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# Weston Capital Asset Management LLC

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March 30, 2012

**This Brochure provides information about the qualifications and business practices of Weston Capital Asset Management LLC (“WCAM”). If you have any questions about the contents of this Brochure, please contact us at (561) 868-6757. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**WCAM is an investment adviser registered with the SEC. Registration with the SEC does not imply any level of skill or training.**

**Additional information about WCAM also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

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## **ITEM 2 – MATERIAL CHANGES**

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WCAM is owned by Weston Capital Management LLC (“WCM”), which is majority owned by WCAM’s President, Albert Hallac. There are no material changes to report since our last annual update in March 2011.

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#### **ITEM 4 – ADVISORY BUSINESS**

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Weston Capital Asset Management LLC (“WCAM”) provides discretionary and non-discretionary investment management and sub-advisory services to clients. WCAM was formed in November 2000, and has been an investment adviser registered with the SEC since September 21, 2001. WCAM is owned by Weston Capital Management LLC (“WCM”), which is majority owned by WCAM’s President, Albert Hallac.

WCAM provides discretionary and non-discretionary investment management or sub-advisory services primarily to U.S. and non-U.S. private investment funds (collectively, the “Funds”) sponsored and/or offered by its parent, WCM, or for which WCM acts as Commodity Pool Operator and/or Commodity Trading Advisor. In such cases, WCAM allocates, on a discretionary basis, assets of the Funds to unaffiliated and, in some cases, affiliated trading managers, advisors and/or private investment funds, pools or entities based on the investment objectives and strategies of each Fund and the trading strategies to be implemented by the managers and advisors, who have discretion to invest in a wide variety of instruments. WCAM also may share trading discretion with certain of the managers or advisors. WCAM reviews and monitors its allocations (and the corresponding managers or advisors) for each Fund and may make modifications in its allocations in its discretion. The investment objectives, strategies, fees and risks of each Fund, as well as other relevant information, is contained in each Fund’s confidential offering documents (“Memorandum”).

Similar to the discretionary and non-discretionary investment management or sub-advisory services it provides to the Funds, WCAM also may provide discretionary and non-discretionary investment management services to U.S. and non-U.S. institutional investors and high net worth individuals (collectively, “Separate Account Clients”).

As of December 31, 2011, WCAM managed approximately \$66 million of assets on a discretionary basis and \$152 million of assets on a non-discretionary basis.

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#### **ITEM 5 – FEES AND COMPENSATION**

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WCAM does not have a standardized fee schedule for discretionary or non-discretionary investment management or sub-advisory services. Generally, when it acts as the direct adviser to a Fund, WCAM will receive an annual management fee (calculated as a percentage of a Fund’s net asset value) and performance-based compensation (based on the realized and unrealized profits earned by the Fund). When it acts as a sub-advisor to a Fund, WCAM will receive a portion of the annual management fee (calculated as a percentage of a Fund’s net asset value) and performance-based compensation (based on the realized and unrealized profits earned by the Fund) received by the general partner or other manager or advisor to the Fund, which may be

WCM. The fees applicable to a Fund, including, as applicable, the total amount of annual management fees and performance-based compensation paid to WCAM and WCM by a Fund is disclosed in the Memorandum for such Fund. Underlying managers to whom WCAM allocates client assets charge management fees and/or performance-based compensation in addition to compensation charged by WCAM.

When it acts as an advisor to a Separate Account Client, WCAM may directly receive an annual management fee (based on the value of the Separate Account Client's assets) and performance-based compensation (based on the realized and unrealized profits earned by the Separate Account Client) or may receive a portion of the annual management fee and performance-based compensation charged by other managers or advisors to which the assets of the Separate Account Client are allocated.

Management fees generally may range from 1% to 2% annually, payable quarterly in arrears, and performance-based compensation generally may range from 10% to 20%, payable annually in arrears. Performance-based compensation received by WCAM is charged in conformity with Rule 205-3 under the Investment Advisers Act of 1940, as applicable.

Generally, fees may be negotiable in the discretion of WCAM (or in terms of overall fees, WCM) depending upon a variety of factors, including, among other things, type and extent of advisory service offered, amount of assets under management, the overall relationship with the client or investor and other services offered to the client or investor.

WCAM's advisory agreements are generally terminable upon 30 days' prior written notice, without penalty. Advisory fees are pro-rated for partial periods. Upon termination of any client account, any prepaid, unearned fees will be promptly refunded and any earned, unpaid fees will be due and payable.

WCAM's fees are exclusive of any fees charged underlying managers to whom WCAM allocates client assets. WCAM's fees do not include transaction and brokerage charges, fees and costs, and other related costs and expenses that will be incurred by clients regarding the trading and maintenance of client accounts. Clients may incur certain charges imposed by custodians, brokers and other third parties such as commissions, custodial fees, and other fees and taxes on brokerage accounts and securities transactions. Such charges, fees and commissions are exclusive of and in addition to WCAM's fee, and WCAM does not receive any portion of these commissions, fees, and costs.

Certain "supervised persons" of WCAM are also registered with, and may receive compensation from, an affiliate of WCAM, Weston Financial Services LLC, a broker-dealer registered with the SEC and FINRA with respect to investments made by investors in Funds. See also Items 10 and 14. This practice may present a conflict of interest as it gives such supervised persons an incentive to recommend the investment advisory services of WCAM based on the compensation

received. We do not believe this conflict to be material because such supervised persons are not incentivized to sell one investment product over another and thus will generally consult with each prospective investor to select the investment product(s) most appropriate for their specific investment objectives and requirements. The relationship between WCAM and Weston Financial Services is disclosed to investors. Investors have the option to make an investment in a Fund managed by an affiliate of, or not affiliated, with WCAM through other non-affiliated broker-dealers or otherwise.

