



## **Part 2A of Form ADV Brochure**

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This brochure provides information about the qualifications and business practices of MKP Capital Management, L.L.C. If you have any questions about the contents of this brochure, please contact the Investor Relations team at 212-303-7100. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about MKP Capital Management, L.L.C. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) [Reg. No. 801-58039]. MKP Capital Management, L.L.C. is an SEC-registered investment adviser. This registration does not imply any level of skill or training.

*A long-term approach to alternative investing*

## ITEM NO. 2: MATERIAL CHANGES

MKP Capital Management, L.L.C. ("MKP" or the "Adviser") is required to identify and discuss any material changes made to its brochure since the last annual update. This brochure is the Adviser's first Form ADV Part 2A submitted to the SEC pursuant to amendments made to certain rules promulgated under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and the form formerly known as Form ADV Part II. The Adviser previously provided or offered its clients a Form ADV Part II, dated November 2010 (the "Old Part II"), which was used as a basis for certain disclosure provided in this brochure. Differences between the Old Part II and this brochure are generally attributable to the new disclosure rules and the new form, and not to any material changes in the qualifications or business practices of the Adviser not otherwise communicated to investors in the ordinary course. The only material change to the Old Part II reflected in this brochure is the formation of MKP Capital Europe LLP, a sub-adviser based in London that was formed in October 2010 and will commence operations in the second quarter of 2011. If the Adviser makes any material changes to this brochure, this section will be revised to include a summary of such changes.

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#### ITEM NO. 4: ADVISORY BUSINESS

MKP Capital Management, L.L.C., a Delaware limited liability company, is a diversified alternative investment manager. The Adviser has operated with a long-term approach to alternative investing since its founding in 1995, and has been registered with the Securities and Exchange Commission as an investment adviser since 2000. Patrick McMahon, Maurice C. Perkins, Anthony C. Lembke and Thomas D. DeVita (the "Principals") wholly own and hold all of the managing member interests in the Adviser.

The Adviser manages pools of capital and invests in a wide range of securities through private investment funds. The Adviser serves as the management company with discretionary trading authority to U.S. private investment partnerships structured as Delaware limited partnerships (the "Partnerships") and as the investment manager with discretionary trading authority to non-U.S. private investment funds structured as Cayman Islands exempted companies (the "Offshore Funds" and, together with the Partnerships, the "Funds"). MKP Strategies, L.L.C. (the "General Partner"), a Delaware limited liability company and an affiliate of the Adviser, serves as the general partner of each of the Partnerships. The Principals own the General Partner. To effect their respective investment objectives the Partnerships and the Offshore Funds invest substantially all of their assets through a "master/feeder" fund structure in master funds (the "Master Funds"), each of which is a Cayman Islands exempted company. The Adviser also serves as the investment manager with discretionary trading authority to the Master Funds.

Limited partnership interests in the Partnerships are offered on a private placement basis, and in reliance on Section 3(c)(7) of the Investment Company Act of 1940, as amended (the "Company Act"), to persons who generally are "accredited investors" as defined under the Securities Act of 1933, as amended (the "Securities Act"), and "qualified purchasers" as defined under the Company Act, and who are subject to certain other conditions, which are fully set forth in the offering documents for the Partnerships.

Shares in the Offshore Funds are generally offered to persons (x) who are not "U.S. Persons," as defined under Regulation S of the Securities Act, or who are tax-exempt U.S. Persons (or entities substantially comprised of tax-exempt U.S. Persons) on a private placement basis, and (y) who are subject to certain other conditions, which are fully set forth in the offering documents for the Offshore Funds.

The Funds invest in different strategies across global markets, including U.S. and global rates, emerging markets, foreign exchange, structured, corporate or other credit, equities, and commodities (see Item 8 for more detailed disclosure relating to investment strategies and types of investments). Investment advisory services are provided directly to the Funds and the Master Funds, and not individually to the Funds' investors. MKP has full discretionary authority with respect to investment decisions, and its advice with respect to the Funds is tailored according to the investment objectives, guidelines, and requirements as set forth in each Fund's offering memorandum.

The Adviser managed approximately \$4.55 billion of Fund assets on a discretionary basis as of March 1, 2011.

As used herein, the term "client" generally refers to each Fund and Master Fund.

The Adviser also serves as the Collateral Manager for non-U.S. investment funds (the "CBOs") that invest substantially all of their assets in collateral meeting specified criteria ("Portfolio Collateral") and other eligible investments ("Eligible Investments") purchased with the proceeds of the securities issued by the CBOs (commonly referred to as "Collateralized Bond Obligations"). The CBOs are no longer actively managed, but the Adviser does monitor the Portfolio Collateral and perform certain operational activities with the trustees of the CBOs. The Adviser does not plan to manage additional CBOs in the future.

The Adviser managed approximately \$280 million of CBO assets on a discretionary basis as of March 1, 2011.

The Adviser may, in the future, provide investment advisory services to separately managed accounts.

