

## **FIRM BROCHURE**

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THIS BROCHURE DOES NOT CONSTITUTE AN OFFER, SOLICITATION OR RECOMMENDATION TO SELL OR AN OFFER TO BUY ANY SECURITIES, INVESTMENT PRODUCTS OR INVESTMENT ADVISORY SERVICES.

ADDITIONAL INFORMATION ABOUT MERITAGE CAPITAL, LLC ALSO IS AVAILABLE ON THE SEC'S WEBSITE AT [WWW.ADVISERINFO.SEC.GOV](http://WWW.ADVISERINFO.SEC.GOV).

September 24, 2014

## **Item 2: Material Changes**

The date of the last annual update to our firm brochure was March 28, 2013. A summary of certain material changes that have been made to our firm brochure since the date of our last annual update is set forth below:

- On December 19, 2013, Meritage moved its principal location from 114 W. Seventh St., Suite 1300 to 515 Congress Avenue, Suite 2200, still residing in Austin, TX.
- On December 19, 2013, Meritage became an Adviser to an open-end investment company registered under the Investment Company Act of 1940.
- On July 1, 2013, Meritage became a Sub-Advisor to a closed-end investment company registered under the Investment Company Act of 1940.

The information set forth in this brochure is qualified in its entirety by the applicable offering materials and/or governing or account documents. In the event of a conflict between the information set forth in this brochure and the information in the applicable governing, account and/or offering documents, such documents will control.

We encourage all clients and investors to carefully review this document in its entirety.

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## Item 4: Advisory Business

### FIRM DESCRIPTION

Meritage Capital, LLC (“we,” “us,” “our” or “Meritage”) is a Delaware limited liability company and private investment advisory firm located in Austin, Texas. References herein to “We”, “Us”, “Our”, or “Meritage” include both Meritage and any affiliated management companies of Meritage.

We, either directly or indirectly through affiliates, provide investment advisory services to private pooled investment vehicles (each, a “Fund” and collectively, the “Funds”), investment advisory and sub-advisory services on a discretionary or non-discretionary basis to separately managed accounts (“SMAs”), and investment companies registered under the Investment Company Act, as amended (“Investment Company Act”) on an advisory and sub-advisory services basis (“Registered Funds” and, together with SMAs and the Funds, (“Client(s)”) primarily with respect to investments in private pooled investment vehicles and separately managed accounts operated and/or managed by third party investment managers (“Underlying Managers”). We typically are responsible for evaluating and monitoring investments and providing day-to-day managerial and administrative services to our clients, as more fully described and/or contemplated in the applicable offering and/or account documents.

Our investment advice is provided in accordance with and subject to the investment objectives, strategies, guidelines, restrictions and limitations contained in the applicable offering, governing and/or account documents, and the information in this brochure is qualified in its entirety by the information set forth in such documents.

### PRINCIPAL OWNERS

Meritage is owned by Alex C. Smith, St. James’s Park Holding, LLC, an entity owned and controlled by Mr. Smith (“SJPH”), MFI Capital, LLC, an entity owned and controlled by Meredith Family Revocable Trust (“MFI”), Meredith Family Revocable Trust, a trust owned and controlled by Thomas J. Meredith and his spouse (“Meredith Trust”), Zilker Park Partners, LLC, an entity owned and controlled by Mr. Smith and Meredith Trust (“Zilker”), Chinkapin LLC, a Delaware limited liability company owned by Joe S. Wade and others (“Chinkapin”), and Wilson Capital Partners, LLC, an entity owned and controlled by Spence Wilson (“Wilson Capital”). Messrs. Smith and Meredith own and/or control, directly and indirectly, more than 75% of the ownership interests of Meritage.

### TYPES OF ADVISORY SERVICES

#### Funds

We currently provide investment advisory and/or supervisory services with respect to the following Funds: Insignia Legacy Fund, L.P. (the “Legacy Fund”), , Insignia Vintage Fund, L.P. (the “Vintage Fund”), Insignia Vintage Offshore Fund, L.P. (“Vintage Offshore Fund” and, together with Vintage Fund, the “Vintage Funds”), Insignia Opportunity Fund, L.P. (the “Opportunity Fund”), Insignia Insurance Dedicated Fund, L.P. (the “Insurance Fund”), Centennial Absolute Return Fund, L.P. (“Absolute Return Fund”), Centennial Global Macro Fund, L.P. (“Global Macro Fund”), Redwood Growth Partners, L.P. (“Redwood Growth Fund”), Centennial Funds SPC (for and on behalf of its segregated portfolio Centennial Absolute Return Fund Segregated Portfolio) (“SPC Absolute Return Fund”), and Centennial Funds SPC (for and on behalf of its segregated portfolio Centennial Global Macro Fund Segregated Portfolio) (“SPC Global Macro Fund”). Each of the Funds is structured as a “fund of funds” that invests primarily in other private investment funds and/or separately managed accounts operated and/or managed by third party investment managers. The Funds may also invest directly in financial instruments (including equity securities, exchange traded funds, swaps, futures, options, commodity interests and other derivatives as direct overlays to the underlying portfolios) and in affiliated funds. SPC Global Macro Fund invests all or substantially all of its assets in Global Macro Fund. **See Item 8 for a more detailed description of our investment strategies.**

Effective December 26, 2008, we initiated a required withdrawal (“Required Withdrawal”) of all investors in the Legacy Fund. We are currently conducting an orderly liquidation of the assets of the Legacy Fund.

#### SMAs

We provide and may in the future provide investment advisory and sub-advisory services on a discretionary or non-discretionary basis to SMAs of various types of advisory clients primarily with respect to investments in private pooled investment vehicles and separately managed accounts managed and/or operated by third party investment managers. We may also provide investment advice with respect to direct investments in securities, financial

instruments and other assets, as set forth in the investment management agreement with a client. SMAs are managed in accordance with the terms, conditions, guidelines and limitations set forth in the investment management agreement or sub-advisory agreement between us and each advisory client. **See Item 8 below for a more detailed description of our investment strategies.**

#### Registered Funds

We currently provide investment advisory and sub-advisory services to Clients that are registered investment companies under the Company Act, including open-end and closed-end funds. Each Registered Fund is structured as a “fund of funds” that invests in other private investment funds and/or separately managed accounts operated and/or managed by third party investment managers. Registered Funds may also invest directly in financial instruments (including fixed income securities, exchange traded funds, swaps, futures, options, commodity interests and other derivatives) and in affiliated funds.

### **INVESTMENT RESTRICTIONS**

#### Funds

We provide investment advice to each Fund in accordance with the investment objectives, policies and guidelines set forth in the applicable offering and governing documents, and not in accordance with the individual needs or objectives of any particular investor in that Fund. Investors generally are not permitted to impose restrictions or limitations on the management of the Funds. Notwithstanding the foregoing, the general partner of a Fund may enter into side letter agreements with one or more investors in that Fund that alter, modify or change the terms of the interests held by those investors.

#### SMAs

We provide and tailor our investment advice based on the investment guidelines, objectives, restrictions, financial circumstances and risk tolerance of each SMA client. Subject to our approval, advisory clients generally may impose reasonable restrictions and limitations on the management of their SMAs.

#### Registered Funds

We provide investment advice to each Registered Fund in accordance with the investment objectives, policies and guidelines set forth in the applicable prospectus, and not in accordance with the individual needs or objectives of any particular investor in that Registered Fund.

### **ASSETS UNDER MANAGEMENT**

As of June 30, 2014, we had approximately \$1,092,058,971 billion in regulatory assets under management (“RAUM”). Approximately \$404 million of those assets were managed on a discretionary basis, and approximately \$688 million of those assets were managed on a non-discretionary basis.

## Item 5: Fees and Compensation

### FEE SCHEDULE

In consideration of our advisory services, we generally are entitled to receive management fees and/or performance-based fees or allocations with respect to each client. The fees and expenses applicable to each client are set forth in detail in its offering memorandum or investment management agreement. A brief summary of our advisory fees is set forth below.