Item 12 describes factors that WCAM considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

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

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As set forth in Item 5 above, WCAM may receive performance-based compensation based on the realized and unrealized profits of the Funds, which generally is charged annually in arrears. Performance-based compensation is in conformity with Rule 205-3 under the Advisers Act, as applicable. Please see Item 5 for more information.

Performance-based fee arrangements may create an incentive for WCAM to recommend investments that may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. Managing accounts that are charged performance-based compensation and accounts that are not may give rise to a potential conflict of interest, as WCAM may have an incentive to favor the accounts of clients for which it receives performance based compensation over accounts for which it receives only asset-based fee or other non-performance-based compensation. WCAM has established allocation procedures so that all clients are treated fairly and equally on an overall basis and to prevent this potential conflict from materially influencing the allocation of investment opportunities among clients.

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#### **ITEM 7 – TYPES OF CLIENTS**

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WCAM provides portfolio management services to U.S. and non-U.S. private investment funds, U.S. and non-U.S. institutions and high net worth individuals. WCAM does not have a standard minimum account size.

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

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WCAM'S proprietary investment process involves the selection of independent or affiliated investment managers based on various factors, including, among others, strategy, competitive edge and risk. Managers are identified through commercially available databases, direct solicitations by the managers, due diligence and referrals from third parties, including prime brokers. Managers considered by WCAM generally complete a due diligence questionnaire provided by WCAM. Generally, WCAM reviews and monitors over 100 managers based on a variety of qualitative and quantitative characteristics, including performance, securities analysis methods, and investment strategies. Managers also are interviewed prior to selection.

WCAM primarily advises Funds structured as “funds-of-funds” whereby the Funds allocate their assets to unaffiliated and, in some cases, affiliated trading managers or advisors (collectively, “Underlying Managers”) and/or private investment funds, pools or entities (collectively, “Underlying Funds”). WCAM uses its discretion to allocate the assets of Fund Clients to Underlying Managers and Underlying Funds within the confines of the differing investment strategies and allocation guidelines of each Fund Client. The investment strategies and allocation guidelines of each Fund Client is set forth in its Memorandum and is summarized below.

There can be no assurances that a Client will achieve its investment objective or that the strategies pursued and methods utilized by WCAM will be successful under all or any market conditions.

### Seeding Strategies

This strategy seeks substantial capital appreciation through “seeding” arrangements with talented “start-up” Underlying Managers utilizing multiple trading disciplines, but who have not yet raised large pools of capital to manage and whose principals have significant investment experience. WCAM works closely with the Underlying Managers in providing and arranging for introductions to third party service providers who offer services in such areas as marketing, prime brokerage equivalent services, operational support, legal, accounting and auditing support, management control and oversight, investor relations, and obtaining and implementing future growth strategies. By taking an active role in the early development of the Underlying Funds, this strategy seeks to participate in the historically higher performance that many Underlying Funds experience in their early years when fewer assets are under management.

This strategy also seeks to acquire either (i) contractual profit participations with each Underlying Manager it seeds which will entitle the applicable Fund to share in a percentage of the Underlying Manager's gross compensation and profits, including participation in the proceeds of the sale of an Underlying Manager to a third party such as a public or private

company or (ii) special interests in the Underlying Funds that are anticipated to afford comparable economic benefits. Finally, this strategy also seeks to negotiate “capacity rights” to invest additional funds with the Underlying Managers in a variety of funds or products.

#### Identified Multiple Underlying Funds Strategy

This strategy seeks to achieve capital appreciation by investing in multiple Underlying Funds advised and managed by a specific Underlying Manager identified in the offering memoranda of the applicable Funds. The investment objective of each Underlying Fund is to achieve consistent capital growth and income largely independent of market movements. The investment policy of each Underlying Fund is to invest primarily in quoted equity securities, although each Underlying Fund also may invest in non-quoted equity securities in order to take advantage of arbitrage opportunities and in other products, including futures, options (which will include margin transactions), caps and floors, contracts for difference, debt securities (both rated and unrated) and warrants. Each Underlying Fund seeks to identify and take advantage of movements in underlying stocks which will be achieved by the use of long and short trading. The investment style of each Underlying Fund is likely to be more aggressive than the average equities fund, with investment criteria designed to take advantage of market momentum, relative strength and analysis of liquidity and volatility.

#### Identified Single Underlying Fund Strategy

This strategy seeks to achieve capital appreciation through investing in a single Underlying Fund advised and managed by a specific Underlying Manager identified in the offering memoranda of the applicable Funds. The investment objective of this Underlying Fund is to achieve superior risk adjusted returns across a wide range of different market conditions and economic cycles. This Underlying Fund may take long and short positions in a broad range of securities, derivatives and other assets. The Underlying Fund’s income, expenses, gains and losses are derived from three primary sources: (1) proprietary trading; (2) an outside traders investment program; and (3) interest income.

#### Identified Single Underlying Fund Strategy with Discretion

This strategy seeks to achieve capital appreciation through investing in an Underlying Fund advised and managed by a specific Underlying Manager identified in the offering memoranda of the applicable Funds, and allows for the discretion to invest in other Underlying Funds managed by other Underlying Managers with investment and trading styles that are similar to those of the identified Investment Manager. The identified Underlying Manager has developed several strategies involving all types of securities and derivatives. Each strategy has a different objective. Certain strategies are technical in nature while others are more fundamental in nature. The identified Underlying Manager reserves the right to employ any investment strategy (whether



currently existing or developed by them in the future) it deems appropriate in its sole discretion. Certain strategies seek to realize profits in a relatively short time frame (from intra-day to twelve months), while other strategies have a longer-term focus. Some strategies include arbitrage activities, while others are market neutral through the use of hedging techniques. Value-investing, which includes both over and under valued securities, is also used, as is actively managing the portfolio. Certain strategies, but not all, have market liquidity and position limits which govern trading activity. The assets of this Underlying Fund are actively traded, often on margin, and this Underlying Manager may engage in various short-sale transactions and spreads.