## **ITEM NO. 5: FEES AND COMPENSATION**

### **Management Fees**

The fees and expenses applicable to each Fund are set forth in detail in each of the Fund's respective offering documents. A brief summary of those fees and expenses is provided below.

The Adviser receives from each Offshore Fund and Partnership a monthly or quarterly management fee in advance which ranges between 1.5% and 2.0% (annualized) of the net asset value of the shares of each Offshore Fund and interests of each Partnership.

In the sole discretion of the Adviser, the management fee may be calculated differently with respect to, or may not be charged to, certain investors, including the General Partner, the Adviser, the Principals and employees of the Adviser, and members of the immediate families of such persons or trusts or other entities for the benefit of such persons.

With respect to the CBOs, the Adviser receives Collateral Investment Management Fees based on the value of the portfolio collateral. The Collateral Investment Management Fees received by the Adviser consist of a Base Collateral Investment Management Fee of up to .8% (annualized).

In consideration for such fees, the Adviser monitors the Portfolio Collateral and provides the CBO investors with certain information received from the trustee or collateral administrator. The Adviser no longer actively manages the CBOs.

### **Incentive Compensation**

The Adviser is entitled to receive an annual incentive fee from the Offshore Funds in an amount equal to 20% of the net realized and unrealized capital appreciation, if any, in the net asset value of the shares of each such Fund. Similarly, the Partnerships allocate an incentive allocation to the General Partner's capital account in a Partnership in an amount equal to 20% of the net realized and unrealized capital appreciation, if any, allocable to the capital accounts of the limited partners of each Partnership. In each case, the incentive compensation payable or allocable to the Adviser or the General Partner, as applicable, is subject to a "high watermark."

Incentive compensation is also paid or allocated to the Adviser or the General Partner, as applicable, upon an interim-year redemption or withdrawal as if such date were the end of the fiscal year, subject to certain adjustments.

In the sole discretion of the General Partner or the Adviser with respect to the Partnerships or the Offshore Funds, respectively, the incentive compensation may be calculated differently with respect to, or may not be charged to, certain investors, including the General Partner, the Adviser, the Principals and employees of the Adviser, and members of the immediate families of such persons or trusts or other entities for the benefit of such persons.

Fees and compensation paid to the Adviser or its affiliates by the Funds are generally deducted from the assets of such clients. As discussed above, management fees are generally deducted on a monthly or quarterly basis and incentive compensation is generally deducted on an annual basis.

### **Additional Fees and Expenses**

As fully described in each Fund's offering documents, each Fund bears its own expenses, which may include, without limitation, entity-level taxes, offering and investment expenses (e.g., expenses related to the investment of such client's assets, such as brokerage commissions (see Item 12 for additional information), third-party pricing services, interest expense and consulting and other professional fees relating to particular investments), legal expenses, internal and external accounting expenses, audit and tax preparation expenses, insurance costs (e.g., directors and officers insurance, and professional liability insurance), corporate licensing, mutual fund registration fees, registered office fees, custodial fees, fees of the administrator, and other expenses relating to the offer and sale of securities of the client and extraordinary expenses related to the client.

### **Prepayment of Fees**

The management fee is prorated for any capital contribution, redemption or withdrawal by an investor in a Fund that is effective other than as of the first day of a quarter.

Generally, as described above, each Fund pays the Adviser a management fee monthly or quarterly, as applicable, in advance based on the net asset value of each investor's shares or interests. In the event that the advisory contract between the Adviser and the Fund is terminated prior to the end of the billing period, the Adviser will pay investors in such Fund an amount equal to the *pro rata* portion of the management fee, based on the number of days remaining in such month or quarter, as applicable, and such client will distribute such amounts to its investors.

### **Additional Compensation and Conflicts of Interest**

Neither the Adviser nor any of its supervised persons accepts compensation (*e.g.*, brokerage commissions) for the sale of securities or other investment products.

## **ITEM NO. 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

The Adviser and its affiliates accept performance-based fees or allocations from every client that it actively manages. As a result, the Adviser and its affiliates do not face the conflicts of interest that may arise when an investment adviser accepts performance-based fees or allocations from some clients, but not from other clients.

## **ITEM NO. 7: TYPES OF CLIENTS**

As described above, the Adviser serves as the management company to the Partnerships and as the investment manager to the Offshore Funds and the Master Funds and may, in the future, provide investment advice to separately managed accounts. Investors in the Funds and beneficial owners of separately managed accounts may include some or all of the following: institutional investors, pension and profit sharing plans, trusts, estates, charitable organizations, high net worth individuals, investment companies, corporations or business entities other than those listed previously, private investment funds or other entities.

The Adviser also serves as the Collateral Manager for the CBOs, which are no longer actively managed.

The Adviser does not impose a minimum dollar value of assets or other conditions for opening or maintaining an account. However, the Partnerships and Offshore Funds have minimum initial subscription requirements of \$3,000,000 to \$5,000,000, subject to the discretion of the General Partner of the Partnerships and the board of directors of the Offshore Funds to accept lesser amounts in each case. The Adviser reserves the right to

impose, in the future, a minimum investment or other conditions for opening or maintaining an account.

