converted to a liquidation, the liquidation value of the company may not equal the liquidation value that was believed to exist at the time of the investment. Third, the duration of a bankruptcy proceeding is difficult to predict. A creditor's return on investment can be impacted adversely by delays while the plan of reorganization is being negotiated, approved by the creditors and confirmed by the bankruptcy court, and until it ultimately becomes effective. Fourth, certain claims, such as claims for taxes, wages and certain trade claims, may have priority by law over the claims of certain creditors. Fifth, the administrative costs in connection with a bankruptcy proceeding are frequently high and will be paid out of the debtor's estate prior to any return to creditors. Sixth, investments in troubled companies may also be adversely affected by U.S. federal and state laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability, alter ego, veil-piercing, or "domination and control" theories of liability, and a bankruptcy court's discretionary power to disallow, subordinate, recharacterize, or disenfranchise particular claims. Seventh, investors in the company may be subject to a court-imposed "cram down" in which they lose their seniority in the capital and security interest structure. Eighth, the Fund may seek representation on creditors' committees and as a member of a creditors' committee it may owe certain obligations generally to all creditors similarly situated that the committee represents and may be exposed to liability to such other creditors who disagree with the Fund's actions. There can be no assurance that the Fund would be successful in obtaining results most favorable to it in such proceedings, although the Fund may incur significant legal fees and other expenses in attempting to do so. The Fund may also be subject to various trading or confidentiality restrictions. In addition, the Fund and some of the Adviser's other clients may potentially hold conflicting positions in relation to investments in companies involved in bankruptcy proceedings. Finally, changes in bankruptcy laws (including U.S. federal laws and applicable non-U.S. laws) may adversely impact the Fund's investments. Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing, and the classification, seniority, and treatment of claims.

**Portfolio Leverage.** Leverage in the Fund's portfolio could increase both the possibilities for profit and the risk of loss. If the Fund were to borrow to leverage its investments (margin borrowing), that borrowing would probably be secured by the Fund's securities and other assets. Margin borrowings typically allow the lender to demand an increase in the collateral that secures the Fund's obligations, and if the Fund were unable to provide additional collateral, the lender could liquidate the collateral to satisfy the Fund's obligations. Forced liquidation could have extremely adverse consequences, including sales at disadvantageous times and prices and the acceleration of tax consequences.

**Securities Lending.** The Fund may lend portfolio securities either directly or through programs operated by financial intermediaries. As a creditor, the Fund runs the risk that borrowers of its securities may fail to return borrowed securities on demand or at all. A borrower's failure to return securities on a timely basis could cause the Fund to default on obligations it owes to third parties



or it could force the Fund to make other arrangements to satisfy those obligations (such as borrowing equivalent securities elsewhere), resulting in penalties and unexpected costs. The Fund could lose the entire value of the lent securities. While borrowers typically provide securities as collateral for their obligations to return borrowed securities, that collateral is typically invested in instruments the value of which could decline, resulting in losses to the Fund. The institutions that operate securities lending programs in which the Fund participates may make mistakes in administering the lending and collateral investing arrangements, resulting in delays and potential losses for the Fund.

**Exchange Traded Funds and Other Pooled Investment Vehicles.** The Fund may invest or trade in Exchange Traded Funds (“ETFs”), index-related instruments, and other instruments or pooled vehicles as a way of hedging risks related to particular industries, sectors, or markets in connection with its other investments. Doing so will subject the Fund to the hedging-related risks. It may also include the risk that an ETF or index-related instruments may not effectively reflect the performance of the index, industry, or other market it is intended to replicate. Investing in any pooled investment vehicle involves, in addition to all the risks involved in investing in securities or commodities generally, the risk that the expenses charged to the pooled vehicle reduce the return, that the managers of the pooled vehicle are not successful at their stated program, that those managers face conflicts of interest, that the investment is illiquid, and that the non-investment operations of the pooled vehicle become subject to error and mismanagement, resulting in losses for the pooled vehicle. In any event, such pooled vehicles can be expected to incur costs in addition to the Fund’s fees and costs, thus reducing the return on investments in those vehicles.

**Limited Liquidity of Investments.** Some of the Fund’s investments may be relatively illiquid. An investment may be illiquid because it is thinly traded or because the Fund’s position in it is large in relation to the overall market for the security. The Fund may own (or have a short position in) securities that are relatively liquid when acquired (or sold short) but that later become illiquid. The Fund may not be able to liquidate illiquid positions if the need were to arise; rapid sales of such securities could depress the market value of those securities, reducing the Fund’s profits, or increasing its losses, in the positions (and rapid purchases to cover short positions could have the corollary effect). In addition, while it does not currently intend to, the Fund may buy securities that are not immediately saleable in the public markets.

Withdrawals funded out of the most liquid portion of the Fund’s assets could cause the illiquid portion to be a greater percentage of the Fund’s portfolio than would otherwise be optimal.

The value assigned to illiquid securities (including thinly traded securities) and large blocks of securities for purposes of determining participation account sharing percentages and determining net profit and net loss may differ from the value the Fund is ultimately able to realize on those securities.

**Hedging.** The Adviser may use hedging strategies to the extent it considers appropriate in light of current circumstances and portfolio composition. It may do so using short positions in one instrument to hedge long positions in another instrument, and vice versa. Hedging strategies in general are intended to limit or reduce investment risk, but they can also be expected to involve transaction costs and may inherently limit or reduce the potential for profit. Hedges are often imperfectly inversely correlated with the underlying exposure the Fund seeks to hedge and, to the

extent that is the case, can subject the Fund to additional risk, if prices involved in the hedging position move against the Fund. Other risks that may be involved in hedging include: (i) possible illiquidity in the market for closing out a hedging position; (ii) interest rate, spread, or other broad market movements not anticipated by the Adviser; (iii) the Fund's obligations to meet margin or other payment requirements; (iv) a counterparty's default or refusal to perform; and (v) impact that required segregation of the Fund's assets to cover hedge-related obligations may have on portfolio management or the Fund's ability to meet short-term obligations. The Fund will not attempt to hedge all market or other risks inherent in its positions and will hedge certain risks, if at all, only partially.