## **Investment Strategies of Underlying Funds**

The following types of investment techniques and strategies may be used by the Underlying Managers and Underlying Funds. This list is not intended to be exhaustive or to preclude any other strategy or continuation thereof, and may not be an exhaustive description of all strategies which ultimately are employed.

### Relative Value Strategies

Underlying Managers employing a relative value strategy seek to profit from mispricings of financial instruments, capturing spreads between related securities that deviate from their fair values or historical norms. Representative strategies within this sector include statistical arbitrage, market neutral, convertible arbitrage, fixed income arbitrage, or pairs trading.

*Statistical Arbitrage.* This investment approach involves buying “long” a security, or a basket of securities, that is cheap relative to its historic price and selling “short” a related security, or related basket of securities, that is expensive relative to its historic price in anticipation of profiting as the prices of the securities or baskets of securities return to their historic levels. Portfolios tend to be highly liquid, highly diversified, highly risk controlled, and have very high turnover. These programs generally rely on quantitative models that rank equities based on a number of proprietary factors

*Market Neutral.* This investment approach may rely on quantitative models, or fundamental analysis of companies’ business prospects. The factors and investment universes may differ considerably from program to program. Underlying Managers’ typically construct long and short baskets of equity securities with similar characteristics but different current valuations, with the view that the market will eventually realize these different valuations and correct the difference. Programs tend to be relatively dollar, sector, and beta neutral.

*Convertible Arbitrage.* This investment approach involves buying “long” a convertible bond or preferred stock that is convertible into common stock and selling “short” the underlying common stock in anticipation of profiting from a relative mispricing between them. Underlying Managers typically limit credit risk via quantitative tracking of individual credits, as well as overall credit

spreads. These strategies range from highly quantitative to highly discretionary, from trading intensive to low turnover, from high credit quality to low credit quality.

*Fixed Income Arbitrage.* Fixed income arbitrage strategies are non-directional and seek to exploit pricing anomalies that might exist across fixed income securities and their related derivatives. These strategies tend to be highly quantitative, relative value approaches and typically do not attempt to forecast the direction of interest rates. Instruments traded are often global in nature and may include everything from sovereign debt to mortgage-backed securities to high yield.

*Balance-Sheet Arbitrage.* This approach involves buying “long” and selling “short” different classes of securities of the same issuer in anticipation of profiting from the relative mispricing between them. Convertible-bond arbitrage and equity-warrant arbitrage are forms of balance-sheet arbitrage.

*Option Volatility Arbitrage.* This approach involves purchasing an option when its implied volatility is significantly below its historic mean and selling short the underlying security to hedge, or if implied volatility is significantly above its historic mean, selling an option and buying the underlying security to hedge.

*Pairs Trading.* Pairs trading involves the purchase and sale of individual securities with similar characteristics. These strategies seek to exploit the differences in the relative price behavior of similar stocks by capturing the spread differential from the norm between the stocks. Often the “equity pairs” are identified quantitatively and then the actual execution is based on intense fundamental research. Portfolios may be constructed with a narrow industry focus such as the utilities industry, or with a broader focus covering 50 to 60 industries.

### Event Driven Strategies

Underlying Managers employing event driven strategies seek to identify companies that are subject to periodic corporate events such as restructurings, mergers, takeovers, spin-offs and other special situations. Similar to the relative value Underlying Managers, the event driven Underlying Managers are non-directional and seek to capitalize on the mispricings that occur due to market misconceptions about such events (either occurring or not occurring). Representative strategies within this sector include merger arbitrage, high yield/distressed, capital structure arbitrage, and special situations.

*Merger Arbitrage.* This strategy involves investing in the securities of publicly-traded companies involved in announced mergers or acquisitions, cash tender offers, exchange offers or corporate recapitalizations in expectation of profiting from the price differential between the purchase price of the securities and the value received for the securities as a result of or in

expectation of the consummation of the event. The investment objective is to hedge all non-event risk in the securities and to be able to make an informed investment decision based on fundamental analysis and timing.

*High Yield/Distressed.* High Yield/Distressed Underlying Managers invest in debt or equity securities of firms in or near bankruptcy. Distressed securities are often inefficiently priced due to their illiquidity, the existence of forced sellers and the uncertainty created by the restructuring process. Underlying Managers differ in their approach to this area from being passive highly diversified investors to being very actively involved in the restructuring process.

*Capital Structure Arbitrage.* This strategy involves the purchase and sale of different classes of securities of the same issuer when there is a relative mispricing between the two. A capital structure arbitrage trade might involve purchasing senior debt of an issuer and selling subordinated debt of the same issuer when the subordinated debt is believed to be overpriced relative to the senior debt.

*Special Situation Arbitrage.* This strategy involves the purchase or sale of securities of companies that are the subject of corporate reorganizations, recapitalizations, restructurings, bankruptcies, spin-offs, split-offs, or liquidations. The investment objective is to use fundamental research to uncover anomalies in the pricing of various securities due to such events.