#### Funds

##### *Vintage Funds, Opportunity Fund, and Insurance Fund*

We generally are entitled to receive an annualized management fee equal to 1% of the capital account balance of each limited partner.

In addition, we generally are entitled to receive a performance allocation equal to ten percent (10%) of each limited partner's allocable share of net profits for the applicable performance period. Performance allocations are subject to a "high water mark" limitation. As a result, after the first year in which a performance allocation is earned, the performance allocation for later years applies only to the extent that an investor's pro rata share of net profits, measured on a cumulative basis, for all years since admission exceeds the highest level of cumulative net profits achieved through the close of any prior year since admission.

##### *Absolute Return Fund, SPC Absolute Return Fund, Global Macro Fund, SPC Global Macro Fund, and Redwood Growth Fund*

We generally are entitled to receive an annualized management fee of up to 1.5% of the net asset value of each capital account of a limited partner or each series of shares of a shareholder, as applicable.

In addition, we generally are entitled to receive an incentive allocation or fee of up to 10% of any "Net New Profit" in respect of a capital account or shares, as applicable, for the applicable performance period. With respect to Absolute Return Fund and SPC Absolute Return Fund, incentive allocations or fees are paid only to the extent that returns exceed a 5% annual, non-cumulative hurdle rate during the applicable performance period.

As used herein, "Net New Profit" is any amount by which the net asset value of a capital account or a shareholder's shares, as applicable, exceeds the High Water Mark for such account or shares, as applicable, or any applicable hurdle rate. The "High Water Mark" is generally the highest historic net asset value of such account or such shares immediately after the assessment of the most recent incentive allocation or fee or, if the account has never been assessed an incentive allocation or fee, the net asset value of such account when it was established or such shares when they were first acquired.

##### *Legacy Fund*

We have elected to waive all fees otherwise payable with respect to the Legacy Fund.

Our fees with respect to each Fund may be negotiable, and we have in the past agreed to a reduction of the management fees with respect to certain investors. We may enter into side letters or similar arrangements in the future with certain investors that grant different terms (including lower fees) to such investors than the terms generally applicable to other investors. Certain of our affiliates, including our employees, generally are not charged management fees and are not subject to any performance-based allocations or fees.

#### SMA's

With respect to SMA's, fee arrangements are negotiated prior to our engagement as investment adviser and, as a result, the applicable fees with respect to with respect to each SMA may vary. Nevertheless, we typically receive a management fee, payable on a monthly or quarterly basis in arrears, equal to a percentage (typically 1% or 2% per annum) of the asset value of the SMA as of the last business day of the applicable period.

In addition, we may be entitled to receive an annual performance fee equal to a percentage of a SMA's net profits as of the end of each applicable year (or other performance period) (subject to the terms and conditions set forth in the applicable investment management agreement or sub-advisory agreement).

Notwithstanding the foregoing, we have entered into, and may enter into in the future, fixed fee arrangements with certain SMA clients.

#### Registered Funds

The fees and expenses for each Registered Fund are set forth in the corresponding prospectus for the fund.

#### **PAYMENT OF FEES**

##### Funds

###### *Vintage Funds and Insurance Fund*

Management fees are payable by investors quarterly, in arrears, as of the last business day of each calendar quarter. Management fees are deducted directly from the capital account of each investor.

Performance allocations are calculated and allocated as of the end of each fiscal year (and at such other times as set forth in the applicable partnership agreement). Performance allocations are allocated directly from the capital account of each applicable investor.

###### *Opportunity Fund*

Management fees are payable by investors monthly, in arrears, as of the last business day of each calendar month. Management fees are deducted directly from the capital account of each investor.

Performance allocations generally are calculated and allocated as of the end of each fiscal year (and at such other times as set forth in the partnership agreement). With respect to certain illiquid assets or securities (“Designated Investments”), performance allocations are calculated and allocated as of the end of each fiscal period in which a “recognition event,” as such term is defined in the partnership agreement, relating to such Designated Investment occurs. Performance allocations generally are allocated directly from the capital account of each applicable investor.

###### *Absolute Return Fund and Global Macro Fund*

Management fees are payable by investors monthly, in arrears, as of the last business day of each calendar month. Management fees are deducted directly from the account or shares of each investor.

Incentive allocations or fees are calculated and payable as of the end of each fiscal year (and at such other times as set forth the governing documents). Incentive allocations or fees are paid directly from the capital account or shares of each applicable investor.

###### *SPC Absolute Return Fund and SPC Global Macro Fund*

Management fees are payable by investors monthly, in arrears, as of the first business day of each calendar month. Management fees are deducted directly from the account or shares of each investor.

Incentive allocations or fees are calculated and payable as of the end of each fiscal year (and at such other times as set forth the governing documents). Incentive allocations or fees are paid directly from the capital account or shares of each applicable investor.

###### *Redwood Growth Fund*

Management fees are payable by investors monthly, in arrears, as of the last business day of each calendar month. Management fees are deducted directly from the capital account of each investor on the last business day of each calendar month.

##### SMAs

Management fees generally will be calculated monthly or quarterly in arrears based upon the asset value of the SMA as of the last business day of such period. Performance fees generally will be calculated as of the end of each calendar year (and at such other times as set forth in the investment management agreement or sub-advisory agreement). SMA clients may authorize and direct us to deduct fees directly from their custodial accounts or elect for us to bill them on a periodic basis for such fees (in which case such SMA clients will be responsible for paying management fees directly to us).

#### Registered Funds

The payment of fees for each Registered Fund is set forth in the corresponding prospectus for the fund.

## **OTHER FEES AND EXPENSES**

In addition to the fees set forth above, clients generally bear all fees, costs and expenses associated with their investments and SMAs, including the types of fees, costs and expenses set forth below. If any fees, costs and/or expenses are incurred jointly for the account of a client and one or more other clients, such fees, costs and/or expenses generally will be allocated among the applicable clients in proportion to the size of the investment made by such clients in the activity or entity to which the expense relates or in such other manner as we determine to be fair and equitable. We or an affiliate may from time to time elect to bear certain costs and expenses.

### Underlying Manager Fees

In addition to our fees, each underlying manager generally imposes management fees and also may impose performance-based fees or allocations based upon realized and unrealized appreciation in the value of the assets managed by that underlying manager. These fees generally will be borne, directly or indirectly, by our clients and investors in the Funds.

### Fund Expenses

Each client (including the Funds) generally bears its own organizational, offering and operating expenses.

### Underlying Fund or Underlying Manager Expenses

Clients generally bear, directly or indirectly through their investment in each underlying fund or other investment vehicle (as applicable), their *pro rata* share of the offering, organizational and operating expenses of such underlying fund or other investment vehicle, and expenses related to the investment of such assets, such as brokerage commissions (including soft dollar payments), expenses relating to short sales, clearing and settlement charges, custodial fees, bank service fees, interest expenses, borrowing costs and extraordinary expenses.

### Custodial and Administration Fees

With respect to the Funds, custody and administration fees, if any, are charged separately by the custodian or administrator and are in addition to the management fees payable to us. SMA clients are responsible for their share of any fees or expenses charged by third-party administrators engaged to provide administrative and other services with respect to the SMAs. SMA clients are responsible for paying all custodial fees and expenses with respect to their accounts held at qualified custodians (pursuant to agreements with such custodians). Custodial and administration fees are in addition to the management fees payable to us. **See Item 12 below.**

### Brokerage

Clients generally are responsible for and pay all brokerage fees and expenses. **See Item 12 below.**

### Sales Charges

As described in Item 14 below, investors may be required to pay certain “sales charges” to third party placement agents or solicitors in connection with their investment in the Funds. **See Item 14 below.**

## **TERMINATION OF ADVISORY SERVICES**

### Funds

We generally will continue to provide advisory services to each Fund until its assets are liquidated or we are removed as general partner or investment manager thereof (in accordance with the terms and conditions set forth in the applicable governing documents).