**Currencies and Foreign Exchange.** The Fund may take positions in currencies, either directly or through the use of derivative instruments. While it may do so to hedge currency exposure on other investments, it may also do so to take advantage of what the Adviser considers trading opportunities. The foreign exchange markets can be news-driven, can be unexpectedly volatile, and can be affected by non-market forces such as actions of various governments.

**Forward Contracts.** The Fund may trade deliverable forward contracts in the inter-bank currency market. Such deliverable forward contracts and "cash" trading are substantially unregulated. Deliverable forward contracts are not currently traded on exchanges; rather, banks and dealers act as principals in these markets. There is currently no limitation on daily price movements and speculative position limits are not applicable. Changes in the forward markets may entail increased costs and result in burdensome reporting requirements. Principals in the forward markets have no obligation to continue to make markets in the forward contracts traded. The CFTC now regulates non-deliverable forwards (which includes many deliverable forwards where the parties do not take delivery) as swaps. The imposition of credit controls by governmental authorities or the implementation of additional regulations might limit forward trading to less than that which the Adviser would otherwise recommend, to the possible detriment of the Fund.

**Derivatives in General.** The Fund's investments in derivative instruments could include, among other things, options, contracts for differences, participatory notes, swaps (including on interest rate, credit default, total return, and equity swaps), futures, and forward contracts. While specific types of derivatives involve specific risks, all derivative instruments can involve a variety of material risks, including the following:

- *Leverage.* Derivatives can have significant embedded leverage: they can allow the Fund to participate in market price fluctuations of the underlying reference instrument or value (e.g., securities, indices, interest rates, commodities, or currencies) while only investing a small percentage of the "notional" value of the contract. As with all forms of leverage, this can increase not only the opportunity for profit but also the risk of loss. Depending on how they are used, derivatives may increase or decrease the overall volatility of a portfolio.
- *Limited Liquidity.* The markets for many derivative instruments are frequently characterized by a limited number of dealers, can mean limited liquidity and can, in turn, make it difficult and costly to close out open positions in order either to realize gains or to limit losses.
- *Correlation Error and Change.* The pricing relationships between derivatives and the reference values or instruments underlying them may suddenly change from historical patterns, resulting in unexpected losses.

**Futures/Commodities Activities.** The Fund could buy futures on securities indices, commodities, or currencies, and trade in other commodity interests. As with some other derivatives, futures can provide a form of leverage, allowing the Fund to participate in market price fluctuations of indices, interest rates, or commodities underlying futures (or options on futures), while only investing a small percentage of the value of those underlying indices, rates, or commodities as margin. Trading in futures is highly speculative and may entail risks that are greater than investing in securities, including: increased volatility relative to other securities; increased exposure resulting from the leverage aspects of futures trading; and the potential illiquidity of futures positions.

The Fund's futures and options activities may include futures and options traded in non-

U.S. markets. The risks of these activities may be greater than those of trading in futures and options on U.S. exchanges. For example, foreign futures and options are cleared on and subject to the rules of a foreign board of trade. Neither the CFTC nor the NFA regulates activities of any foreign board of trade, including transaction execution, delivery, and clearing. Moreover, these agencies have no enforcement authority over foreign boards of trade. In addition, funds provided for foreign futures and options may not be provided the same protections as funds received in respect of U.S. transactions.

**Over-the-Counter Derivatives.** Over-the-counter or "OTC" derivatives have historically been individually – negotiated, non-standardized agreements entered into directly and privately between two parties—rather than on an exchange—to make/receive payments based on changes in underlying reference instruments or values. While, as described below, legislation and regulations require many derivatives to be cleared, many will remain bilateral and non-cleared. OTC derivatives involve the following types of risks, among others:

- Counterparties to non-cleared OTC derivatives might fail to perform, subjecting the Fund to loss of the benefit of the derivative agreement and potentially to loss of access to assets posted with the counterparty as collateral. Non-cleared OTC derivatives are generally not afforded the risk-mitigating protections of an execution facility or clearinghouse, or of a government regulator that oversees the execution facility or clearinghouse, in the event of such a failure to perform. Even cleared derivatives may not avoid these risks entirely: when transacting in cleared OTC derivatives, the Fund will not face a clearinghouse directly but rather will transact through an OTC derivatives dealer that is registered with the CFTC or SEC and that acts as a clearing member (a futures commission merchant). If another of the Fund's clearing member's customers fails to meet its obligations to the clearing member, under certain circumstances the clearing member could default on its obligations to the clearinghouse, and the Fund's assets held by the clearing member could consequently become inaccessible for an indefinite period or could ultimately prove not to be recoverable.
- If a counterparty's creditworthiness declines, the value of a derivative contract with the counterparty can be expected to decline, potentially resulting in losses by the Fund.
- Many derivative contracts call for payments by the Fund periodically or upon changes in the price of an underlying instrument or in underlying rates or indices. The Fund must be prepared to make those payments when due, and it may be required to maintain collateral with its counterparty to support its payment obligations. If the Fund were to fail to fulfill those obligations or to post any required collateral, its counterparty could declare an event of default, and the Fund could be required to pay breakage fees, suffer the loss of the amounts paid to the counterparty, and possibly forego future payments from the counterparty.

- OTC derivatives are less liquid than listed options or futures
- Difficulties may arise in interpreting the legal terms of the relevant agreements.

**Regulation of Over-the-Counter Derivatives.** As a result of Dodd-Frank, the CFTC now requires a substantial portion of derivative transactions that were previously executed on a bilateral basis in the OTC markets to be executed through a regulated futures exchanges or swap execution facilities (“SEFs”) and be submitted for clearing to regulated clearinghouses. The SEC is also expected to impose similar requirements on certain security-based derivative transactions in the near future, though it is not yet clear when these parallel SEC requirements will go into effect.

Among other things, in the United States, trades submitted for clearing are subject to minimum variation margin requirements, and may be subject to minimum initial margin requirements, set by the relevant clearinghouse, as well as margin requirements mandated by the CFTC, SEC and/or federal prudential regulators. Regulators also have imposed margin requirements on non-cleared OTC derivatives and new requirements that apply to derivatives dealers’ holding of customer collateral. Derivatives dealers may require the Fund to give them the right unilaterally to increase collateral requirements for cleared OTC trades beyond regulatory and clearinghouse minima. These factors may increase the amount of collateral the Fund is required to provide and the costs associated with providing it.