### Tactical Trading Strategies

Underlying Managers employing tactical trading strategies seek to capitalize on both relative and directional opportunities in global fixed income, currencies, and commodities. These strategies tend to exhibit very low correlations to traditional asset classes, as well as the strategies within the relative value and event driven sectors. In addition, in past periods of global financial stress or financial illiquidity, where relative value and event driven Underlying Managers have experienced challenges, many tactical trading Underlying Managers have had superior returns.

### Long/Short Strategies

Underlying Managers employing long/short strategies engage in the strategy of buying “long” and selling “short” portfolios of securities or baskets of securities using a combination of fundamental and quantitative analysis to construct each portfolio position in anticipation of profiting from directional moves of the selected securities. Hedging with derivatives and options is also engaged in to limit market exposure in appropriate circumstances. Some long/short Underlying Managers select portfolios of securities which, in the aggregate, have little market exposure in anticipation of profiting from the excess return provided by the portfolios over the market return.

## **Risk Factors**

Investing in securities involves risk of loss that clients should be prepared to bear. The following risk factors are associated with the investment strategies of the Underlying Managers and Underlying Funds. This list is not intended to be exhaustive. Additional risk factors are set forth in the Memorandum of each Underlying Fund.

### Use of Leverage by the Underlying Managers

The use of leverage by the Underlying Managers can exacerbate losses and increase volatility. If an Underlying Manager does not sufficiently de-leverage when necessary, there is the possibility that the Underlying Manager may be required to terminate trading altogether, thereby losing all upside potential and posing a significant risk to capital. There can be no assurance that the Funds will perform better by investing with Underlying Managers which utilize leverage.

The exact amount of leverage used will depend on market conditions and the discretion of the Underlying Managers. Any leveraging strategies that the Underlying Managers employ should be expected to increase the applicable Funds' transaction costs, interest expenses and other costs and expenses. In addition, margin trading requires the pledge of the assets as collateral, which can result in the selling of portfolio securities at substantial losses that would not otherwise be realized. No assurance can be given that the use of margin and other leverage by the Underlying Managers will not result in material losses to the Funds.

### The Markets and Instruments Traded by the Underlying Funds May Be Illiquid

At various times, the markets for securities and commodity interests purchased or sold by the Underlying Funds may be "thin" or illiquid, making purchases or sales at desired prices or in desired quantities difficult or impossible. In addition, the Underlying Funds may invest in private placements and other securities for which there may be no market, making a sale at any price impossible for indeterminate periods of time. This may make it impossible at times for the Underlying Funds to liquidate positions, honor requests for redemption, or make redemption payments.

Most U.S. commodity exchanges limit fluctuations in certain commodity interest prices during a single day by imposing what are known as "daily price fluctuation limits" or "daily limits." The existence of "daily price limits" or "daily limits" may reduce liquidity or effectively curtail trading in particular markets. As part of its emergency powers, an exchange or regulatory authority can suspend or limit trading in a particular security or commodity interest, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only. The possibility also exists that governments may intervene to stabilize or fix exchange rates, restricting or substantially eliminating trading in the affected currencies. In addition, a stock exchange may at any time suspend an entity's securities

from trading on the exchange where the entity is unable or unwilling to comply with, or breaks a listing rule, or it is necessary to prevent a disorderly or uninformed market, the exchange rules require it, or it is appropriate for some other reason.

#### Trading of Options Presents Certain Risks

A large number of options are traded on and off exchanges. Each such option is a right, purchased for a certain price, to either buy or sell the underlying futures contract, physical commodity, or a security during a certain period of time for a fixed price. Although successful options trading requires many of the same skills as does successful securities and commodity interest trading, the risks involved are somewhat different. Options markets may also lack liquidity because of insufficient trading activity and this may make it difficult or impossible for a trade to be executed within a favorable time frame.

#### Short Sales

The Underlying Funds may at times engage in short sales (i.e., the sale of a security the Underlying Fund does not own in the hope of purchasing the same security at a later date at a lower price). In a “short sale” there is no limit to the amount of potential loss. An Underlying Fund will incur a loss as a result of a short sale if the price of the security increases between the date of the short sale and the date on which the Underlying Fund covers its short position (i.e., purchases the security to replace the borrowed security). The Underlying Fund will realize a gain if the security declines in price between these dates. A short sale involves the theoretically unlimited risk of an increase in the market price of the security.

#### Futures Trading Risks

A principal risk in trading futures contracts is the traditional volatility (rapid fluctuation) in market prices. Because of the low margin deposits typically required in futures contract trading, a relatively small movement in the market price of a futures contract may result in a disproportionately large profit or loss. Commodity futures trading may also be illiquid. Certain commodity exchanges do not permit trading in a particular futures beyond certain set limits. If prices fluctuate during a single day’s trading beyond those limits – which conditions have in the past sometimes lasted for several days in certain contracts – the Underlying Funds could be prevented from promptly liquidating unfavorable positions and thus be subject to substantial losses.

#### Risks From Forward Trading; Swap Transactions and Other Derivatives

The Underlying Funds may directly or indirectly enter into forward contracts for the trading of certain commodity interests, such as currencies and precious metals, with banks and currency and precious metals dealers and counterparties. A forward contract is a contractual obligation to

buy or sell a specified quantity of a commodity at or before a specified date in the future at a specified price and, therefore, is similar to a futures contract, but generally is unregulated. Banks and dealers act as principals in such markets. The principals who deal in the forward contract market are not required to continue to make markets in such contracts. There have been periods during which certain participants in forward markets have refused to quote prices for forward contracts or have quoted prices with an unusually wide spread between the price at which they are prepared to buy and that at which they are prepared to sell. The Underlying Funds will absorb the "bid-ask" spread incorporated into the price of forward contracts. In contrast to exchange-traded futures contracts, forward contracts rely on the counterparty to the contract to fulfill the contract. Consequently, trading in forward contracts are subject to more risks than futures trading on regulated exchanges including, but not limited to, the risk of default due to the failure of a counterparty with which the Underlying Fund has contracted as a principal.