## **ITEM NO. 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

The investment strategies, methods of analysis, and material risks applicable to each Fund are set forth in detail in each of the Fund's respective offering documents. A summary of those investment strategies, methods of analysis, and material risks is provided below.

The descriptions set forth in this brochure of specific advisory services that the Adviser offers to clients, and investment strategies pursued and investments made by the Adviser on behalf of its clients, should not be understood to limit in any way the Adviser's investment activities. The Adviser may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this brochure, that the Adviser considers appropriate, subject to each client's investment objectives and guidelines. The investment strategies the Adviser pursues are speculative and entail substantial risks. Investors in the Funds should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any Fund will be achieved.

### **Investment Strategies and Process**

The Adviser invests in various instruments including, without limitation, fixed income securities, mortgage-backed securities, asset-backed securities, collateralized mortgage obligations, residential mortgage-backed securities, commercial mortgage-backed securities, subordinated securities, derivatives, options, swaps, credit default swaps, commodities, currencies, futures and forwards, equities, and uses strategies and methods that include, without limitation, proprietary models, leverage, security lending, short selling and hedging.

### **Investment Process**

The Adviser's investment process consists of development of a fundamental top-down macroeconomic view to formulate investment themes that guide in the construction of a "high conviction" portfolio of diversified trading strategies. The Adviser's Strategy and Research group contributes to this process by identifying both long term and cyclical relationships among macroeconomic and financial variables. The goal is to find attractive risk-adjusted return trades in many markets that collectively express the core views while offering a high degree of diversification. In addition to individual risk-return profiles, correlations among trades are studied to determine optimal sizing that will allow the Funds to achieve the best risk adjusted returns given the investment outlook. The team of portfolio managers meets collectively and reports to the Adviser's Investment Committee consisting of Patrick McMahon and Anthony Lembke, co-heads of investing and risk management, and Henry Lee, Chief Risk Officer.

Generally, the process includes:

- Broad top-down macro analysis combined with relative value analysis of individual strategies to identify optimal trade selection and risk allocation.
- Fundamental assessment of value based on a bottom-up approach, applying stress scenarios to evaluate potential investments.
- Correlation and diversification analysis among trades to determine optimal sizing to achieve expected risk adjusted returns given the fundamental investment outlook.
- Strict risk discipline – price targets and stop losses for all trades are determined prior to entry. Portfolio level risk limits are also employed.

### **Risk of Loss**

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

All investing involves a risk of loss that investors should be prepared to bear. The investment strategies offered by MKP could lose money over short or long periods of time. Identifying undervalued securities and other assets is difficult, and there are no assurances that MKP's investment strategies will succeed. MKP cannot give any guarantee that it will achieve Fund investment objectives or that any Fund will receive a return of its investment.

Investors should ultimately refer to their Fund's respective offering documents for detailed risk disclosures that specifically address the risks of each Fund's investment strategies, methods of analysis, and/or particular types of securities recommended. Below is a summary of potentially material risks for each significant MKP investment strategy used, the methods of analysis used, and/or the particular type of security recommended. Please note that MKP's use of the term "investor" in this section may refer to either a limited partner in a Partnership or a shareholder in an Offshore Fund.

Any investment in securities carries certain market risks. An investment in a Fund is highly speculative and involves a high degree of risk due to the nature of the Funds' investments and the strategies to be employed. An investment in a Fund should not in itself be considered a balanced investment program, but rather is intended to provide diversification in a more complete investment portfolio.

**Risks Associated With Investments in Securities.** Any investment in securities carries certain market risks. An investment in the Funds is highly speculative and involves a high degree of risk due to the nature of the Funds' investments and the strategies to be employed. An investment in a Fund should not in itself be considered a balanced investment program, but rather is intended to provide diversification in a more complete investment portfolio. Investors should be able to withstand the loss of their entire investment.

Fixed-Income Securities. The values of fixed-income securities in which the Funds invest change in response to fluctuations in interest rates. In addition, the value of certain fixed-income securities can fluctuate in response to perceptions of creditworthiness, political stability or soundness of economic policies. Valuations of other fixed-income instruments may fluctuate in response to changes in the economic environment that may affect future cash flows.

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

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

Collateralized Mortgage Obligations ("CMO") and Mortgaged-Backed Securities Derivatives. The CMO and stripped MBS markets were developed specifically to reallocate the various risks inherent in MBS across various bond classes ("tranches"). A Fund's use of these or other "derivative" securities will magnify the prepayment risks, interest rate risks, and hedging risks associated with MBS.

Residential Mortgage Backed Securities ("RMBS"). Recently, the residential mortgage market in the United States has experienced a variety of difficulties and changed economic conditions that may adversely affect the performance and market value of RMBS and securities backed by RMBS. Continued delinquencies and losses with respect to residential mortgage loans, and decreases or lack of appreciation in housing prices and appraisal values may result in additional increases in delinquencies and losses on RMBS generally.