In an effort to facilitate derivatives strategies, the Fund and/or the Adviser might become member(s) of exchanges and/or SEFs. Doing so would subject the Fund and/or the Adviser to a wide range of regulations and other obligations and associated costs. Like other self-regulatory organizations, SEFs regularly revise and interpret their rules, and those revisions and interpretations could adversely affect the Fund. The Adviser may engage brokers that are members of exchanges and/or SEFs to place trades on its behalf. While the Fund and Adviser are not direct members of any SEF, such indirect SEF participation may nevertheless require the Fund to consent to the SEF’s jurisdiction as a self-regulatory organization and to be subject to the SEF’s rules, which could adversely impact the Fund.

In Europe, the EU Market Infrastructure Regulation on OTC derivatives, central counterparties, and trade repositories (“EMIR”) imposes requirements in respect of derivative contracts that may affect the Fund’s derivatives activities in Europe, including a general obligation to clear certain types of OTC derivative contracts through a duly authorized central counterparty. EMIR will largely be implemented through secondary measures, some of which are already in effect, and some of which will come into effect over the coming years. The EU regulatory framework for derivatives is also affected by the Markets in Financial Instruments Directive (“MiFID II”), which is expected to be implemented over the next one or two years.

While these and other legislative and regulatory measures may provide protections for some market participants, they are new and still being implemented, and their effects on the derivatives market activities cannot be reliably predicted. They may reduce the availability of some types of derivative instruments, may increase the cost of trading in or maintaining others, and may cause uncertainty in the markets for a variety of derivative instruments.

**Swap Agreements.** The Fund from time to time enters into various swap agreements (“Swaps”) as part of its investment program. A Swap is agreement between two parties to exchange cash flows (and sometimes principal amounts) measured by different interest rates, commodity prices, exchange rates, energy rates, indices or prices, with payments generally calculated by reference to

a principal (“notional”) amount or quantity. OTC Swaps and similar derivatives are individually negotiated contracts that are not traded on exchanges or SEFs; rather, banks and dealers act as principals in these markets. Furthermore, OTC Swaps may have non-standardized and highly bespoke terms, and may or may not be cleared by a central counterparty. As a result, the Fund is subject to the risk of the inability or refusal to perform with respect to such contracts on the part of the counterparties with which the Fund trades. However, many Swaps representing a substantial portion of the Swap marketplace, for example many interest rates swaps, are required to be executed through regulated futures exchanges or SEFs and be submitted for clearing to regulated clearinghouses. All Swaps, whether OTC or traded on regulated markets, may be subject to various other types of risk, including market risk, liquidity risk, counterparty credit risk (including, if applicable, risk of clearing member or clearinghouse default), legal risk, and operations risk. In addition, Swaps can involve considerable economic leverage and may, in some cases, involve significant risk of loss. Depending on their structure, Swaps may increase or decrease exposure to the corporate credit market, equity securities, long-term or short-term interest rates, foreign currency values, corporate borrowing rates, or other factors. Swaps can take many different forms and are known by a variety of names. The Fund is not limited to any particular form of Swap if its use is consistent with the Fund’s investment objectives and policies.

Depending on how they are used, Swaps may increase or decrease the overall volatility of a portfolio. The most significant factor in the performance of Swaps is the change in the specific interest rate, currency, equity index or other factors that determine the amounts of payments due to and from the Fund. If a Swap calls for payments by the Fund, the Fund must be prepared to make such payments when due. In addition, if a counterparty’s creditworthiness declines, the value of a Swap with such counterparty can be expected to decline, potentially resulting in losses by the Fund.

**Credit Default Swap Agreements.** The Fund may invest in credit default swaps. The typical credit default swap contract requires the seller to pay to the buyer, if 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 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 Fund will be subject to certain risks in addition to those described elsewhere herein. In circumstances in which the Fund does not own the debt securities that are deliverable under a credit default swap, the 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 not be successful. 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 had occurred. The creation of the ISDA Credit Derivatives Determination Committee (the “Determination Committee”) is intended to reduce this uncertainty and create uniformity across the market, although it is possible that the Determination Committee will not be able to reach a resolution or do so on a timely basis. In either of these cases,

the 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 Fund will incur leveraged exposure to the credit of the reference entity and become subject to many of the same risks it would incur if it were holding debt securities issued by the reference entity. However, the 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 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 Fund.

Counterparty risk is always present in credit default swaps. The market for credit default swaps on distressed securities is not liquid (compared to the market for credit default swaps on investment-grade corporate reference entities). If current interest rate spreads over an applicable credit benchmark (such as LIBOR or a successor index) widen or the prevailing credit premiums on credit default swaps increase, the amount of a termination or assignment payment upon a termination or assignment of a transaction due from the Fund to the credit default swap counterparty could increase by a substantial amount.

In addition, the proper tax treatment of credit default swaps and other derivatives may not be clear. Investors generally are required to treat any such derivatives for U.S. federal income tax purposes in the same manner as they are treated by the Fund. The tax environment for derivatives is evolving, and changes in the taxation of derivatives may adversely affect the value of derivatives held by the Fund.

Given the increases in trading volume of some credit derivatives in the market, settlement of such contracts may also be delayed beyond the time frame originally anticipated by counterparties. Such delays may adversely impact the Fund's ability to otherwise productively deploy any capital that is committed with respect to such contracts.

Certain governmental entities have indicated that they intend to regulate the market in credit default swaps. It is difficult to predict the impact of any such regulation on the Fund, but it may be adverse (including making the Fund ineligible to be a "seller" of credit default swaps).

**Total Return Swaps.** The Fund from time to time may invest in total return swaps. As a buyer of total return swaps, the Fund will be obligated to make certain periodic payments in exchange for the total return on a referenced asset, including coupons, interest, and the gain or loss on such asset over the term of the swap. The Fund may be required to maintain collateral with the total return swap counterparty. If the Fund fails to fulfill its payment obligations or fails to post any required collateral under a total return swap, the total return swap counterparty may declare an event of default, and, as a result, the Fund may be required to pay swap breakage fees (with respect to OTC swaps), suffer the loss of the amounts paid to the counterparty, and forego the receipts from the counterparty of further total return swap payments.