The Underlying Funds also may engage in swap transactions involving interest rates, currencies, indices or other financial instruments with financial institutions. Swaps are individually negotiated transactions where each party agrees to make periodic payments to the other party by reference to agreed-upon base rates, which may be fixed or variable. The parties to a swap typically do not obligate themselves to make "principal" payments, but only to pay the agreed upon rates as applied to an agreed upon "notional" size. Nevertheless, swap agreements are principal-to-principal transactions in which performance is the responsibility of the individual counterparty and not an organized exchange or clearinghouse. As such, the Funds will be exposed to the risk of counterparty default. In addition, the Underlying Funds may invest (directly or indirectly) in complex derivative instruments that seek to modify or replace the investment performance of particular securities, commodity interests, interest rates, indices or markets. Derivative instruments are subject to additional risks that include interest rate and credit risk volatility, world and local market price and demand, and general economic factors and activity. Derivative instruments also have counterparty risk and may not perform in the manner expected by the Underlying Funds or the counterparties, thereby resulting in greater loss or gain to the Underlying Fund.

#### Transactions in Security Futures Contracts

The Underlying Funds may invest in "security futures" contracts listed on U.S. markets. Security futures contracts are new financial products that allow, for the first time in the United States, the trading of futures contracts on individual U.S. securities (such as common stock, an ETF, or American Depositary Receipt) and futures contracts on narrow-based security indexes (e.g., an index made up of a small group of stocks that allow an investor to take a position in a concentrated area of the equities market). Security futures contracts are defined as both a security and a futures contract and the offer, sale and trading of security futures are subject to a complex regulatory structure under both the commodities and securities laws. Security futures

positions and their associated margin may be carried in either a securities account or a futures account. Many of the rules relating to security futures (in particular in the areas of margin and protection of customer funds) will follow the rules applicable to the type of account in which the security futures positions are carried.

Because security futures contracts are new, there can be no assurance that the trading strategies of any Underlying Manager will be applicable to any particular security futures contract which it chooses to trade. The markets for new futures contracts historically have been both illiquid and highly volatile for some period of time after the contract begins trading. This “trend” could apply to the new markets trading security futures contracts and presents both significant profit potential as well as a corresponding high risk potential for the Company.

#### Repurchase and Reverse Repurchase Agreements Present Certain Risks

The Underlying Funds may engage in repurchase and reverse repurchase agreements as part of their cash management procedures. In the case of default by the transferee of a security in a reverse repurchase agreement, the transferor runs the risk that the transferee may not deliver the security when required. In the event of the bankruptcy or other default of a transferor of a security in a repurchase agreement, the transferee could experience both delays in liquidating the underlying security and losses, including: (a) a possible decline in the value of the collateral during the period while the transferee seeks to enforce its rights thereto; (b) possible subnormal levels of income and lack of access to income during this period; and (c) expenses of enforcing its rights.

#### The Underlying Funds’ Spread Trading and Arbitrage Trading May Involve Potential Risks

A part of the Underlying Funds investment operations may involve spread positions between two or more commodity interest or securities positions, or a combination of the foregoing. To the extent the price relationships between such positions remain constant, no gain or loss on the positions will occur. Such positions, however, do entail a substantial risk that the price differential could change unfavorably causing a loss to the spread position.

The Underlying Funds trading operations also may involve arbitraging between two securities, between the equity and equity options markets, between commodity interests and securities and/or options, between two commodity interests and/or any combination of the above. This means, for example, that the Underlying Fund may purchase (or sell) securities (i.e., on a current basis) and take offsetting positions in options in the same or related securities. To the extent the price relationships between such positions remain constant, no gain or loss on the positions will occur. These offsetting positions entail substantial risk that the price differential could change unfavorably causing a loss to the position.

#### Smaller Capitalized or Unseasoned Companies

Investments by the Underlying Funds (directly or indirectly) in shares of smaller capitalized or unseasoned companies generally have greater earnings and sales growth potential than larger capitalized companies. However, such investments in smaller capitalized or unseasoned companies may involve greater risks, such as limited product lines, markets and financial or Underlying Managerial resources. In addition, less frequently-traded securities may be illiquid and subject to more abrupt price movements than securities of larger capitalized companies.

### Interest Rate Risk

Where an Underlying Fund holds debt securities (which may be rated or unrated), investors should be aware that the market value of debt securities generally varies in response to changes in interest rates and the financial condition of the issuer. During periods of declining interest rates, the value of debt generally increases. Conversely, during periods of rising interest rates, the value generally declines. These changes in market value will be reflected in the net asset value of the Master Fund.

No assurance can be given that debt and fixed income obligations purchased by an Underlying Fund will continue to earn yields comparable to those earned historically, nor can any assurance be given that issuers whose obligations an Underlying Fund acquires will make payment on such obligations as they become due.

### Exchange Rate Fluctuations

Unless an Underlying Manager hedges its positions against fluctuations in exchange rates between the United States dollar and the currencies in which trading is done on non-U.S. securities exchanges, any profits which an Underlying Fund might realize in such trading could be eliminated as a result of adverse changes in exchange rates, and the Underlying Fund could even incur losses as a result of any such changes.

### Special Situations

The Underlying Managers may invest in securities of an issuer based upon, or in anticipation of, a special corporate event (including an event that may be characterized as a risk arbitrage situation, a spin-off, merger or other reorganization). In special situation investing, there are risks that the anticipated special situation will not occur or the anticipated benefit of the special situation will not be realized.