Commercial Mortgage-Backed Securities ("CMBS"). Mortgage loans on commercial properties often are structured so that a substantial portion of the loan principal is not amortized over the loan term but is payable at maturity, and repayment of the loan principal thus often depends upon the future availability of real estate financing from the existing or an alternative lender and/or upon the current value and salability of the real estate. Therefore, the unavailability of real estate financing may lead to default. Most commercial mortgage loans underlying MBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to

refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related MBS are likely to be adversely affected.

Subordinated Securities. Investments in subordinated mortgage-backed securities (residential or commercial) and ABS involve greater credit risk of default than the senior classes of securities of the same issuer.

Credit Quality Securities. There are no restrictions on the credit quality of a Master Fund's investments. Investors should recognize that lower rated and unrated securities in which a Master Fund may invest have large uncertainties or major risk exposure to adverse conditions and are considered to be predominantly speculative. Generally, such securities offer a higher return potential than higher rated securities, but involve greater volatility of price and greater risk of loss of income and principal.

Use of Options. The Funds may buy or sell (write) options. When a Fund buys an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the security in the case of a put, could result in a total loss of the Fund's investment in the option (including commissions). When a Fund sells (writes) an option, the risk can be substantially greater than when it buys an option. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. The risk is theoretically unlimited unless the option is "covered." If it is covered, an increase in the market price of the security above the exercise price would cause the Fund to lose the opportunity for gain on the underlying security — assuming it bought the security for less than the exercise price. If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction costs) would provide profit that would reduce or offset any loss the Fund might suffer as a result of owning the security.

Swap Agreements. Swap agreements are individually negotiated and can be structured to include exposure to a variety of different types of investments or market factors. Depending on how they are used, swap agreements may increase or decrease the overall volatility of a Fund's portfolio. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency or other factors that determine the amounts of payments due to and from a Fund. If a swap agreement calls for payments by a Fund, the Fund must be prepared to make such payments when due. In addition, if a counterparty's creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses by the Fund.

Credit Default Swaps. A credit default swap is a contract between two parties which transfers the risk of loss if a company fails to pay principal or interest on time or files for bankruptcy. The credit default swap market in high yield securities is comparatively new and rapidly evolving compared to the credit default swap market for more seasoned and liquid investment grade securities. Swap transactions dependent upon credit events are priced incorporating many variables including: the pricing and volatility of the common

stock, potential loss upon default and the shape of the U.S. Treasury Yield curve, among other factors. As such, there are many factors upon which market participants may have divergent views.

Other Derivative Instruments. The Master Funds may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of such Master Fund and legally permissible. Special risks may apply to instruments that are invested in by the Master Funds in the future that cannot be determined at this time or until such instruments are developed or invested in by the Master Funds.

Commodity Interest Trading is Speculative and Volatile. The prices of commodities and related financial instruments in which the Master Funds may invest can be highly volatile. Price movements of commodities and related financial instruments are influenced by, among other things: changing supply and demand relationships; weather and climate conditions; trade, fiscal, monetary, and exchange control programs and policies of governments; political and economic events and policies; changes in interest rates and rates of inflation; currency devaluations and revaluations; and emotions of the marketplace. Governments from time to time intervene, directly and by regulation, in certain markets. Such intervention is often intended to influence prices directly.

Futures. Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. This could prevent a Fund from promptly liquidating unfavorable positions and subject the Fund to substantial losses. In addition, the Funds may not be able to execute futures contract trades at favorable prices if little trading in the contracts involved is taking place. It also is possible that an exchange or the U.S. Commodity Futures Trading Commission may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only.

Forward Trading. Forward contracts and options thereon, unlike futures contracts, are generally not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. Disruptions can occur in any market traded by the Funds due to unusually high trading volume, political intervention or other factors. Market illiquidity or disruption could result in major losses to the Funds.

Proprietary Models. The Adviser carries out its investment process and risk control procedures, in part, by applying various trading models (including proprietary credit models) developed by the Adviser. These models are used to evaluate prospective investments, as well as to monitor and value existing holdings. The accuracy and effectiveness of these models cannot be guaranteed.

Leverage and Financing Risk. While leverage presents opportunities for increasing a Fund's total return, it has the effect of potentially increasing losses as well. Accordingly, any event which adversely affects the value of an investment by a Fund would be magnified to the extent such Fund is leveraged. The cumulative effect of the use of leverage by a Fund in a market that moves adversely to such Fund's investments could result in a substantial loss to the Fund which would be greater than if the Fund were not leveraged.

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

Hedging Transactions. The success of a hedging strategy will be subject to the Adviser's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. Since the characteristics of many securities change as markets change or time passes, the success of a hedging strategy will also be subject to the Adviser's ability to continually recalculate, readjust, and execute hedges in an efficient and timely manner. While the Adviser may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for a Fund than if it had not engaged in any such hedging transactions. In periods of market stress, the instruments necessary to permit a Master Fund to engage in hedging activity may not generally be available or may not, in the Adviser's judgment, be economically priced.