### SMAs

Investment management agreements and sub-advisory agreements between us and our SMA clients generally may be terminated by either party upon prior written notice to the other party.

## **WITHDRAWALS**

Subject to the terms and conditions set forth in the governing documents of each Fund (including any applicable lock-up periods), investors generally are permitted to make complete or partial withdrawals or redemptions from a Fund as of the close of business on the last business day of a calendar month or quarter in accordance with the terms



set forth in the governing documents. If an investor makes a withdrawal or redemption prior to the end of its applicable lock-up period, such investor may be subject to an early withdrawal charge. Investors generally are required to provide us with prior written notice of any requested withdrawal or redemption.

For a detailed description of the withdrawal or redemption provisions applicable to each Fund, please carefully review the applicable offering documents of such Fund. The foregoing summary is qualified in its entirety by the information set forth in the applicable offering documents.

#### **COMPENSATION FOR THE SALE OF SECURITIES OR OTHER INVESTMENT PRODUCTS**

Neither we nor any of our supervised persons accept compensation for the sale of securities or other investment products.

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

### **PERFORMANCE-BASED FEES**

As noted under Item 5 above, we may be entitled to receive performance-based allocations or fees with respect to certain of our clients. In addition, certain of the underlying funds in which our clients invest may charge performance-based allocations or fees. Performance-based fees and/or allocations could motivate us and/or the underlying managers, as applicable, to make investment decisions that are riskier or more speculative than would be the case if these arrangements were not in effect. In addition, because many performance-based fees or allocations are calculated on a basis that includes both realized and unrealized appreciation in portfolios based upon values assigned by us and/or underlying managers, we and underlying managers face a conflict of interest in valuing such portfolios. Our individual employees and affiliates (and employees and affiliates of underlying managers) who are compensated to some extent based upon trading profits for which they are responsible face the same potential conflict. We attempt to address this conflict through disclosure in applicable offering documents and/or this brochure.

### **SIDE-BY-SIDE MANAGEMENT**

We provide investment advisory services to clients for which we are entitled to receive performance-based allocations or fees alongside clients for which we are not entitled to receive any performance-based allocations or fees. This side-by-side management could motivate us to favor accounts for which we or our affiliates receive performance-based allocations or fees over other accounts for which such fees are not payable. We attempt to address this conflict primarily through disclosure in this brochure.

In addition, underlying managers may manage accounts for which they are entitled to receive performance-based fees or allocations alongside accounts for which they are not entitled to receive any performance-based fees or allocations. This side-by-side management could motivate the underlying managers to favor accounts for which they or their employees or affiliates receive performance-based fees or allocations over other accounts for which such fees are not payable. We attempt to address this conflict primarily through disclosure in this brochure and by monitoring underlying managers to detect abuses.

## Item 7: Types of Clients

### **TYPES OF ADVISORY CLIENTS**

We currently provide investment advisory and/or sub-advisory services with respect to the Funds, SMAs, and Registered Funds of various entities. We may in the future provide investment advice to other clients including, but not limited to, other pooled investment vehicles and other types of SMA clients.

### **ACCOUNT REQUIREMENTS**

#### Funds

The minimum initial capital contribution generally required for an investor in the each of the Funds is described in the Fund's offering documents.

To invest in the Funds, investors generally must be, among other things, "accredited investors" as defined in Rule 501(a) of Regulation D under the U.S. Securities Act of 1933, as amended, and either "qualified clients" as such term is defined in Rule 205-3 under the Advisers Act, or "qualified purchasers" as such term is defined in Section 2(a)(51)(A) of the Company Act.

#### SMAs

SMA clients are required to sign investment management agreements that, among other things, set forth the nature and scope of our investment management authority and the investment objectives, guidelines and restrictions applicable to the management of the SMA. In addition, SMA clients generally must meet certain net worth, net asset and/or other eligibility requirements imposed by applicable securities and commodities laws.

#### Registered Funds

Registered Funds are available for U.S. taxable and non-taxable investors and includes closed-end and open-end funds registered as investment companies with the SEC, where Meritage serves as adviser or sub-adviser.

Registered Funds may be available to the public at large or a more restricted group of investors that are eligible to invest in privately offered securities. Minimum investment requirements vary by Registered Fund and are set forth in the applicable prospectus.

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

### **METHODS OF ANALYSIS**

We select prospective underlying managers through disciplined “top-down” and “bottoms-up” analyses. We perform both quantitative and qualitative analysis to evaluate if a prospective Manager is a candidate for investment. Qualitative analysis of a Manager may include but is not limited to, investment style/strategy, longevity and assets of the Manager, background of the principals of the Manager, assets under management, fund fees and expense/management fees, minimum subscription/investment size, redemption terms, portfolio turnover, use of a portfolio/trading model, key business risks and Manager investor base. Quantitative analysis of a Manager may include but is not limited to: risk/metrics/statistics, historical risk/adjusted returns; correlation to other Meritage Managers; overall strategy and market exposure, performance in up and down markets, use of leverage and number of positions with the Manager. We may use Castle Hall Alternatives, a third party, to perform an operational review independent of the investment committee of underlying managers.

After selection, we monitor (i) existing performance of underlying managers of the underlying funds and accounts and (ii) portfolio composition of underlying funds and accounts, which is limited by the degree of transparency granted to us by each underlying manager. Some underlying managers may provide weekly estimated performance and asset data, while other managers may provide portfolio composition and performance data on a monthly basis. We reconcile qualitative information through ongoing discussions with managers to actual portfolio performance and construction to check for style drift. We assess a manager’s discussed strategy with actual asset allocation, geographic location, leverage employed and risk exposure. As part of our due diligence process, we may perform on-site visits to review manager activities. We generally apply this underlying investment approach with respect to each of our clients.

We have organized an investment committee (the “Investment Committee”) that is responsible for the approval of asset allocation by strategy and the selection of underlying funds and underlying managers within each client’s portfolio. The Investment Committee serves an integral role in the due diligence process associated with the selection of underlying managers and underlying funds as well as ongoing monitoring of underlying managers. On at least a quarterly basis, the Investment Committee reviews various portfolio and underlying manager analyses, including current and potential underlying managers, in order to evaluate performance, return correlation, risk management and liquidity of each client. The current voting members of the Investment Committee are Alex C. Smith and Joe S. Wade.

### **INVESTMENT STRATEGIES**

To achieve the investment objectives of each of our clients, we generally invest client assets primarily in underlying funds and separately managed accounts operated and/or managed by third party investment managers. The underlying managers also may be involved in a variety of strategies, including but not limited to, long/short equity, credit related, distressed investing, managed futures, commodities, arbitrage, relative value, short-biased, long only or long-biased, quantitative, volatility, global macro and fixed income. We and the underlying managers may invest through both long and short positions in an unlimited range of securities, other financial instruments, private investments and other assets throughout the world including, without limitation, equity, master limited partnerships, private equity, debt, bonds and other fixed-income securities, loans and loan participations, asset-backed securities, currencies, commodities, futures, forward contracts, warrants, options, swaps and other derivative instruments. We and/or the underlying managers also may employ leverage and engage in various hedging strategies. In addition, we may at times cause a client to invest directly in securities, financial instruments and other assets, including swaps, futures, options and other over-the-counter derivatives as direct overlays to the portfolio, in an effort to enhance the overall risk/return profile of a Fund or SMA.

The investment strategies set forth above are not intended to be comprehensive.