**Credit Default Swaps on Loans and LCDX Transactions.** The Fund may invest in all types of loan credit default swaps ("LCDS") and all types of LCDX transactions, a tradable index comprising 100 equally – weighted underlying single-name loan-only credit default swaps. LCDS are similar to credit default swaps on bonds, except that the underlying protection is sold on syndicated secured loans of a reference entity rather than a broader category of bonds or loans.

Buyers of protection pay a fixed coupon agreed at the time of the trade and receive compensation on the principal if the entity named on the contract defaults on its secured debt. The compensation will be par minus recovery either via the protection seller paying par in return for gaining possession of the loan or via cash settlement. Loan credit default swaps may be on single names or on baskets of loans, both tranching and untranching.

The Fund may also invest in LCDX, which is the buying or selling of protection on 100 names that comprise the LCDX portfolio (*i.e.*, the buying and selling of 100 single-name LCDS). Buying and selling the LCDX can be compared to buying and selling a loan portfolio. When the index is bought, the buyer is taking on the credit exposure to the loans and is exposed to defaults similar to when a loan portfolio is bought. If the index is sold, this exposure is passed on to someone else. The index has a fixed coupon, which is paid when the index is sold, or received if the index is bought. The credit events that generally trigger a payout from the buyer (protection seller) of the index are bankruptcy or failure to pay a scheduled payment on any debt (after a grace period), for any of the constituents of the index. Credit events can be settled by physical or cash settlement. Physical settlement entails delivering the loan and receiving par. The protection seller who took delivery of the loan holds the defaulted asset. Although this method is the traditional method of settlement, there are risks that the notional amounts of the outstanding loans is less than the LCDS outstanding and that the LCDX counterparty will be able to take receipt of the loans.

**Trading Errors.** Trading inevitably entails the risk of errors in order placement and execution. The Fund may engage in trading that is, at times, rapidly executed, and it may rely on computer code, software, hardware, and modes of transmission. These activities may increase the risk of trading errors. The Fund will bear the burdens, and enjoy the profits, from any trading errors, unless those errors constituted “disabling conduct” by the Adviser. Disabling conduct is defined as any act performed or omitted by an employee or agent on behalf of the Adviser in relation to CWAM’s business that constitutes gross negligence, fraud, willful misconduct, or a material breach of the Partnership Agreement or the Fund’s Investment Management Agreement by the Firm’s personnel.

**New Issues.** The Fund may invest in “new issues”—initial public offerings of equity securities. Investors who are “restricted persons” under the rules of FINRA, as well as executive officers and directors of certain companies that have or may have certain investment banking relationships with broker-dealers selling new issues, may be limited in the amount of profits (if any) that they may be allocated from new issues in which the Fund invests or prohibited entirely from participating in a new issue. To the extent an investor is subject to these limitations, an investment in a Feeder Fund may produce lower performance than that experienced by investors who are not so subject. Any investor who does not provide the Fund with information sufficient to show that he or she or it is not subject to FINRA-related limitations will be presumed to be subject to them.

## **FUND RISKS**

**Limited Liquidity.** An investment in the Fund is illiquid and is not suitable for an investor who needs liquidity. There is no public market for Shares, and there are limitations on Shareholders’ abilities to transfer their Shares. Although investors may redeem shares/interests, their ability to do so is subject to several limitations. Investors generally may not redeem shares/interests without a redemption charge equal to 3% of the redemption proceeds until the end of the fourth full calendar quarter after the date of the issuance of the shares/interests being redeemed. Thus, an investor may

not be able to redeem shares/interests without paying a redemption charge when he or she or it needs liquidity, and shares/interests could decline in value before the investor is able to redeem shares/interests without paying a redemption charge.

**Net Asset Value Volatility.** Some of the Fund's investment activities could involve discrete events with binary outcomes in which there is potentially a material and abrupt adjustment to the Fund's net asset value (a "gapping" net asset value) at the point that the consummation/non-consummation result is determined. While the market prices of the Fund's positions will be affected by the perceived change in probability of consummation during the progress of a transaction, until the final resolution of the consummation/nonconsummation outcome there is a material potential uncertainty in the net asset values as currently determined. Subscriptions and redemptions will, however, be processed based on a particular date's net asset value, without adjustments for potential "gapping," which the Adviser believes cannot be reasonably predicted, much less quantified. As a result, continuing, redeeming, and subscribing investors are subject to the risk of economic dilution (i.e., to the risk of a subscription or redemption being processed in accordance with a net asset value that is suddenly and materially changed by a non-consummation or consummation event). The risk of such economic dilution will typically increase the nearer an outstanding transaction in which the Fund is invested comes to its "decision date."

**Valuation.** For some of the Fund's securities, the market may be or become subject to irregular trading activity, wide bid/ask spreads, and extended trade settlement periods, resulting in unreliability of pricing information. Further, if an issuer's financial condition deteriorates, accurate financial and business information can become limited or entirely unavailable, and prices for its securities may not be available from any source. Although most marketable securities and other instruments are valued based on prices reported in the public markets, where third-party pricing of an asset is not readily available, valuation will be done by CWAM in accordance with the Valuation Policy. As a result of this and other factors, values reflected in financial reports and used in determining investors' sharing percentages (e.g., upon new subscriptions), redemption proceeds, the Management Fee, and Incentive Allocations might not accurately reflect the amounts the Fund could obtain (or would be required to pay as to some types of derivatives positions) if it were to try to sell the security (or close the position). While valuation decisions will be made pursuant to the Valuation Policy, that policy grants the Valuation Committee significant discretion, and CWAM faces conflicts of interest in making valuation decisions.

**Effect of Substantial Redemptions.** Substantial redemptions from a Feeder Fund over a short period could require the Fund to liquidate securities positions more rapidly than would otherwise be desirable, possibly reducing the value of the Fund's assets and/or disrupting the Fund's investment strategy or strategy with respect to particular investments. Reduction in the Fund's size could make it more difficult to generate a positive return or to recoup losses. Among other things, such a reduction could impair the Fund's ability to take advantage of particular investment opportunities, and it would decrease the ratio of the Fund's income to its expenses.