Short Selling. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Fund of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Limited Diversification. The Master Funds are not restricted from concentrating their investments in the securities of a single issuer or guarantor, and may invest all or most of their assets in a single market sector. In doing so, the negative impact on the Funds of adverse movements in the value of the securities of a single issuer, guarantor or market sector could be considerably greater than if the Master Funds were not permitted to concentrate their investments to such an extent.

Non-U.S. Securities. Investments in securities of non-U.S. issuers (including non-U.S. governments) and securities denominated or whose prices are quoted in non-U.S. currencies pose, to the extent not hedged, currency exchange risks (including blockage, devaluation and non-exchangeability) as well as a range of other potential risks which could include expropriation, confiscatory taxation, political or social instability, illiquidity, price volatility and market manipulation. Income realized, and gross sale or other disposition proceeds received, by the Funds from sources within some countries may be reduced by withholding and other taxes imposed by such countries.

Investments in Emerging Markets. Investing in emerging markets involves additional risks and special considerations not typically associated with investing in other more established economies or markets.

Exchange Rate Fluctuations; Currency Considerations. A Master Fund may invest a portion of its assets in the instruments denominated in non-U.S. currencies, the prices of which are determined with reference to currencies other than the U.S. Dollar. The Master Funds, however, value their assets in U.S. Dollars. The Master Funds may hedge their non-U.S. currency exposure, but may not always do so. To the extent unhedged, the value of the Master Funds' positions in non-U.S. investments will fluctuate with U.S. Dollar exchange rates as well as the price changes of the investments in the various local markets and currencies. In such cases, an increase in the value of the U.S. Dollar compared to the other currencies in which a Master Fund makes its investments will reduce the effect of any increases and magnify the effect of any decreases in the prices of such Master Fund's investments in their local markets and may result in a loss to the Master Fund. Conversely, a decrease in the value of the U.S. Dollar will have the opposite effect on such Master Fund's non-U.S. Dollar investments. Furthermore, a Master Fund may incur costs in connection with conversions between various currencies.

A Master Fund may seek to protect the value of some portion or all of its portfolio holdings against currency fluctuations by engaging in hedging transactions, but there can be no assurance that such hedging transactions will be effective.

Currency Hedging. With respect to Offshore Funds that accept investments in currencies other than the U.S. Dollar, a Master Fund may generally employ various hedging techniques which may include, but are not limited to, spot or forward contracts, currency options and currency futures contracts over other financial investments (a "Currency Hedge"). Such hedging may substantially limit the benefit experienced by the holders of non-U.S. Dollar denominated shares (the "Non-U.S. Dollar Shares") from any increase in the U.S. Dollar value of the non-U.S. Dollar currencies in which they subscribed.

With respect to Offshore Funds that accept investments in currencies other than the U.S. Dollar, the Adviser may effect a Currency Hedge by entering into forward contracts for the Master Fund. Differences in prevailing interest rates for deposits of different currencies can cause the price for future delivery of a currency to diverge from its spot price. Under such

circumstances, the Master Fund would incur a loss with respect to such Currency Hedge (assuming no change in the relevant exchange rate during the relevant period) which would be allocable to the Non-U.S. Dollar Shares.

**The Funds' investment programs are speculative and entail substantial risks. There can be no assurance that the investment objectives of the Funds will be achieved, or that investment results might not vary substantially on a monthly, quarterly or annual basis. In fact, the use of leverage, options, forward contracts, futures and derivatives and the limited diversification of the Funds' portfolios can, in certain circumstances, maximize the adverse impact to which the Funds' investment portfolios may be subject. The Funds' activities could result in substantial losses under certain circumstances.**

#### **ITEM NO. 9: DISCIPLINARY INFORMATION**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of the Adviser's advisory business or the integrity of the Adviser's management.

As part of our routine compliance training and monitoring, we ask all of our employees to certify upon hire, and thereafter on an annual basis, whether they have been the subject of any disciplinary actions.

*See also Item No. 11 of this brochure.*

#### **ITEM NO. 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

The Adviser and its management persons are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

Each of the Adviser and the General Partner is registered as a commodity pool operator with the Commodity Futures Trading Commission ("CFTC"). The Adviser is also registered as a commodity trading adviser and is a member of the National Futures Association ("NFA"). While registered as such, the Adviser and the General Partner operate the Offshore Funds and the Partnerships, respectively, pursuant to an exemption from regulation as a commodity pool operator under CFTC Rule 4.13(a)(4) and, accordingly, the Adviser and the General Partner, as applicable, are not subject to certain regulatory requirements that would otherwise be available absent such exemption.

The Adviser has a sub-advisory relationship with MKP Capital Europe LLP ("MKP Europe"). MKP Europe was formed in October 2010, and will commence operations in London in the second quarter of 2011. MKP Europe has been registered with the U.K. Financial Services Authority since March 2011.

Except as otherwise disclosed in this brochure, neither the Adviser nor any of its management persons has a relationship or an arrangement that is material to its advisory business or to its clients with any related person that is a pooled investment vehicle, investment adviser, commodity pool operator or commodity trading adviser. In addition, the Adviser does not recommend or select other investment advisers for its clients.