### Risks of Global Investing

The Underlying Funds may invest in various capital markets throughout the world. As a result, the Funds will be subject to risks relating to (i) currency exchange rates, including fluctuations in the rate of exchange between the US Dollar and the various foreign currencies in which the



Funds' investments may be denominated, and costs associated with conversion of investment principal and income from one currency into another and (ii) the possible imposition of withholding taxes on income received from or gains with respect to such securities. In addition, certain of these capital markets involve certain factors not typically associated with investing in established securities markets, including risks relating to (a) differences between markets, including potential price volatility in and relative liquidity of some foreign securities markets, (b) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation and (c) certain economic and political risks, including potential exchange control regulations and potential restrictions on foreign investment and repatriation of capital.

### Hedging Transactions

The Underlying Funds may utilize financial instruments such as forward contracts, currency options, caps and floors, both for investment purposes and to seek to hedge against fluctuations in the relative values of the Underlying Fund's portfolio position as a result of changes in currency exchange rates and market interest rates. Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of portfolio positions nor prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the portfolio position's value. Such hedge transactions also limit the opportunity for gain if the value of the portfolio position should increase. Moreover, it may not be possible for the Underlying Fund to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that the Underlying Fund is not able to enter into a hedging transaction at a price sufficient to protect the Underlying Fund from the decline in value of the portfolio position anticipated as a result of such a fluctuation.

While the Underlying Funds may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency, interest rates and securities markets may result in a poorer overall performance for the Underlying Funds. For a variety of reasons, an Underlying Manager may not seek to establish (or may not otherwise obtain) a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent an Underlying Fund from achieving the intended hedge or expose an Underlying Fund to risk of loss.

### Distressed Debt Investments

Distressed Debt investing involves purchases of obligations of companies that are experiencing significant financial or business distress, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Acquired investments may include senior or subordinated debt securities, bank loans, promissory notes and other evidences of indebtedness, as well as payables to trade creditors. Although such purchases may result in significant investor

returns, they involve a substantial degree of risk and may not show any return for a considerable period of time. In fact, many of these investments ordinarily remain unpaid unless and until the company reorganizes and/or emerges from bankruptcy proceedings, and as a result may have to be held for an extended period of time. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial distress is unusually high. There is no assurance that the Underlying Managers will correctly evaluate the nature and magnitude of the various factors that could affect the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which an Underlying Manager invests, an investor may lose its entire investment or may be required to accept cash or securities with a value less than the original investment. Under such circumstances, the returns generated from the investment may not compensate the Funds adequately for the risks assumed.

\* \* \*

The foregoing risk factors do not purport to be a complete explanation of all of the risks involved in the investment strategies utilized by of the Funds, the Underlying Funds and the Underlying Managers. Additional risk factors are set forth in the Memorandum of each Fund and Underlying Fund.

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#### **ITEM 9 – DISCIPLINARY INFORMATION**

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WCAM does not have any disciplinary or legal events to report.

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

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WCM, WCAM's parent, is a member of the National Futures Association, and is registered as a Commodity Pool Operator and Commodity Trading Advisor and operates in such capacity(ies) for certain Funds. WCM may also serve as the general partner of certain Funds advised by WCAM. See also Item 4.

Weston Financial Services LLC, a related person of WCAM, is a broker-dealer registered with the SEC and is a member of FINRA. Weston Financial Services LLC solicits potential investors for certain of the Funds from which WCM and/or WCAM receive compensation and may solicit investors for third-party private investment funds. WCAM is generally responsible for the payment of any such referral fees, which generally are a percentage of the annual management fees and/or performance-based compensation earned by WCAM or such other amount as agreed to between WCAM and the referring third party. Referred investors in a Fund do not pay any referral fees. WCAM's ability to provide investment advice to a referred client (or a fund in which investors were referred) is not effected by such referral arrangements. Because Weston Financial Services LLC is a related person of WCAM, WCAM may have a conflict of interest

and may have an incentive to use Weston Financial Services LLC for such referral arrangements instead of other third parties. To the extent applicable, referral arrangements comply with Rule 206(4)-3 under the Investment Advisers Act of 1940.

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

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WCAM has adopted a Code of Ethics (the “Code”) which sets forth the ethical and fiduciary principles and related compliance requirements under which WCAM operates and the procedures for implementing those principles. The Code includes provisions that govern fiduciary duty, client opportunities, insider trading, personal trading, gifts and entertainment, political contributions, outside business activities and confidentiality.

With respect to personal trading by its principals, employees and related accounts (collectively, “Employees”), Employees are permitted to maintain personal securities accounts provided that such accounts are disclosed to WCAM and that any personal trading is consistent with applicable law and with the Code. Subject to compliance with the Code, Employees may buy, sell or hold, for their own personal accounts, securities that WCAM also may buy, sell or hold for the Funds and other clients, although it is not expected that Employees will generally do so to any great extent, which will help to mitigate any potential conflict of interest.

The Code contains policies and procedures that, among other things:

- prohibit Employees from taking personal advantage of opportunities belonging to clients;
- prohibit trading on the basis of material nonpublic information;
- place limitations on personal trading by Employees and impose preclearance (in certain cases) and reporting obligations with respect to trading; and
- require initial and annual reports of securities holdings and quarterly transaction reports by Employees.

WCAM’s Code is available to any client or prospective client upon request by contacting Keith Wellner, WCAM’s Chief Compliance Officer, at (561) 868-6757.