**Risks Associated with Incentive Allocations.** The prospect that the General Partner or its affiliates could receive Incentive Allocations could encourage the Adviser to make investments on the Fund's behalf that are riskier or more speculative than it would otherwise. Because the General Partner or its affiliates will receive an Incentive Allocation as to unrealized gains that may never



be realized and will not return an Incentive Allocation made for one period if, in a later period, the Fund experiences losses, the Incentive Allocation may be greater than it would be if it were based solely on realized gains. Further, unrealized gains will be determined based on valuations over which CWAM has ultimate authority. CWAM may at any time withdraw from the Fund capital attributable to Incentive Allocations (and earnings on that capital). These factors could be viewed as providing an incentive for CWAM to cause valuations of securities as of a calendar year end to be higher than it might in the absence of those factors. It is possible that an investor that has both Founders and non-Founders shares/interests could be subject to an Incentive Allocation as to one type of share/interest and not as to others, and could even be subject to Incentive Allocations as to one type of share/interest for a year in which he or she or it has experienced an overall net loss across all shares/interests.

**Master-Feeder Structure.** The Feeder Funds invest alongside each other as “feeder funds” in the Fund, and other pooled investment vehicles or other entities may do so in the future. Operating in a master-feeder structure could, under some circumstances, create pressure for the Adviser to manage the Fund’s portfolio in ways that are less advantageous to a particular Feeder Fund than if the Feeder Fund pursued its investment activities independently.

### ***OTHER RISKS***

**Limited Investment Company Regulation.** Each Feeder Fund intends to rely on Section 3(c)(7) of the Investment Company Act to avoid requirements that the Fund register as an “investment company” under, and comply with the substantive provisions of, that act. If the Fund were registered as an investment company, the Investment Company Act would require, among other things, that the Fund have a board of directors, a majority of whom are “disinterested,” compel certain custodial arrangements, and regulate the relationship and transactions between the Fund and the Investment Manager or its affiliates. Investors do not have the benefit of the protections afforded by, nor is the Fund subject to the restrictions that arise from, such registration and regulation. Compliance with some of those regulations could possibly reduce certain risks of loss, although it would significantly increase the Fund’s operating expenses and limit the Fund’s investment and trading activities. The Fund is not subject to comparable regulation in any non-U.S. jurisdiction.

Interpretations of Section 3(c)(7) are complex and uncertain in several respects. As a result, there can be no assurance that the Fund will remain entitled to rely on this section. If the Fund were found not to have been entitled to exclusion from investment company regulation under this section, the Fund and the Investment Manager could be subject to legal actions by the SEC and others, and the Fund could be forced to terminate its business under adverse circumstances.

**European Union Alternative Investment Fund Managers Directive.** Under the European Union Alternative Investment Fund Managers Directive (the “AIFMD”), which was enacted in 2011, if a Fund were to market shares/interests in the European Union, CWAM and the Fund would have to comply with certain disclosure and reporting requirements set forth in the AIFMD. Because various member countries in the European Union are still implementing their own statutes and regulations in response to the AIFMD, these requirements are unsettled and still evolving. If

CWAM or the Fund were found not to have complied with the AIFMD and related laws, as implemented by any particular European Union country, the Fund may incur costs and expenses that could adversely affect Shareholders' return on their investments. Finally, the costs of compliance with the AIFMD and related laws, or the threat of penalties and sanctions for failure to comply, may cause the Investment Manager to determine not to offer shares/interests in some or all European Union countries, which could hinder the Fund's ability to raise capital to fund investment strategies. CWAM currently intends to rely on "reverse solicitation."

### ***TAX RISKS***

General and specific tax risks are discussed in each Feeder Fund's offering documents.

**This list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in connection with the adviser's investment portfolio or the management of the funds. In addition, prospective investors should be aware that, as the funds' investment portfolios develop and change over time, the funds may be subject to additional and different risks.**

### **Disciplinary Information**

CWAM and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

### **Other Financial Industry Activities and Affiliations**

While Commonwealth Asset Management GP LLC (the "General Partner") and Commonwealth Asset Management Holdings LLC ("the Holding Company") are not registered as an investment adviser, any of its investment advisory activities are subject to the Advisers Act and the rules thereunder. In addition, employees and persons acting on behalf of the General Partner and the Holding Company are subject to the supervision and control of CWAM. Thus, the General Partner and the Holding Company, all of its employees and the persons acting on its behalf would be "persons associated with" the registered investment adviser so that the SEC could enforce the requirements of the Advisers Act against the General Partner and the Holding Company.

As of June 25, 2019, BHUS Holdings LLC, a Delaware limited liability company ("BHUSH"), acquired a minority ownership interest in Commonwealth Asset Management Holdings LLC, a Delaware limited liability company ("CWAM Holdings"), which is the general partner of CWAM. As part of this transaction, the parties have caused the formation of Commonwealth Asset Management Cayman LP, a Cayman Islands exempted limited partnership ("CWAM Cayman"), for which Commonwealth Asset Management GP LLC, a Delaware limited liability company affiliated with CWAM, serves as general partner and in which Brevan Howard CWOC Holdings Limited, a Cayman Islands exempted company (together with BHUSH, "Brevan"), is a limited

partner. The acquisition by Brevan of an interest in CWAM Holdings and CWAM Cayman is referred to as the “Transaction.”

As a result of the Transaction, Brevan acquired customary minority right protections with respect to its ownership interest in CWAM Holdings and CWAM Cayman, including consent rights over certain major actions. However, Brevan has no control over the day-to-day operations of CWAM or CWAM Cayman. Furthermore, Brevan does not have transparency into the Fund’s investment positions or any authority to influence the investment decisions of CWAM.

Commonwealth Real Estate is a real estate investment business run by Adam Fisher, founder and CIO of the Commonwealth Asset Management Platform. Commonwealth Real Estate’s strategy is focused on large-scale platform and entity-level real estate transactions in sectors with strong secular tailwinds and idiosyncratic inefficiencies that can be exploited with creative, long-term investment strategies.

CWAM, its employees and its affiliates may now or in the future advise and organize other partnerships, investment advisors or funds having similar or different investment objectives than those of the Fund. In the course of advising and managing other funds or investment advisors, CWAM is confronted by several potential conflicts of interest. These potential conflicts of interest arise in the course of selecting investments for acquisition and disposition, allocating resources, allocating employees’ time, allocating expenses, valuation of fund assets where such valuation will determine our management fee. CWAM has adopted policies and procedures to address many, if not all, these potential conflicts of interests. A discussion of CWAM’s brokerage practices and security allocation is included below.