### **CERTAIN RISK FACTORS**

*There can be no assurance that clients or investors will achieve their investment objectives or that investments will be successful. Our investment strategies involve a substantial degree of risk, including risk of complete loss. Nothing in this brochure is intended to imply, and no one is or will be authorized to represent, that our investment strategies*

*are low risk or risk free. Our investment strategies are appropriate only for sophisticated persons who fully understand and are capable of bearing the risks of investment. The various risks outlined below are not the only risks associated with our investment strategies and processes and may not necessarily apply to each client or investor. With respect to the Funds, the following risks are qualified in their entirety by the risks set forth in the applicable offering documents.*

*General Market Developments.* Our success is affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates and economic uncertainty. These and other factors may affect the level and volatility of securities prices and the liquidity of our clients' and the underlying funds' investments. Volatility or illiquidity could impair our profitability or result in losses. Unpredictable or unstable market conditions may also result in reduced opportunities to find suitable investments to deploy capital or make it more difficult to exit and realize value from our clients' and the underlying funds' investments. There can be no assurance that general market developments in the future will not have a material adverse effect on us. It is important to understand that our clients could incur material losses even if we react quickly to difficult market conditions.

*Potential for Fraud.* Although we intend to conduct due diligence investigations on all underlying funds and underlying managers, underlying managers may engage in fraud. Recent discoveries of fraud in the banking and financial services industry highlight the seriousness of this issue. The scope and long-term nature of such frauds is a testament to how difficult fraud is to detect and prevent. While we have instituted policies and procedures to avoid falling victim to fraud, there is no assurance we will be able to prevent all types of fraud by underlying managers and other persons.

*Multiple Levels of Fees and Expenses.* As with most fund of funds investments, both we and the underlying funds and accounts impose management fees and other administrative fees and expenses. We impose, and the underlying funds may also impose, performance-based allocations or fees. These multiple levels of fees and expenses result in greater expense and less return on investment than if such fees and expenses were not charged. The multiple levels of expense reduce our overall profitability.

*Valuation Risks.* We ordinarily expect to value client accounts based upon valuations of underlying investments provided by underlying managers, custodians and other third-parties. We generally will not have sufficient information in order to be able to confirm or review the accuracy of valuations provided by underlying managers and other third-parties. Furthermore, valuations received from underlying managers and other third-parties may be estimates only, and such valuations generally will be used to calculate the net asset value and management fee accruals (to the extent applicable) in respect of client accounts to the extent that current audited information is not available. Such valuations may be subject to later adjustment based on valuation information available at that time, including, without limitation, as a result of year-end audit adjustments.

We generally expect to rely on the valuation information most recently provided by an underlying manager to us and any other factors deemed relevant by us at the time of such valuation (except to the extent we know or reasonably believe that such valuations are materially inaccurate). Such determination may be materially inaccurate, including because the information available to us was insufficient, inaccurate or out of date. It is not expected that we will make adjustments to correct such determinations to reflect information that becomes available to us at a later date, although we may make such adjustments in our sole discretion.

*Investment Risks in General.* All investments risk the loss of capital. No guarantee or representation is made that our investment program will be successful. Certain investment techniques utilized by us and the underlying funds will, in certain circumstances, maximize the impact of adverse market moves to which we and the underlying funds are or will be subject. The performance of any particular investment is subject to numerous factors which are neither within the control of, nor predictable by, us or the underlying funds. Such factors include a wide range of economic, political, competitive and other conditions that may affect investments in general or specific industries or companies. As a result of the nature of investment activities, it is possible our financial performance (including net asset values) may fluctuate substantially from period to period. Investors could lose a substantial portion or all of their investment.

Our profitability will depend substantially upon (i) our ability to identify and select successful underlying funds and underlying managers and (ii) our and the underlying funds' ability to correctly assess future price movements of securities and the potential for new investments. We cannot guarantee that we will be successful in selecting profitable and successful underlying funds or that we and/or the underlying funds will be successful in accurately predicting the value of potential investments.

*Unlimited Range of Potential Investments.* Our investment activities will not be limited to the strategies or types of strategies described in the applicable offering documents or this brochure. Rather, we may pursue any investment strategy determined to be appropriate from time to time, in our sole discretion, without any notice to investors. This unlimited range of potential investments may include substantial investments in strategies not previously pursued by us and with which we and our personnel have limited experience. New strategies, assets and markets are likely to involve material and as-yet unanticipated risks. Furthermore, since we expect to invest a substantial portion of our capital in underlying funds sponsored by underlying managers, our performance will depend to a significant degree on the strategies and activities of such underlying funds and underlying managers (which may change from time to time). There can be no assurance that any of the investment strategies pursued by us or on our behalf will be successful.

*Portfolio Concentration.* Some underlying managers may have overlapping strategies or portfolios and thus could accumulate large positions in the same or related instruments at the same time. In many cases, however, we may not be given access to information regarding the actual investments made by the underlying funds and separately managed accounts in which a client invests or with respect to which a client allocates capital as such information is considered proprietary by the applicable underlying managers. As a result, we ordinarily will be unable to ascertain the degree of a client portfolio's overall hedged or directional positions, or the extent of concentration risk or exposure to specific markets or strategies. Even if it were able to ascertain these matters, our ability to mitigate the associated risks would depend on its ability to reallocate capital among existing or new underlying managers. This might not be feasible for several months until withdrawals and contributions are permitted by the relevant underlying funds and separately managed accounts.

Because each underlying manager will trade independently of the others, the trading losses of some underlying managers could offset trading profits achieved by the profitable underlying managers. Different underlying managers might compete for the same investment positions. Conversely, some underlying managers may take offsetting positions which would result in transaction costs for a client without the possibility of profits.

*Equity Risks.* We and the underlying funds invest in equity and equity derivative securities. The value of these securities generally varies with the performance of the issuer and movements in the equity markets generally and for specific sectors. As a result, our clients and the underlying funds may suffer losses if we or the underlying funds invest in equity securities of issuers whose performance falls below market or industry expectations or if equity markets generally or specific sectors decline and we and/or the underlying funds have not hedged against such a decline.

*Distressed Securities.* We and the underlying funds may invest client assets in distressed securities. Investments in distressed securities involve acquiring securities of companies that are experiencing significant financial difficulties and of companies that are, or appear likely to become, bankrupt or involved in a debt restructuring or other major capital transaction. Consequently, there is a high degree of risk associated with these investments because such companies may never recover and the value of such investments may be lost.

*Risk Arbitrage.* The difference between the price paid by us or the underlying funds for securities of a company involved in an announced deal and the anticipated value to be received for such securities upon consummation of the proposed transaction will often be very small. If the proposed transaction appears likely not to be consummated or in fact is not consummated or is delayed, the market price of the target's securities will usually decline sharply, often by more than the our or the underlying funds' anticipated profit.

We and the underlying funds may invest and trade in securities of companies that we or the underlying funds, as applicable, believe are undervalued in the sense that, although they are not the subject of an announced tender offer, merger or acquisition transaction, in our or the underlying funds' view the companies are potential candidates for such a transaction. In such a case, if the anticipated transaction does not in fact occur, we and/or the underlying funds may sell the securities at a loss.

*Competition.* The markets in which we (directly or indirectly through underlying funds) participate and strategies in which we engage are extremely competitive. There can be no assurance that we (and the underlying funds) will be able to identify or successfully pursue attractive investment opportunities in this environment. We and the underlying funds compete with many firms that have substantially greater financial resources, more favorable financing arrangements, larger research staffs and more securities traders than are available to such persons.

*Small and Mid-Capitalization Companies.* We and the underlying funds may invest in securities of small and mid-capitalization companies, as well as securities traded only in the over the-counter markets. Although investments in

these companies have the potential to produce significant returns, such investments generally involve a higher degree of risk than investments in larger companies due to the issuer's lack of financial resources, management experience, product diversification and competitive strength. These and other factors may, from time to time, result in operating and financial setbacks that may have a material adverse effect on a particular investment, which may in turn adversely affect us and the underlying funds.