## **ITEM NO. 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

The Adviser strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. In seeking to meet these standards, the Adviser has adopted a Code of Ethics (the "Code").

The Code incorporates the following general principles that all employees are expected to uphold:

- employees must at all times place the interests of clients first
- all personal securities transactions must be conducted in a manner consistent with the Code and any actual or potential conflicts of interest or any abuse of an employee's position of trust and responsibility must be avoided
- employees must not take any inappropriate advantage of their positions
- information concerning the identity of securities and financial circumstances of the Funds, including their investors, must be kept confidential
- independence in the investment decision-making process must be maintained at all times.

The Code also places restrictions on personal trades by employees, including that they disclose their personal securities holdings and transactions to the Adviser on a periodic basis, and requires that employees pre-clear certain types of personal securities transactions. In addition, any position in a personal account must be held for a fixed period. The Code also requires all employees to pre-clear all political contributions and certain gifts and entertainment.

Employees receive periodic training on the Code, insider trading and other compliance related matters.

*Investors may request a copy of the Code by contacting the Adviser at the address or telephone number listed on the cover page of this document.*

To the extent an investment opportunity is determined to be appropriate for the multiple Funds or managed accounts, the Adviser will use its best judgment and act in a manner which it considers fair and reasonable in allocating such investment opportunity. It is the policy of the Adviser to allocate such investment opportunities for the Funds on an equitable basis, taking into account various factors. Such factors may include, among others:

- the risk parameters of such account
- the eligible assets of such account
- the investment objectives and restrictions on the account
- the relative size and cash availability of the applicable strategy within such account
- the nature and size of the proportion of a securities issue likely to be available to the Adviser or the nature and size of the proposed sale
- the ability to borrow and the cost of borrowed funds
- tax consequences
- legal restrictions, including those that may arise in foreign jurisdictions
- the liquidity of the investment relative to the need of such account
- the degree of specialization of an account relative to the investment offered
- the relative historical participation of an account in the investment
- the difficulty of liquidating an investment for more than one Fund
- the possibility that an allocation may result in a small or odd lot
- new Funds with a substantial amount of investable cash
- relative exposure to market trends
- other factors considered relevant.

The Adviser, however, will have no obligation to purchase, sell or exchange any security or financial instrument for one Fund which the Adviser may purchase, sell or exchange for another Fund if the Adviser believes in good faith at the time the investment decision is made that such transaction or investment would be unsuitable, impractical or undesirable for a particular Fund.

With respect to allocations of limited investment opportunities, such as privately placed securities and initial public offerings of securities, the Adviser will determine which Funds are eligible to participate in those opportunities. Limited investment opportunities will generally be allocated among all eligible Funds in proportion to their relative capital balances in accordance with the procedures set forth above. Funds without sufficient available capital will not participate. In certain circumstances, the Adviser may give added weight to those Funds whose investment programs are responsible for obtaining the investment opportunity when allocating limited investment opportunities.

The Adviser also maintains insider trading policies and procedures (the "Insider Trading Policies") that are designed to prevent the misuse of material, non-public information. The Adviser's personnel are required to certify to their compliance with the Code, including the Insider Trading Policies, on a periodic basis.

### **Restrictions Due to Insider Information**

The Adviser's Insider Trading Policies prohibit the Adviser and its personnel from trading for the Funds or themselves, or recommend trading, in securities of a company while in possession of material, non-public information ("Inside Information") about the company, and from disclosing such information to any person not entitled to receive it. By reason of its

various activities, the Adviser may have access to Inside Information or be restricted from effecting transactions in certain investments that might otherwise have been initiated. The Adviser has designed and implemented policies and procedures reasonably designed to shield its investment professionals in most cases from access to Inside Information so that investment decisions may be made on the basis of public information only. Among other things, such policies seek to control and monitor the flow of Inside Information to and within the Adviser, as well as prevent trading based on Inside Information. Accordingly, the Adviser may not have access to Inside Information that other market participants or counterparties are eligible to receive.

Notwithstanding such policies and procedures, there may be certain cases where the Adviser either may receive Inside Information due to its various activities on behalf of itself or the Funds or may be restricted in acting for the Funds, resulting in limited liquidity or using such information for the benefit of certain clients in specific securities. The Adviser seeks to minimize those cases whenever possible, consistent with applicable law and its Insider Trading Policies, but there can be no assurance that such efforts will be successful and that such restrictions will not occur.

## **ITEM NO. 12: BROKERAGE PRACTICES**

In selecting brokers and dealers to effect portfolio transactions, the Adviser considers such factors as commission rates, price, the ability of the brokers and dealers to effect the transaction, the brokers'-dealers' facilities, reliability and financial responsibility and the provision of, or payment for (or the rebate to the Funds for payment of), the costs of research-related products or services that are of benefit to the Funds, the Adviser and related funds and accounts. The Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commissions and other costs. Accordingly, if the Adviser determines in good faith that the amount of commissions and other compensation charged by a broker or the prices charged by a dealer are reasonable in relation to the value of the research-related goods and services, including prime broker services, provided by such broker or dealer, the Funds may pay commissions and other compensation to such broker or prices to such dealer which are greater than those another might charge.