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

CWAM has adopted a written code of ethics that is applicable to all employees. Among other things, the code requires CWAM and its employees to act in clients’ best interests, abide by all applicable regulations, avoid even the appearance of insider trading, and pre-clear and report on many types of personal securities transactions. CWAM’s restrictions on personal securities trading apply to employees, as well as employees’ family members living in the same household. A copy of CWAM’s code of ethics is available upon request.

CWAM employees (“Employees”) must have written clearance for any personal securities transaction (except for any transaction involving an Exempt Security) before completing the transaction. Employees are required to complete and submit a personal securities request, which includes several certifications and acknowledgements (including lack of material non-public information, no knowledge of pending orders or considerations of the requested security). The Firm maintains records of the requests indicating if Employees’ requests for pre-clearance have been approved or denied. Among other things, CCO or designee shall confirm that the Firm does not have an open order on the trading desk for such security, in addition to ensuring that such security is not on the Firm’s Restricted List (as discussed further below). Once pre-clearance is granted, the

pre-clearance approval is valid only for the calendar day on which the approval is granted. Unless otherwise noted, no pre-clearance is required for transactions involving Exempted Securities.

Covered Persons are prohibited from engaging in frequent or short-term (i.e., 30 days) personal trading. More specifically, Covered Persons may not profit from the purchase and sale or sale and purchase of the same security (except for any transaction involving an Exempt Security or an ETF) within 30 calendar days. However, Covered Persons may add to a position (purchase) or decrease a position (sell) in the same security within a 30 day period. Except for limited circumstances and subject to pre-clearance approval, Covered Persons should not execute trades opposite of Firm recommendations.

Additionally, CWAM monitors personal trading with regards to volume of trades within a particular time period. The Firm reserves the right to limit the volume of trading permitted by any and all Covered Persons.

A copy of CWAM's Code of Ethics shall be provided to any client or prospective client upon request.

### **CWAM as Principal**

CWAM does not generally act as principal, either buying securities for itself or its affiliates from a Client or selling securities it or its affiliates own to a Client. However, in the event that CWAM decides to engage in any such principal transaction with respect to a Client in the future, it will comply with the requirements of Section 206(3) of the Advisers Act and Section 25235(c) of the California Corporate Code by: (i) disclosing to the Client in writing the material terms of the transaction; and (ii) obtaining the written consent of the Client for such transaction (which for the avoidance of doubt will be provided by an Independent Investor Representative where applicable per a Client's offering documents). CWAM will include in such disclosure: (1) its capacity as principal; (2) the cost to CWAM of the security, in the case of a sale to the Client, or the price of the security in a resale, in the case of a purchase from the Client; and (3) the best price at which the transaction could be effected by or for the Client elsewhere if such price is more advantageous to the Client than the purchase or sale with CWAM. The Fund does not anticipate engaging in such transactions when CWAM may make a trading profit.

### **Cross Trades between Clients of the Firm**

CWAM has no current plans to effect cross trades. In the event that the CWAM wishes to engage in any cross trades, prior approval of the CCO is required.

### **Co-investment with Affiliates**

An advisory client may "co-invest" with the Firm and/or principals of the Firm and other advisory clients in respect of certain investment opportunities. Any such co-investments will be on the same terms as made available to the Client, and no additional fees will be incurred by virtue of such investments unless explicitly disclosed otherwise. In the context of potential co-investment

opportunities with either the Firm or its principals, the Firm may provide information regarding such potential investment, including investment documents and term sheets to certain potential or actual advisory clients.

CWAM retains the right to offer certain investors or certain existing or prospective clients the opportunity to participate in “co-investments” with CWAM and/or principals of CWAM or other investment opportunities, which may be in the form of separately managed accounts or investment vehicles which will be managed with an investment approach that is substantially similar to, overlapping with, or entirely different from a Client. CWAM does not maintain an allocation process in deciding to which investors or prospective investors it offers such investment opportunities. CWAM has no obligation to offer co-investment opportunities to any particular investor and prospective investors should not invest in a Fund with the expectation they will be afforded the opportunity to participate in co-investments. However, if an investor or prospective investor is interested in learning about co-investment opportunities, such investor is invited to contact CWAM for further information.

CWAM principals may have personal relationships involved in connection with some such potential co-investments and/or other investment opportunities and thus CWAM may have a conflict of interest in offering such opportunities. In the event of a conflict of interest related to such an investment opportunity, CWAM will make the requisite disclosure in the applicable governing document (e.g., an IMA) or otherwise.

### **Board Membership and Control Positions**

Subject to the limitations contained in CWAM’s compliance manual, employees of CWAM may serve on boards of directors or executive committees or in other management capacities at companies in which an advisory client invests, either directly or indirectly. Serving in such a capacity may expose such employee, and by association CWAM and the advisory client, to certain limitations on the ability to trade the securities of the issuer company and certain conflicts of interest. An employee may become aware, from time to time, of material non-public information about the company in which the advisory client invests, and the employee’s knowledge is likely to be attributed to CWAM and the client, and therefore, the client’s ability to trade the securities of such company may become substantially restricted. The client’s ability to buy and sell such securities may be limited to such times as company insiders are permitted to do so. Such limitations may cause the client to forgo sales that it would otherwise make, thereby exposing the client to losses, or to forgo purchases, thereby exposing the client to lost opportunities.

Furthermore, the exercise of control or influence over the management and policies of a company through the service of an officer or employee of CWAM as an officer or director of such company could expose the assets of the client to claims by the portfolio company, its security holders and creditors, or could impose additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability. If these liabilities were to occur, the client directly, and the investors indirectly, could suffer losses in their investments.

## **Relationships with Service Providers in the Financial Industry**

CWAM has relationships, including family relationships, with service providers in the financial industry, including, but not necessarily limited to, relationships with executing and prime brokers, private banking institutions and accounting firms. In certain cases, these service providers or affiliated entities will have additional exposure and relationships with CWAM including as clients or investors in the Funds.

CWAM may in the future make, investment recommendations to clients to invest in issuers that may be affiliated with service providers (or their personnel) to CWAM or its clients. CWAM will only make such recommendations to the extent it determines such investments to be in the best interests of its clients and if the financial terms of such investments are fair to the Firm's clients. CWAM will not intentionally seek to obtain reduced fees for itself from such service providers in circumstances where it may be recommending such investments. Rather, all fee negotiations will be conducted on an arm's length basis.