*Risks Inherent in International Investments.* We and the underlying funds may invest in financial instruments of non-U.S. corporations and governments, including those in developing nations and emerging markets. Investing in the financial instruments of companies and governments outside of the United States involves certain considerations not usually associated with investing in financial instruments of U.S. companies or the U.S. Government, including political and economic considerations, such as greater risks of expropriation, nationalization and general social, political and economic instability; imposition of withholding and other taxes on dividends, interest, capital gains and other income; the relatively small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict our and the underlying funds' investment opportunities or our and the underlying funds' ability to repatriate funds. Such considerations also apply to, and could increase the risks associated with, holding positions in custodian accounts located in or governed by the laws of other countries. In addition, accounting and financial reporting standards that prevail outside of the United States generally are not as high as U.S. standards and, consequently, less information is typically available concerning companies located outside of the United States than for those located in the United States. Financial instruments traded on foreign exchanges and the foreign nationals or entities that trade these instruments are generally not subject to the jurisdiction of the SEC or CFTC or other securities and commodities laws and regulations of the United States. Accordingly, the protections accorded to us and the underlying funds under such laws and regulations will be unavailable for transactions on foreign exchanges and with foreign counterparties.

*Interest-Rate Risk.* The value of the fixed-rate securities in which we or the underlying funds may invest will generally have an inverse relationship with interest rates. Accordingly, if interest rates rise, the value of such securities generally will decline, which may in turn adversely affect our profitability.

*Control Positions.* We and the underlying funds may invest in control positions in companies. The exercise of control over a company imposes additional risks of liability for environmental damages, product defects, failure to supervise management, violation of governmental regulations and other types of liability in which the limited liability generally characteristic of business operations may be ignored. If these liabilities were to occur clients would likely suffer losses in their investments.

*PIPE Investments.* Certain of the underlying funds may invest in "PIPE transactions." A "PIPE" (Private Investment in Public Equity) is a private placement of restricted securities (common stock, convertible preferred stock, convertible debentures, warrants or other equity or equity-like securities) of a public company. Typically in such a transaction, the investor enters into a purchase agreement wherein the investor commits to purchase the securities and the public company issuer commits to sell such securities and to file a resale registration statement within a specified period of time covering the resale of the securities that the investor purchased in the private placement. In connection with a PIPE investment, an underlying fund may be obligated to pay all or part of the registration expenses, and, due to delays in the registration process, a considerable period may elapse between the time of the underlying fund's decision to sell and the time such security may be sold under an effective registration statement. If adverse market conditions were to develop during such a period, the underlying fund might obtain a less favorable price than the price it could have obtained at the time of its decision to sell the security. Further, there is no assurance that the public company will satisfy its registration obligation, in which case, the underlying fund may only be able to sell such securities under Rule 144.

*Short Sale Risks.* Our investment program involves the use of short sales. In a short sale, securities are sold that have been borrowed from a third party lender, typically a brokerage firm or other institution. When borrowing securities for short sales, we and the underlying funds will be required to pledge deposits of cash, or a combination of cash and securities, equal to or exceeding the market price of the securities borrowed. The amount of such deposits may increase or decrease to reflect the changes in the market value of the borrowed securities. The securities lender generally will have the right to demand the return of the borrowed securities at any time. Selling securities short without first determining that securities are available to borrow is generally a violation of applicable rules and regulations. A short-seller will profit only if it can "repay" the lender of the securities with securities it purchases at

a lower price than it received in its short sale. Although short selling will permit us and the underlying funds to profit from declines in the price of securities, both we and the underlying funds could experience losses if we and/or the underlying funds are required to replace borrowed securities by purchasing them in the market at a time when the market price has increased over the price received at the time of the short sale. Purchasing securities in the market to close out a short position can itself cause market prices to increase further. As a result, there will be potential for unlimited loss, unless we and the underlying funds are adequately hedged against increases in market price.

*Hedging Risks.* We and/or the underlying funds attempt to hedge portfolios by, among other things, taking long and short positions in related securities. Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of portfolio positions or 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's value. Such hedging transactions also may limit the opportunity for gain if the value of the portfolio position should increase. We or the underlying funds may elect not to hedge against certain risks, and risks may exist that are not identified or hedged effectively. Furthermore, we and the underlying funds may change hedging strategies at any time, in our and/or the underlying funds' sole discretion and without any notice to clients, as applicable, choosing for example not to hedge risks that we or the underlying funds have generally attempted to hedge in the past.

Even when we and the underlying funds do attempt to hedge against a particular risk, there can be no guaranty that the hedging strategy will be successful. The success of hedging transactions depend upon our or an underlying fund's ability to structure correctly our or the underlying fund's portfolio. Therefore, while we and/or the underlying funds may enter into hedging transactions to seek to reduce market risk, improper structuring of the portfolios may result in a poorer overall performance than if we and/or the underlying funds had not engaged in such transactions. In addition, the degree of correlation between price movements of the securities used in a hedging strategy may vary. Such imperfect correlation may prevent us and/or the underlying funds from achieving the intended hedge and expose us and the underlying funds to risk of loss.

*Derivatives.* We and certain of the underlying funds may use derivative instruments, including (among others) convertible bonds, convertible preferred stock, options (including speculative positions such as buying and writing call options and put options on either a covered or an uncovered basis), futures, forward contracts, repurchase agreements, reverse repurchase agreements and many different types of swaps involving payments based on a wide range of risks. We and the underlying funds may use derivatives extensively. In many cases, derivatives provide the economic equivalent of leverage by magnifying the potential gain or loss from an investment in much the same way that incurring indebtedness would. Many derivatives provide exposure to potential gain or loss from a change in the market price of a financial instrument (or a basket or index) or other event or circumstance in a notional amount that greatly exceeds the amount of cash or assets required to establish or maintain the derivative contract. Accordingly, relatively small price movements in the underlying financial instruments or other events or circumstances may result in immediate and substantial losses. In some cases, exposure under a derivative contract will be limited to the amount invested (for example, when we or the underlying fund buy a call option). In other cases, the derivative contract will create an open-ended obligation (for example, when we or the underlying fund write a call option). Many derivatives, particularly those negotiated over-the-counter, are substantially illiquid or could become illiquid under certain market conditions. As a result, it may be difficult or impossible to determine the fair value of our interest in such contracts. Many derivative contracts involve exposure to the credit risk of the counterparty, because we or the underlying funds acquire no direct interest in the underlying financial instrument, but instead depend on the counterparty's ability to perform under the contract. Further, if and when we or an underlying fund take economic exposure through a derivative, we and/or the underlying fund generally will not have any voting rights and may not be able to pursue legal remedies that would be available if we or the underlying fund invested directly in the underlying financial instrument.

Many derivatives also involve substantial legal risk and uncertainty, because the terms of the contract may be difficult to draft, apply, interpret and enforce, particularly in the context of unforeseen market conditions or events. In many cases, the counterparty has discretion (either pursuant to the express terms of the contract or in practice) to interpret the contract, make required calculations and demand or withhold payments in the manner most favorable to the counterparty and most unfavorable to us, our clients and the underlying fund. An adverse interpretation or calculation under one derivative contract could trigger cross-defaults with other contracts and could have a materially adverse effect on liquidity and performance. Any dispute concerning a derivative contract could be expensive and time consuming to resolve, particularly given the potential for complex and novel legal issues and the



involvement of multiple legal jurisdictions.

*Risks Associated with Commodity Futures, Forwards and Related Instruments.* 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.” These limits could prevent us and the underlying funds from promptly liquidating unfavorable positions and subject us and the underlying funds to substantial losses or from entering into desired trades. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

The prices of commodities contracts and all derivative instruments, including futures and options prices, can be highly volatile. Price movements of forward, futures and other derivative contracts in which our clients’ or the underlying fund’s assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies, financial instrument futures and options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. We and the underlying funds also will be subject to the risk of the failure of any of the exchanges on which our or the underlying funds’ positions trade or of our or the underlying funds’ clearinghouses.