### **Soft Dollar Usage**

Research-related goods and services provided by brokers and dealers through which portfolio transactions for the Funds are executed, settled and cleared may include research reports on particular industries and companies, economic surveys and analyses, recommendations as to specific securities, research services, and other goods and services providing lawful and appropriate assistance to the Adviser in the performance of its investment decision-making responsibilities on behalf of the Funds (collectively, "soft dollar items").

The Adviser does not have any formal soft dollar arrangements at this time. The Adviser, however, does receive research from broker-dealers that are generally made available to the broker-dealer's clients.

Should the Adviser enter into any such arrangements in the future, "soft dollars" will generally be used only for brokerage and research as interpreted under the safe harbor provided by Section 28(e) of the U.S. Securities Exchange Act of 1934, even though soft dollars may be generated in transactions not falling within the requirements of Section 28(e). Soft dollars generated in respect of principal transactions (other than riskless principal transaction), futures, currency and derivatives transactions do not fall within the safe harbor created by Section 28(e) and will be utilized only with respect to eligible brokerage and research-related products and services and other authorized Fund expenses.

Soft dollar items may be provided directly by brokers and dealers, by third parties at the direction of brokers and dealers, or purchased on behalf of the Funds with credits or rebates provided by brokers and dealers. Soft dollar items may arise from over-the-counter principal transactions, as well as exchange-traded agency transactions. In addition, such payments or rebates may be made by futures commission merchants in connection with futures transactions. Brokers and dealers sometimes suggest a level of business they would like to receive in return for the various services they provide. Actual business received by any broker or dealer may be less than the suggested allocations, but can (and often does) exceed the suggestions, because total transaction volume is allocated on the basis of all the considerations described above. A broker or dealer will not be excluded from executing transactions for the Funds because it has not been identified as providing soft dollar items.

When MKP uses client brokerage commissions (or markups or markdowns) to obtain research or other products or services, MKP receives a benefit because it does not have to produce or pay for such products or services. MKP may have an incentive to select or recommend a broker-dealer based on its interest in receiving research or other products or services, rather than on its Funds' interest in receiving most favorable execution.

### **Other Brokerage Considerations**

From time to time, the Funds may accept investments from the asset management division or an affiliate of full-service financial firms who are investing on their own behalf or on behalf of third-parties. The financial service firms may have related entities that include broker-dealers and the Adviser may from time-to-time utilize these broker-dealers when the Adviser believes that a particular broker-dealer provides best execution for client transactions. This is not a material part of the Adviser's business and the Adviser does not take these investments into consideration when determining which broker-dealers to use to execute client transactions.

From time to time, brokers (including prime brokers) may assist the Funds in raising additional funds from investors, and representatives of the Adviser may speak at conferences and programs sponsored by such brokers for investors interested in investing in hedge funds. Through such "capital introduction" events, prospective investors in a Fund would have the

opportunity to meet with the Adviser. Currently, none of the Adviser, the General Partner or the Funds compensates any broker for organizing such events or for any investments ultimately made by prospective investors attending such events, nor do they anticipate doing so in the future. While such events and other services provided by a broker may influence the Adviser in deciding whether to use such broker in connection with brokerage, financing and other activities of the Funds, the Adviser will not commit to allocate a particular amount of brokerage to a broker in any such situation.

### **Trade Error Policy**

Pursuant to the various exculpation and indemnification provisions described in the Funds' offering documents, the Adviser and its affiliates and personnel will generally not be liable to the Funds for any act or omission, absent bad faith, fraud, willful misconduct or gross negligence, and the Funds will generally be required to indemnify such persons against any losses they may incur by reason of any act or omission related to the Funds, absent bad faith, fraud, willful misconduct or gross negligence. As a result of these provisions, the Funds (and not the Adviser) will be responsible for any losses resulting from trading errors and similar human errors, absent bad faith, fraud, willful misconduct or gross negligence. While the Adviser and its counterparties have controls in place to prevent trade errors, there is always the possibility that such errors may occur. Trading errors might include, for example, keystroke errors that occur when entering trades into an electronic trading system resulting in the wrong amount of securities purchased or sold or the wrong security purchased or sold. Given the volume of transactions executed by the Adviser on behalf of the Funds, investors should assume that trading errors (and similar errors) may occur and that the Funds will be responsible for any resulting losses, even if such losses result from the negligence (but not gross negligence) of the Adviser's personnel. Investors may contact the Adviser with any questions related to the Adviser's trade error policies.

### **Order Aggregation**

The Adviser will generally execute Fund transactions on an aggregated basis when the Adviser believes that doing so will allow it to obtain best execution and to negotiate more favorable commission rates or other transaction costs than might have otherwise been paid had such orders been placed independently. When aggregating orders all Funds will be treated in a fair and equitable manner.