## **Brokerage Practices**

In selecting a broker or dealer for any transaction or series of transactions, CWAM's policy is to seek the best execution of orders at the most favorable price in light of the overall quality of brokerage and research services provided. The determination of what is expected to result in best execution at the most favorable price involves a number of largely judgmental factors, including, for example, net price, reputation, financial strength and stability, efficiency of execution, block trading and block positioning capabilities, error correction capabilities, availability and costs of securities to borrow (with respect to short sales), willingness to execute related or unrelated difficult transactions in the future, research services provided to CWAM, and other matters ordinarily involved in the receipt of brokerage services generally. In selecting a broker or dealer for any transaction or series of transactions, CWAM does not necessarily solicit competitive bids and is under no duty to obtain the lowest commission or best net price for the Fund on any particular transaction.

CWAM may effect securities transactions which cause the Fund to pay an amount of commission (as that term may be interpreted from time to time by relevant regulatory authorities) in excess of the amount of commission another broker would have charged; provided, however, that CWAM determines in good faith that such amount of commission is reasonable in relation to the value of brokerage and research services provided by such broker, viewed in terms of either the specific transaction or CWAM's overall responsibilities to the accounts for which CWAM exercises

investment discretion. The receipt and use of such services will not reduce CWAM's customary and normal research activities.

Goldman, Sachs & Co. ("Goldman Sachs") is the Fund's prime broker pursuant to agreements entered into by the Fund, CWAM and Goldman Sachs. UBS Securities LLC ("UBS") is the Fund's foreign exchange prime broker pursuant to an agreement entered into by the Fund and UBS (the "FX PB Agreement"). CWAM may at its discretion appoint other brokers, prime or otherwise. Brokers or custodians (including the Custodians, as defined below) have no role in investment decisions on the Fund's behalf.

### **Soft Dollar Benefits**

Section 28(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") provides a safe harbor that allows an investment adviser to pay more than the lowest available commission in order to obtain brokerage and research services (commonly referred to as a "soft dollar" arrangement). CWAM does not utilize third-party soft dollar arrangements such as commission sharing accounts or similar brokerage commission conduits whereby CWAM generates "commission credits" through trading that are used to pay for third party research or related products and services. CWAM also does not expressly agree to provide a certain level of execution to a broker or dealer in exchange for research products or services.

However, CWAM utilizes proprietary research provided by brokers or dealers (which may include information on the economy, industries, political developments, credit analysis, performance analysis, individual companies and statistical information), as well as access to corporate officers of public companies and other access opportunities that provide value to CWAM's investment management activities which CWAM would have otherwise had to produce or pay for itself. In such circumstances, CWAM seeks to operate within the safe harbor provided by Section 28(e) of the Exchange Act and to be subjected to prevailing guidance provided by the SEC regarding Section 28(e). As a result, CWAM may effect securities transactions which cause a client to pay an amount of commission (as that term may be interpreted from time to time by relevant regulatory authorities) in excess of the amount of commission another broker would have charged. However, CWAM believes it is important to its investment decision-making processes to have access to such research and that this research ultimately benefits the client accounts. Subject to best execution, CWAM may effect securities transactions with a specific broker or a dealer in recognition of such services.

Further, consistent with Section 28(e), research products or services obtained with "soft dollars" generated by the clients may be used by CWAM to service one or more client accounts, including client accounts that may not have paid for the soft dollar benefits. CWAM does not seek to allocate soft dollar benefits to client accounts in proportion to the soft dollar credits the clients generate.

### **Best Execution Reviews**

On a quarterly basis, the CCO, in conjunction with CWAM's investment and operational professionals, will hold a Best Execution Committee meeting to review the list of approved broker-dealers and determine whether all of the broker-dealers listed continue to demonstrate the ability

and commitment to provide best execution in light of, among other things, the changing needs and trading history of the Clients. As part of this review, the CCO will re-perform a FINRA Brokercheck and obtain “CDS” information as applicable. The Committee will review commissions and other transaction costs as well as other information to evaluate reasonableness of commissions in light of services received and consistency with these guidelines. A survey is used by CWAM’s investment professionals to assist in this review.

In addition to the above, the Best Execution Committee meeting may include a discussion regarding investments made during the prior fiscal quarter as to ensure consistency with investment guidelines, allocation of investment opportunities, a review of risk limits utilized by CWAM and a review of any trade errors that may have occurred during the prior quarter.

Documentation related to Best Execution Committee meetings will be maintained by the CCO.

### **Aggregated Trades**

CWAM may execute transactions on an aggregated basis among certain of CWAM’s Clients. In the event that such aggregation takes place, all Clients will be treated on a fair and equitable basis and consistent with the procedures outlined below.

The following procedures will apply to all aggregated transactions:

- **Disclosure.** CWAM’s procedures for the aggregation of orders shall be disclosed in the governing documents for the Clients and/or in Form ADV.
- **Obtain Best Execution.** CWAM will not aggregate orders unless aggregation is consistent with its duty to obtain best execution and the terms of the investment guidelines and restrictions of each Client for which trades are being aggregated.
- **Fair Treatment.** No Client will be favored over any other Client of CWAM. Generally each Client that participates in an aggregated order will participate at the average price for all of the transactions in that security on a given business day, with transaction costs shared pro rata based on each applicable Client’s participation in the transaction.
- **Determination of Allocation.** Before entering an aggregated order, the CIO or his designee will determine how the order will be allocated among those Clients (“Allocation Policy”). If the aggregated order is filled in its entirety, it will be allocated among the applicable Clients in accordance with the Allocation Policy (pro rata reflecting any applicable leverage targets to the extent there are no Client-imposed restrictions or different investment guidelines and/or risk parameters).
- **Partial Fills.** On occasion, CWAM will not be able to purchase, or sell, all of the securities ordered as part of an aggregated order in a single day. If the order is partially filled, it will generally be allocated pro rata in proportion to the size of the orders placed for each applicable Client (which reflects any applicable leverage targets) to the extent practicable based on the Allocation Policy.
- **Deviations from Allocation Policy.** Notwithstanding the foregoing, an aggregated order may be allocated on a basis different from that specified in the Allocation Policy if all relevant Clients



receive fair and equitable treatment. Reasons for allocating on a basis different from that specified in the Allocation Policy include but are not limited to: a Client's investment guidelines and restrictions, available cash, liquidity requirements, tax or legal reasons and to avoid odd-lots or in cases when a pro rata allocation would result in a de minimis allocation to one or more Clients.