Trading options on futures involves a high degree of risk. An option on a futures contract is a right to either buy or sell the underlying futures contract at a specific price. The risks of trading options on futures are similar to the risks of trading securities options. In addition, if the purchaser of an option on a futures contract exercises the option, the holder will, in effect, be buying or selling the underlying futures contract, and will then be subject to the same risks as are attendant to futures trading.

Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and “cash” trading is substantially unregulated; there is no limitation on daily price movements, and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade, and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in forward markets due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward (and futures) trading to less than that which we or underlying funds would otherwise recommend, to our and the underlying funds’ possible detriment. Market illiquidity or disruption could result in significant losses.

*Illiquid Investments.* Any otherwise liquid investment may become substantially illiquid in the future under certain market conditions, none of which are under our control. Other investments held by us may be subject to resale restrictions under applicable securities laws or applicable contracts. The markets for other financial instruments are inefficient or unreliable, and the spreads between bid and asked prices are too large to represent a true market. Any such investments may be difficult or impossible to sell or may be salable only at a substantial discount to their reported value. As a result, investments in illiquid financial instruments could have a material adverse effect on client performance.

*Counterparty Risks.* We and the underlying funds enter into many transactions with third parties in which the failure or delay of the third party to perform its obligations under a contract with us or an underlying fund could have a material adverse effect on us or such underlying fund. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of a counterparty’s insolvency on us, the underlying funds or our clients’ and the underlying funds’ assets. Investors should assume that the insolvency of any of our or the underlying funds’ prime brokers or other counterparties would result in the loss of all or a substantial portion of our clients’ or underlying funds’ assets held by such prime broker or counterparty.

*Leverage Risks.* The underlying funds may use substantial leverage in their investment programs and may borrow funds from brokers, banks, counterparties and other lenders to finance their trading operations. Such leverage may

be achieved through, among other methods, purchases of securities on margin and the use of options, futures, forward contracts, repurchase and reverse repurchase agreements, swaps and securities lending transactions. The use of leverage generally involves a high degree of risk. In order to secure its various financing arrangements, an underlying fund may grant guaranties and pledge or otherwise transfer to lenders any of its assets, including specific assets, pools of assets or interests in subsidiary entities. Investors in the underlying fund, such as our clients, are equity holders, and their rights are therefore junior to and generally subject to the satisfaction of the prior claims of all creditors.

The use of margin, derivatives and short-term borrowings may result in substantial interest and financing costs to the underlying funds and may create additional risks. If the value of an underlying fund's securities or derivatives positions falls below the margin or collateral levels required by a prime broker or other counterparty, additional margin or collateral deposits would be required. The failure to satisfy a margin or collateral call, or the occurrence of other material defaults under margin or other financing agreements, may trigger cross-defaults under the underlying fund's agreements with other brokers, lenders, clearing firms or counterparties, multiplying the adverse impact to the underlying fund. In addition, because the use of leverage will allow the underlying funds to control positions worth significantly more than their investments in those positions, the amount that the underlying funds may lose in the event of adverse price movements will be high in relation to the amount of their investments.

In the event of a sudden drop in the value of an underlying fund's assets, the underlying fund might not be able to liquidate assets quickly enough to satisfy its margin or collateral requirements or other contractual obligations. In that event, the underlying fund may become subject to claims of financial intermediaries that extended margin loans or other types of credit. Such claims could exceed the value of such assets of the underlying fund. The banks, dealers and other counterparties that provide financing to the underlying funds can apply essentially discretionary margin, haircut, financing and collateral valuation policies. Changes by banks, dealers and other counterparties in any of the foregoing may result in large margin or collateral calls, loss of financing and forced liquidations of positions at disadvantageous prices. There can be no assurance that the underlying funds will be able to secure or maintain adequate financing, without which the underlying funds may not continue to be viable.

We may incur leverage through short term indebtedness for the following purposes: (i) satisfying permitted withdrawals, (ii) making distributions, (iii) paying operating expenses or (iv) for such other purposes as we may, in our sole discretion, determine. Additionally, (i) we may incur indebtedness for the purchase or sale of securities (including the purchase or sale of securities on margin) and to pledge securities as collateral; (ii) subject to certain limitations, our general partner may advance monies to us for the purpose of covering our expenses; and (iii) we may borrow funds pursuant to any line of credit. As a result of the indebtedness described above, we will be subject to the same risks related to the use of leverage as the underlying funds discussed above.

*Trend Following.* Some underlying managers may use computer pricing models to identify apparently overpriced or underpriced options in relationship to an assumed norm. In addition, analyses of price and other fluctuations over time may be relied upon which utilize charts and computers in order to discern and predict trends. Trading based on such analyses is subject to the risks that options premiums will not increase or decrease as predicted by the analysis, or that trades dictated by the analysis may not be executed in time to take advantage of the price disparities. This latter risk is likely to materialize when numerous market makers use similar analyses, all of which dictate the desirability of executing identical or similar contracts. In the past, there have been periods without identifiable trends and, presumably, such periods will continue to occur. Trading models or analyses that depend upon the forecasting of trends will not be profitable if there are not identifiable trends of the kind that the models or analyses seek to follow. Any factor which would make it more difficult to execute trades in accordance with the models or analyses signals, such as a significant lessening of liquidity in a particular market, would also be detrimental to profitability.

*Below "Investment Grade" Securities.* Some underlying managers may invest in bonds or other fixed income securities, including, "high yield" (and, therefore, high risk) debt securities. These securities may be below "investment grade" and are subject to uncertainties and exposure to adverse business, financial or market conditions which could lead to the issuer's inability to make timely interest and principal payments. The market values of these securities tend to be more sensitive to individual corporate developments and general economic conditions than do higher rated securities.

*Replacement of Underlying Managers or Pooled Investment Vehicles.* We generally are not restricted in appointing or replacing underlying managers or underlying funds. Client investments with a particular underlying manager or underlying fund may be replaced for a variety of reasons, such as a more favorable investment opportunity or other

circumstances bearing on the desirability of a continued position with such underlying manager or underlying fund. Replacement of underlying managers or underlying funds may involve greater fees, which will be borne directly by the applicable client.

*Underlying Fund Manager Misconduct or Bad Judgment.* Clients ordinarily will not have custody or control over the assets it allocates to underlying managers and underlying funds managed and/or operated by underlying managers. As a result, it will be difficult, and likely impossible, for us to protect clients from the risk of fraud, misrepresentation or simple bad judgment by underlying managers. Among other things, an underlying manager could divert or abscond with the assets allocated to it, fail to follow its stated investment strategy and restrictions, issue false reports or engage in other misconduct. This could result in serious losses to clients.

*Wide Investment Discretion.* The governing documents of underlying funds and investment management agreements of separately managed accounts in which a client invests or allocates its capital typically will not impose significant restrictions on the manner in which the underlying managers may invest and trade for, and often will permit the underlying managers to invest and trade in a broad range of financial instruments. As a result, the underlying managers may from time to time modify their investment strategies in response to changing market conditions, in some cases without notice to us. Any such modification could involve changes in the types of instruments an underlying manager uses to implement its strategy, as well as changes in the markets in which such instruments trade. There can be no assurance that any such modification would be successful or not result in losses to the client.

*Lack of Information Concerning Underlying Managers.* We may not learn of significant underlying manager structural events, such as personnel changes, major asset withdrawals/redemptions or substantial capital growth, until after the fact.

*Sole Principal Underlying Managers.* Some of the underlying managers to which we may allocate client capital may consist of only one or a limited number of principals and key employees. If the services of any of such principals or employees became unavailable (for example, by reason of death, disability, severance or retirement), underlying funds and separately managed accounts, and thus our clients, could sustain losses.