WCAM, consistent with clients’ investment objectives and in accordance with applicable law, may cause accounts it manages to effect, and will recommend to clients or prospective clients, the purchase or sale of securities in which WCAM, directly or indirectly, has a position or interest. WCAM may recommend to clients an investment in a private investment fund for which WCAM or a related person serves as the general partner. The potential conflict of interest regarding such relationship is disclosed to investors and prospective investors in a Fund prior to their making an investment in a Fund. See also Items 4 and 10.

From time to time, it may be appropriate for more than one of the accounts managed by WCAM to trade in the same securities at the same time. As a general rule, such orders are combined (or bunched) and allocations among WCAM's clients acquiring the same securities on the same day are effected on a pro rata basis, based on the relative value of the accounts, or otherwise on a allocation amount determined at the time of the order. If the orders are combined (or bunched), each of the accounts will have its same day orders filled on an average price basis (such that each receives the same price). While WCAM's goal is to be fundamentally fair on an overall basis with respect to all clients, there can be no assurance that on an overall or trade-by-trade basis that any particular client will not be treated more favorably than another.

WCAM does not engage in principal transactions with client accounts and before it could do so it would have to secure applicable client consent. Principal transactions are generally defined as transactions where an advisor, acting as principal for its own account, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated private investment fund and another client account.

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## **ITEM 12 – BROKERAGE PRACTICES**

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Although WCAM may be deemed to retain the discretion (under its general discretionary powers) to determine the broker to be used and negotiates the amount of such broker's commission, when WCAM allocates client assets to managers or advisors (whether for a Fund or a Separate Account Client), the manager or advisor has the authority to determine and does determine the broker to be used and the commission paid, including negotiating the amount of such broker's commission.

Information about brokerage is contained in a Fund's respective Memorandum. When applicable, a Fund will execute transactions with brokerage firms that are registered under the Securities and Exchange Act of 1934, as amended, as broker-dealers. Generally, in selecting brokers to execute transactions, a Fund need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It will not be a Fund's practice to negotiate "execution only" commission rates, thus, a Fund may be deemed to be paying for other products and services provided by the broker that are included in the commission rate. The applicable managers and advisors will, based on their knowledge of the industry, attempt to have a Fund's brokerage arrangements competitive with similar situated funds. In making their selection of brokers, the applicable managers and advisors generally will take into account the broker's reliability, accuracy of recommendations on particular securities, reputation, financial responsibility, stability, ability to execute trades, nature and frequency of sales coverage, commission rate and responsiveness to the applicable managers and advisors. In addition, in selecting brokers, the managers and advisors generally may consider the value of the following, either provided by the broker, or paid for by the broker (either by cash payments or by commissions), to be provided by others (collectively, "Products and Services"): brokerage (such as clearing, order routing, custodial and settlement services); research and research products and services (described below) and other products and services, including office space, telephone service (both local and long distance), office equipment (such as facsimile machines, computer terminals and copiers), account recordkeeping and other back office products (such as software); and services (such as implementing tax withholding, pricing, and reporting to auditors).

Research may include, among other things, proprietary research from brokers, which may be written, oral or on-line. Research products may include, among other things, computers or terminals, computer databases and quotation equipment, in each case, to access research or that provide research directly and trips to visit potential portfolio companies and to attend research seminars (including related expenses such as travel and hotel). Research services may include, among other things, research concerning market, economic and financial data, statistical information, data on pricing and availability of securities, financial publications, electronic market quotations, performance measurement services, analyses concerning specific securities, companies or sectors, and market, economic and financial studies and forecasts. Research services may be in written or oral form or on-line.

A Fund will not adhere to any rigid formulas in making the selection of brokers, but generally will weigh a combination of the preceding criteria. Generally, a Fund will have no fixed internal brokerage allocation procedures designating specific percentages of brokerage commissions to particular firms. The applicable managers and advisors will seek best execution in transactions for a Fund and will direct brokerage to firms providing Products and Services when they are able to provide best execution. In recognition of the value of Products and Services provided by a broker, the managers and advisors may effect securities transactions that cause a Fund to pay the broker an amount of commission in excess of the amount of commission another broker would have charged.

To the extent the managers and advisors can obtain Products and Services from, or to be paid for by, brokers at a commission rate that is not higher than the rate they customarily pay for brokerage services alone (although the managers and advisors may have to allocate more commission business to brokers who also provide Products and Services), the managers and advisors generally will intend to do so. In exchange for the direction of commission dollars to certain brokers, credits may be generated that may be used by managers and advisors to pay for the Products and Services provided by, or paid for by, such brokers. To the extent that such credits are generated or such Products and Services are obtained, a Fund and the managers and advisors will be receiving a benefit by reason of the direction of commissions.

Certain managers and advisors may derive substantial direct or indirect benefit from these Products and Services, particularly to the extent they use soft dollar credits to pay for expenses that they would otherwise be required to pay. A manager's or advisor's use of Products and Services may or may not meet the "safe harbor" of Section 28(e) of the Securities Exchange Act of 1934, as amended.

Products and Services may be used by the applicable managers and advisors in servicing some or all of their respective clients (including the Funds) and the clients of their affiliates. In addition, some Products and Services may not necessarily be used by a particular Fund even though its commission dollars provided for the Products and Services. A Fund, therefore, may not, in any particular instance, be the direct or indirect beneficiary of the Products or Services provided.

To the extent that the managers and advisors receive the benefits of Products and Services, a potential conflict of interest exists between their fiduciary duty to provide advisory services to clients (including the Funds) and their desire to receive the potential benefits of these Products and Services. Managers may have an incentive to select brokers based on their interest in receiving Products and Services rather than a client's interest in receiving most favorable

execution. Specific managers and advisors may have different brokerage placement practices (and accompanying soft dollar arrangements) than as set forth above, and are set forth in the applicable Underlying Fund's Memorandum.