- **Safeguarding Client Assets.** Each Client's Assets will be deposited with one or more custodians and the Client's assets will not be held collectively any longer than is necessary to settle the purchase or sale in question.
- **No Additional Compensation.** CWAM will receive no additional compensation of any kind as a result of an aggregated order.

### **Trading Errors**

Trading inevitably entails the risk of errors in order placement and execution. The Fund may engage in trading that is, at times, rapidly executed, and it may rely on computer code, software, hardware, and modes of transmission. These activities may increase the risk of trading errors. The Fund will bear the burdens, and enjoy the profits, from any trading errors, unless those errors constituted "disabling conduct" by the Adviser. Disabling conduct is defined as any act performed or omitted by an employee or agent on behalf of the Adviser in relation to CWAM's business that constitutes gross negligence, fraud, willful misconduct, or a material breach of the Partnership Agreement or the Fund's Investment Management Agreement by the Firm's personnel.

### **Capital Introduction**

Some of the Firm's executing and prime brokers, from time to time, refer potential clients to the Firm or arrange for meetings with potential clients who are also often clients of the broker. Although this may create a potential conflict of interest, capital introduction is not a consideration when selecting or retaining prime brokers or executing trades. While the meetings may be arranged by the brokers, there is no guarantee that the clients will invest with the Firm. Other than the standard commission rates paid by the Firm's funds and accounts, and customary prime brokerage fees, the brokers do not receive any compensation, directly or indirectly, for the meeting or the subsequent investments, if any.

### **Review of Accounts**

Accounts under CWAM's management are monitored on an ongoing basis by the Investment Committee members and the CCO. The Investment Committee members review each account in detail on at least an annual basis, as well as in connection with each client meeting. On at least a quarterly basis the Investment Committee members and the CCO review a number of reports that are designed to identify accounts that are outside the expected ranges for returns, exposure to asset classes, and exposure to industry sectors. Reviews of client accounts will also be triggered if a client changes his or her investment objectives, or if the market, political, or economic environment changes materially.

Clients receive account statements directly from their chosen custodian on at least a quarterly basis. CWAM may supplement these custodial statements with reports provided during client meetings or as requested.

## **Client Referrals and Other Compensation**

CWAM does not currently compensate third parties for client or investor referrals but may do so in the future. To the extent CWAM engages a placement agent, such terms and conditions will be disclosed to each potential Fund investor consistent with applicable law. However, several portfolio managers (e.g. private banks) may advise their private investors to invest in CWAM's products (as part of a platform). CWAM does not pay any direct or indirect compensation to such portfolio managers in connection with such advice/recommendation but may have trading relationship with such portfolio managers' affiliated/related entities. Such potential investments are not a consideration when selecting or retaining prime brokers or executing trades.

Additionally, CWAM will not receive any economic benefits from non-clients relating to the provision of investment advice.

## **Custody**

All Fund assets are held in custody by unaffiliated broker-dealers or banks, but CWAM is deemed to have custody of Fund assets under Rule 206(4)-2 of the Advisers Act. To comply with Rule 206(4)-2, and to provide meaningful protection to investors, the Funds are subject to an annual financial statement audit by independent public accountants registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. The audited financial statements are prepared in accordance with generally accepted accounting principles in the U.S. ("GAAP") and are distributed to investors within the timeframe required by Rule 206(4)-2, as detailed in the Fund offering memoranda. CWAM urges investors to carefully review these statements.

## **Investment Discretion**

CWAM has investment discretion over all clients' accounts. Clients grant CWAM discretion through the execution of a limited power of attorney included in the investment management agreement or Fund governing documents. Investors agree to such appointment of discretionary management through submission of subscription documents.

## **Voting Client Securities**

CWAM's general policy is to not vote on proxy proposals, amendments, consents or resolutions relating to client securities, including interests in private investment funds. In general, CWAM believes that the impact on the value of the securities in which proxies would be voted does not outweigh the anticipated costs and benefits associated with the respective proxy.

While CWAM will generally not vote on proxies, each proxy will be assessed by investment personnel for its material impact on either the value of the underlying security or its potential impact on the underlying investment thesis of the respective security. For those proxies that present a material impact on the value of the underlying security or may pose to alter or affect

the underlying investment thesis of the respective security, the Adviser may choose to exercise its voting authority and when it does, will do so in a manner that serves the best interests of the clients managed by CWAM, as determined by the Firm in its discretion, taking into account relevant factors. In all cases where a proxy is voted, the reason for the decision as to why the proxy was voted, along with a record of the vote, will be retained by the CCO.

The CCO will review proxies for potential conflicts of interest. If a conflict of interest is identified, CWAM will not make related proxy voting decisions until it has been determined that the conflict of interest is not material or a method for resolving the conflict of interest has been agreed upon and implemented. Materiality determinations will be based on an assessment of the particular facts and circumstances. The CCO will maintain a written record of all materiality determinations. If it is determined that a conflict of interest is not material, CWAM may vote the proxy, notwithstanding the existence of the conflict. If it is determined that a conflict of interest is material, one or more methods may be used to resolve the conflict, including: abstain/not vote; disclosing the conflict to the client and obtaining its consent before voting; engaging a third party to recommend a vote with respect to the proxy; or such other method as is deemed appropriate under the circumstances given the nature of the conflict. The CCO will maintain a written record of the method used to resolve a material conflict of interest.

A copy of CWAM's proxy voting policies and procedures is available upon written request.

In some instances, the governing documents of an SMA client (which CWAM does not currently have) may impose some additional limitations on CWAM's proxy authority by way of requiring consultation and/or the client's consent prior to voting.

With respect to class action lawsuits, it is generally the practice of CWAM not to participate in class actions on behalf of our clients as we believe it generally does not materially benefit our investment strategies. Similar to proxy voting opportunities, each class action that becomes known to CWAM is reviewed and a decision is made on materiality. Should a class action have a potential material impact on returns for client accounts, CWAM may elect to participate, but this is generally not the case.

## **Financial Information**

CWAM has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.