*Competition.* Underlying managers may engage in investment and trading activities which are highly competitive with other investment and trading programs including those of mutual funds and other financial institutions, investment banks, broker/dealers, commercial banks, insurance companies and pension funds, as well as private investors, all of whom may have investment objectives similar to those of the underlying managers. These competitors may have substantially greater resources and substantially greater experience than the underlying managers.

*New Managers.* Some underlying managers may be new or relatively new ventures and have little or no operating history upon which their performance can be evaluated.

*Risk of Litigation.* Underlying managers might become involved in litigation as a result of investments made by underlying funds or separately managed accounts. Under such circumstances, such underlying fund or a client could be named as a defendant in a lawsuit or regulatory action.

*Misuse of Confidential Information.* In trading public securities, there are consequences for trading on insider information, and we expect that underlying managers will use only public information. Underlying managers may be charged with misuse of confidential information. If that were the case, the performance records of these underlying managers could be misleading. Furthermore, if an underlying manager or entity with which a client invests has engaged in the past or engages in the future in such misuse, the client could be exposed to losses.

*Increase in Amount of Assets Under Management.* We may invest client assets with underlying managers who are experiencing a major increase in the assets they manage. It is not known what effect, if any, an increase in the amount of assets under management will have on their trading strategies or investment results, but it could impair the ability of their strategies and operations to perform up to historical levels.

*Other Clients of Underlying Managers.* The underlying managers have responsibility for investing the funds allocated to them. The underlying managers also manage other accounts (including other accounts in which the managers may have an interest) and may have financial and other incentives to favor such accounts over accounts in which our clients invest. In investing on behalf of other clients, as well as our clients, underlying managers must allocate their resources, as well as limited market opportunities. Doing so not only could increase the level of competition for the same trades that otherwise might be made for our clients, including the priorities of order entry, but also could make it difficult or impossible to take or liquidate a particular position at a price indicated by an

underlying manager's strategy.

**THE FOREGOING RISK FACTORS DO NOT PURPORT TO BE A COMPLETE DESCRIPTION OF ALL OF THE RISKS ASSOCIATED WITH OUR INVESTMENT PROGRAM. PROSPECTIVE CLIENTS AND INVESTORS SHOULD READ THIS BROCHURE AND ANY APPLICABLE OFFERING MATERIALS IN THEIR ENTIRETY BEFORE MAKING ANY INVESTMENT DECISIONS.**

### **Item 9: Disciplinary Information**

There are no legal or disciplinary events that are material to an evaluation of our advisory services or the integrity of our management.

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

### **COMMODITY POOL OPERATOR AND COMMODITY TRADING ADVISOR REGISTRATION**

We are registered with the Commodity Futures Trading Commission (“CFTC”) as a commodity pool operator, commodity trading advisor, and swap advisor and are members of the National Futures Association (“NFA”). Notwithstanding the foregoing, (i) we operate certain Funds as if we were exempt from registration with the CFTC as a commodity pool operator pursuant to the CFTC 12-38 no-action relief, and (ii) we provide commodity interest trading advice and are exempt from certain part 4 requirements for commodity trading advisors set forth in CFTC Rule 4.7.

Each of Alex C. Smith, Joe S. Wade, John McColskey and Mark Aune is registered with the CFTC as an Associated Person of Meritage and a member of the NFA. Mr. Meredith, Mr. Jason Rottinger and Ms. Tina Badciong are listed as a Principal with the CFTC. Mr. Aune is registered with the CFTC as a Branch Manager of Meritage.

### **NLCG DISTRIBUTORS, LLC**

Certain of our indirect owners, Kemmons Wilson, Jr., Robert Wilson and Spence Wilson, each have a de minimis ownership position in Northern Lights Capital Partners, LLC (“NLCP”). NLCP owns 100% of NLCG Distributors, LLC, a FINRA-registered broker-dealer (“NLCG”). We have entered into a referral agreement with NLCG, whereby NLCG refers investors and provides certain services, to the Funds. For as long as such investors remain invested in a Fund and NLCG meets certain conditions relating to licensing and representations, we pay NLCG 40% of the management fees attributable to investors sourced and serviced by NLCG and 10% of the management fees attributable to investors only serviced by NLCG. The terms of this referral agreement are consistent in all material respects with referral agreements entered into by us with third party solicitors.

### **OTHER ACTIVITIES AND AFFILIATIONS**

From time to time, certain of our employees and affiliates may serve as directors and officers of, and provide advice to, privately-held or publicly-traded companies. Clients should be aware that the receipt of non-public information by our related persons regarding these companies could preclude us from effecting or recommending investments in securities of such companies.

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

### **CODE OF ETHICS**

We have adopted and implemented a code of ethics in accordance with Rule 204A-1 of the Advisers Act, which sets forth standards of business conduct for our employees. Our code of ethics is primarily designed to educate employees about our philosophy regarding ethics and professionalism, emphasize our fiduciary duties to clients, encourage employees to comply with applicable laws, prevent the misuse of material non-public information, the circulation of rumors and other forms of market abuse and address conflicts of interest that arise from personal trading by our employees. Among other things, we impose certain restrictions on all employees and principals relating to the purchase or sale of securities for their own accounts and the accounts of certain affiliated persons. Our code of ethics generally requires preclearance of all trades by our employees and certain affiliated persons in securities included on our restricted securities list to ensure that there is no conflict with trades being conducted by or considered for our clients. Investments by our employees and principals in initial public offerings and private placements are also subject to the prior approval of our Chief Compliance Officer. Our employees and principals must also report all transactions in “reportable securities” on a quarterly basis and all of their securities holdings on an annual basis. Our employees are required to promptly report any violations of our code of ethics. We will furnish a copy of our code of ethics to our clients upon request.

### **PERSONAL TRADING**

Subject to various restrictions set forth in our code of ethics, our employees and principals may purchase for themselves securities purchased for, or recommended to, clients. Allowing employees and principals to purchase these securities may motivate those employees or principals to engage in “scalping,” which is the practice of attempting to benefit from the increase in price resulting from recommendations to clients. To prevent this practice, we closely monitor the investments made by our employees and principals and require preclearance of all trades in securities included on our restricted securities list.

Our employees, principals and affiliates generally are permitted to co-invest alongside a client in an underlying fund, subject to our Chief Executive Officer’s or Chief Compliance Officer’s prior approval. Allowing employees, principals and affiliates to invest in an underlying fund for their own accounts at the same time, or about the same time, as they invest in such underlying funds for one or more client(s) may motivate such employees, principals and affiliates to favor their own accounts. To prevent any conflict of interest, clients will have first priority to capacity offered by the underlying funds, and any employee, principal or affiliate investment must be approved by our Chief Executive Officer or our Chief Compliance Officer.

### **ALLOCATION OF INVESTMENT OPPORTUNITIES**

We generally allocate investment opportunities among clients in a manner we believe to be fair and equitable under the circumstances. If capacity in an underlying fund is limited and an allocation is under consideration for multiple clients, the voting members of the Investment Committee approve any allocations based upon an analysis of the optimum portfolio diversification at that time for each respective client and will document the basis of the evaluation and conclusion.

Although the above is generally applied, allocation of SMA opportunities may be limited by the following factors, among others: objective of risk/return; diversification restrictions; availability of capital; minimum required investment amount; limits on position sizing; and restricted strategies.

We may invest (indirectly through the underlying funds) in “new issues,” as defined in rules of FINRA. Any profits or losses from new issues will only be allocated to investors in accordance with applicable FINRA Rules.

### **VALUATIONS**

We generally expect to value investments owned by clients based primarily upon valuations of underlying investments provided by underlying managers and/or other third parties. To the extent that we perform valuation services relating to securities, financial instruments and other assets owned by our clients, we will attempt to value such investments at fair value in accordance with our valuation policies and procedures. We may face a conflict of interest with respect to such valuations as they will impact the compensation payable to us. In addition, to the extent we utilize third-party vendors (administrators or custodians) to perform certain valuation functions, these vendors

may have interests and incentives that differ from those of our client accounts.