## **ITEM NO. 13: REVIEW OF ACCOUNTS**

The Adviser performs various daily, weekly, monthly, quarterly and periodic reviews of the portfolios of the Funds. Such reviews are conducted by the members of the Adviser's Investment Committee, portfolio managers, research associates and operational personnel. The Funds are administered by a third-party administrator and the Adviser reconciles their accounting regularly.

MKP provides the following unaudited reports to all Fund investors:

- Month-to-date returns emailed weekly
- Month-end performance estimate
- Month-end fund profile (consisting of risk & performance attribution)
- Monthly account statements
- Quarterly investor letter

MKP sends to Fund investors estimated month-to-date returns, net of all fees and expenses as of the weekly close of business on the first business day of the following week. On the 3<sup>rd</sup> business day after month-end, MKP sends to Fund investors estimated performance, net of all fees and expenses. Monthly performance attribution is typically sent to Fund investors the 2<sup>nd</sup> week of the month, in addition to a full quarterly newsletter. Performance figures are updated on MKP's secure website, [www.mkpcapital.com](http://www.mkpcapital.com); assets under management are also available on the website. The Fund's administrator sends account statements to Fund investors once each Fund's net asset value is finalized, typically by the 20<sup>th</sup> of the month.

MKP intends to provide all Fund investors with the information necessary for the ongoing monitoring of their investments in the Funds. As such, MKP provides monthly fund-specific information regarding portfolio exposures, attribution and risk parameters.

In addition to the above, investors in the Funds receive audited financial statements annually, generally within 90 days but no later than 120 days of the end of the Fund's fiscal year end.

#### **ITEM NO. 14: CLIENT REFERRALS AND OTHER COMPENSATION**

MKP does not receive economic benefits from non-clients for providing investment advice and other advisory services.

MKP does not pay to any third-party any broker, sales commission, finders, subscription, placement or similar fees.

#### **ITEM NO. 15: CUSTODY**

The Adviser is deemed to have custody of client funds and securities because it has the ability to direct client funds or securities to and from prime brokers that have custody of the assets of the Master Funds. Account statements related to the clients are sent by qualified custodians to the Adviser and each Fund's administrator.

The Adviser is subject to Rule 206(4)-2 under the Advisers Act (the "Custody Rule"). However, it is not required to comply (or is deemed to have complied) with certain requirements of the Custody Rule with respect to each Fund because it complies with the provisions of the so-called "Pooled Vehicle Annual Audit Exception," which, among other things, requires that each Fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that each Fund distribute its audited financial statements to all investors within 120 days of the end of its fiscal year.

#### **ITEM NO. 16: INVESTMENT DISCRETION**

As noted previously, MKP has full discretionary authority to manage the Funds, including authority to make decisions with respect to which securities are bought and sold, the amount and price of those securities, the brokers or dealers to be used for a particular transaction, and commissions or markups and markdowns paid. MKP's authority is limited by its own internal policies and procedures and each Fund's investment guidelines. Investment advisory services are provided directly to the Funds and the Master Funds, and not to the Funds' investors individually. The Adviser makes investments for each Master Fund based on its investment program.

#### **ITEM NO. 17: VOTING CLIENT SECURITIES**

The Securities and Exchange Commission adopted Rule 206(4)-6, which requires registered investment advisers that exercise voting authority over client securities to implement proxy voting policies. In compliance with such rule, the Adviser has adopted proxy voting policies and procedures (the "Policies"). The general policy is to vote proxy proposals, amendments, consents or resolutions relating to client securities, including interests in private investment funds, if any (collectively, "proxies"), in a manner that serves the best interests of client accounts, as determined by the Adviser in its discretion, taking into account the following factors: (i) the impact on the value of the investments; (ii) the anticipated associated costs and benefits; (iii) effect on liquidity; and (iv) customary industry and business practices.

On occasion the Adviser receives a request for consent to matters pertaining to a bond. Examples include requests for consent to: a debt restructuring, a bond exchange or an issuer bond repurchase. In such instances, the Adviser will respond to such consents taking into account relevant factors, including, but not limited to: (i) the impact to the applicable Fund's expected profits and losses; (ii) the structural and liquidity differences between the bonds currently held and offered in exchange; and (iii) customary industry and business practices.

The Adviser will refrain from voting proxies or consents where the Adviser believes that voting would be inappropriate. A copy of the Policies and the consent voting relating to a Fund may be obtained by contacting the Adviser.

From time to time, the Adviser may receive notices regarding class action lawsuits involving securities that are or were held by the Funds. As a matter of policy, the Adviser shall act in the best interests of its investors and generally refrain from serving as the lead plaintiff in class action matters and also refrain from submitting proofs of claim where the Adviser reasonably believes that either the recovery amounts are likely to be negligible or for other reasons. As a result, the Adviser, in most cases, will not likely participate in class action lawsuits.

#### **ITEM NO. 18: FINANCIAL INFORMATION**

The Adviser is not aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to its clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.

The Adviser does not need to provide a balance sheet since it does not solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.