From time to time, it may be appropriate for more than one of the accounts managed by WCAM to trade in the same securities at the same time. As a general rule, such orders are combined (or bunched) and allocations among WCAM's clients acquiring the same securities on the same day are effected on a pro rata basis, based on the relative value of the accounts, or otherwise on a allocation amount determined at the time of the order. If the orders are combined (or bunched), each of the accounts will have its same day orders filled on an average price basis (such that each receives the same price). While WCAM's goal is to be fundamentally fair on an overall basis with respect to all clients, there can be no assurance that on an overall or trade-by-trade basis that any particular client will not be treated more favorably than another.

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### **ITEM 13 – REVIEW OF ACCOUNTS**

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WCAM collects data, including net assets values, indices and market indicators, and news reports about the Funds and the applicable managers and advisors, which are reviewed by WCAM's principals and investment personnel on a weekly basis. On a monthly basis, formal performance reviews, data analyses and monitoring are conducted on all managers. Managers selected by WCAM are also contacted monthly to discuss portfolios. Quarterly reviews of performance objectives and expectations are performed and reviewed by WCAM's principals. Monthly performance reports of each Fund are provided to such Fund's investors. Monthly performance reports generally are provided to Separate Account Clients, unless otherwise agreed. Generally, such written reports include rolling performance data, market index comparisons, and general fund information. In addition, Fund investors are provided with annual financial information with respect to the prior fiscal year as soon as practicable after the end of such fiscal year.

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

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When allocating assets to advisors or private investment pools/entities, WCAM may share in the fees charged by such persons, which is disclosed to clients. WCAM may have a potential conflict of interest between its allocation of client assets to such persons and its interest in receiving a share of such fees in the future.

In limited circumstances, WCAM may compensate third parties, including Weston Financial Services LLC, for referring advisory clients (or investors in a Fund) to it (or WCM). Such referral fees generally may be a percentage of the annual management fees and/or performance-based compensation earned by WCAM (or WCM) or such other amount as agreed to between WCAM and the referring third party. Referred investors in a Fund do not pay any referral fees. Because Weston Financial Services LLC is a related person of WCAM, WCAM may have a

conflict of interest and may have an incentive to use Weston Financial Services LLC for such referral arrangements instead of other third parties. To the extent applicable, referral arrangements comply with Rule 206(4)-3 under the Investment Advisers Act of 1940. See also Item 10.

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#### **ITEM 15 – CUSTODY**

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WCAM does not have actual custody of any client assets. WCAM or its related person, WCM, as either general partner or managing member to certain Funds, are deemed to have custody of the assets of certain Fund clients. In accordance with Rule 206(4)-2, audited financial statements are furnished annually to all investors in the Funds.

Clients are urged to carefully review all statements and contact WCAM if they have any questions.

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#### **ITEM 16 – INVESTMENT DISCRETION**

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As applicable, pursuant to the applicable investment management agreement, for its discretionary clients (including the Funds), WCAM has the authority to determine, without obtaining specific client consent, the securities to be bought or sold and the amount of securities to be bought or sold. Managers or advisors selected by WCAM (or WCM) and to whom WCAM (or WCM) allocates clients' assets have the authority to determine the securities to be bought or sold and the amount of securities to be bought or sold.

Although WCAM may be deemed to retain the discretion (under its general discretionary powers) to determine the broker to be used and negotiates the amount of such broker's commission, when WCAM allocates client assets to managers or advisors (whether for a Fund or a Separate Account Client), the manager or advisor has the authority to determine and does determine the broker to be used and the commission paid, including negotiating the amount of such broker's commission.

Limitations on WCAM's authority (and generally the authority of a manager and advisor) are guided by (i) its responsibility to act as a fiduciary when handling clients' accounts, (ii) a Fund's Memorandum and (iii) the obligation (subject to conditions herein specified) to seek best execution for client trades.

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#### **ITEM 17 – VOTING CLIENT SECURITIES**

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Although due to the nature of its investments for clients, WCAM generally does not exercise voting authority over client securities, WCAM has implemented a written policy regarding the voting of client securities in the limited circumstances when WCAM may do so. Such written

policy also addresses material conflicts of interest that may arise between WCAM and its clients with respect to voting of client securities.

When voting client securities, WCAM's policy is to vote in the client's best interest as determined on a case-by-case basis. When exercising voting authority, WCAM's objective is to consider the relevant material factors of its vote that could affect the value of the beneficial owners' investments in order to vote, in its judgment, in a manner that is most likely to maximize the value of its clients' investments.

The Chief Compliance Officer will review all potential conflicts of interest and determine whether such potential conflict is material. Where the Chief Compliance Officer determines there is a potential for a material conflict of interest regarding a proxy, the Chief Compliance Officer will consult with the portfolio manager and a determination will be made as to whether one or more of the following steps will be taken: (i) discuss the proxy vote with clients; (ii) fully disclose the material facts regarding the conflict and seek the clients' consent to vote the proxy as intended; and/or (iv) seek the recommendations of an independent third party. The Chief Compliance Officer will document the steps taken to evidence that the proxy vote or abstention was in the best interest of clients and not the product of any material conflict. Such documentation will be maintained in accordance with required recordkeeping procedures.

WCAM's principals oversee and manage the process by which it votes client securities. WCAM's voting policy and procedures are available upon request. An advisory client may obtain a copy of WCAM's voting policy and procedures or a record of WCAM's voting for such client by contacting Keith Wellner, Chief Compliance Officer, at (561) 868-6757.

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## **ITEM 18 – FINANCIAL INFORMATION**

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WCAM has no financial condition that impairs its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy proceeding.