### **CONFLICTS OF INTEREST**

We may cause a client to enter into transactions and arrangements involving actual or potential conflicts of interest. Specifically, we may make investments in underlying funds or allocate assets to underlying managers (a) where we or our affiliates have economic or financial interests in such underlying funds, underlying managers and/or the general partners or managers thereof, or (b) from which we and/or our affiliates receive services and/or products. To the extent permitted by applicable law, we may invest or recommend investments in pooled investment vehicles, companies or other issuers that have been established and/or managed by us and/or our affiliates. If a client is an investor in another investment fund established or managed by us and/or our affiliates, we might have potentially conflicting division of loyalties and responsibilities regarding such client and such other investment fund, and certain other conflicts of interest would be inherent in the situation. A client may sell investments to us and/or our affiliates, and a client may purchase an investment from us and/or our affiliates. We may also cause a client to buy securities or other investments from, or sell securities or other investments to, one or more of our other clients.

We will review the foregoing and any other transactions involving actual or potential material conflicts of interest and take such steps as we deem necessary and/or appropriate to ensure that the terms thereof are fair and reasonable under the circumstances and, if we approve, we may consent to such transactions on behalf of the Funds or seek the consent of Fund investors or SMA clients.



## Item 12: Brokerage Practices

### **BROKERAGE SELECTION AND BEST EXECUTION**

We generally will not have oversight or control over the selection of broker-dealers or other counterparties by underlying managers. To the extent that we make direct investments or otherwise direct brokerage, we generally will have authority to determine the brokers, futures commission merchants and other counterparties to be used for client transactions and to negotiate commission rates and other monies paid by clients. We generally select broker-dealers and other counterparties on the basis of obtaining the best overall terms available or best net execution (*i.e.*, best price and execution of transactions), which we evaluate based on a variety of factors, including, among other things: the ability to achieve prompt and reliable executions at favorable prices; the operational efficiency with which transactions are effected; the financial strength, integrity and stability of the broker; the quality, comprehensiveness and frequency of available research and related services considered to be of value; and the competitiveness of commission rates in comparison with other brokers satisfying our other selection criteria. Because commission rates in the United States as well as other jurisdictions are negotiable, selecting brokers on the basis of considerations which are not limited to applicable commission rates may at times result in higher transaction costs than would otherwise be obtainable.

We have adopted policies and procedures that we believe are reasonably designed to ensure that our clients achieve best execution and that brokers utilized have been selected based upon our clients' best interests.

### **SOFT DOLLAR PRACTICES**

We do not use soft dollar items and have not entered into any soft dollar arrangements. With respect to investments in underlying funds and separately managed accounts, the underlying managers may use soft dollar items and/or enter into soft dollar arrangements with brokers whereby the underlying managers receive certain benefits from brokers for causing underlying funds or separately managed accounts to maintain accounts with such brokers. We have no control over any such arrangements.

### **BROKERAGE FOR CLIENT REFERRALS**

In selecting or recommending brokers, we do not consider whether we or our related persons receive client or investor referrals from such brokers.

### **DIRECTED BROKERAGE**

We do not routinely recommend, request or require that a client direct us to execute transactions through a specified broker-dealer. We also do not currently permit any of our clients to direct brokerage.

### **ORDER AGGREGATION**

In general, we enter and execute separate orders for each client. However, we may aggregate the purchase and sale of securities in certain instances if we determine that such aggregation is in the best interests of the applicable clients.

## Item 13: Review of Accounts

### REVIEWS OF ACCOUNTS

Both we and our administrator conduct reviews of all client accounts on at least a monthly basis. With respect to accounting matters, we have engaged a nationally-recognized, independent public accounting firm to conduct an annual audit of each Fund.

Our Chief Financial Officer conducts monthly reviews of the accounting records of each client. Managing Directors also conduct monthly reviews of the Funds. The Investment Committee conducts quarterly reviews of client portfolios.

We invest each client's assets in underlying funds and separately managed accounts and may at times invest directly in financial instruments including swaps, futures, options and other derivatives. In monitoring the performance of the underlying funds and separately managed accounts in a client's portfolio, we perform various levels of review and engage in regular communications with managers of such funds and accounts. Among other items, we consider short and long-term rates of return, investment diversification, and risk allocations as part of our regular review. On occasion, we may effect individual trades in financial securities within the portfolio of any client, in which case such trades are reviewed by our portfolio team on a daily basis.

### ADDITIONAL REVIEWS

While we generally conduct reviews of all client accounts on at least a monthly basis, we may conduct additional or more frequent reviews based upon factors including, but not limited to, market developments and the activities of an underlying fund or an underlying manager.

### REPORTS TO INVESTORS/CLIENTS

#### Funds

We generally provide investors in each of the Funds with annual audited financial statements, quarterly portfolio reports, and annual U.S. income tax information. Our administrator also provides monthly capital account statements to investors. All such statements and reports are written.

#### SMA's

We or a third-party administrator generally provide SMA clients monthly statements containing holdings, transactions and pricing. The nature and frequency of regular reports to SMA clients are negotiated on a case-by-case basis with SMA clients. All such reports are or will be written. Custodians may also provide periodic statements and reports to SMA clients, pursuant to the terms of the custodial arrangements between each SMA client and its custodian(s). **Clients are urged to compare any statements they receive from us or our agents with the statements provided by their custodians.**

#### Registered Funds

Reporting for the Registered Fund is determined by the Registered Fund rather than Meritage.

## Item 14: Client Referrals and Other Compensation

### THIRD PARTY COMPENSATION

We currently do not receive any economic benefit from any person who is not a client for providing investment advice or other advisory services to our clients.

### REFERRALS

We have entered into, and may from time to time enter into, referral or placement agent agreements (“Referral Agreements”) with third-parties, including third party consultants, placement agents and others (“Solicitors”), whereby such Solicitors agree to solicit and refer prospective qualified investors in the Funds to us. Investors may be required to pay sales charges (“Sales Charges”) to Solicitors in connection with their investment in the Funds, which may take the form of (among other things) (i) subscription charges payable at the time of investment and/or (ii) annual servicing fees payable with respect to each year that the investor is invested in the Fund. The amount of such Sales Charges generally is determined by the applicable Solicitor; *provided* that the maximum subscription charge will be two percent (2%) of an investor’s subscription amount and the maximum annual servicing fee will be two percent (2%) per year. Any applicable Sales Charges will be fully disclosed to investors prior to their investment in a Fund. Sales Charges will result in additional costs being charged to applicable investors.

We may also agree to pay a percentage of our management fees and/or performance-based fees or allocations to a Solicitor with respect to each investor referred by such Solicitor. The payment of a portion of the management fees and/or performance-based fees or allocations to Solicitors will not increase the amount of fees charged to investors or otherwise result in additional costs being charged or allocated to investors.

As described in Item 10, we have entered into a Referral Agreement with NLCG, whereby NLCG refers investors and provides certain services to the Funds. **See Item 10 above.**

Placement fees could motivate Solicitors to favor investment recommendations for which the Solicitor receives placement fees over investment recommendations for which such fees are not payable. In addition, because a Solicitor may receive fees for all periods during which an investor remains invested in a Fund, such Solicitor may have an incentive to recommend that investors remain invested in that Fund.

We may also compensate unaffiliated third-party broker-dealers that introduce us to Solicitors. Such compensation will not increase the management fees payable by investors in a Fund, and such broker-dealers will have no contact with investors.

## Item 15: Custody

### Funds

We have, or may be deemed to have, custody of each Fund's cash and securities. In accordance with Rule 206(4)-2 under the Advisers Act, each Fund's cash and securities (except for privately placed securities) are held with one or more qualified custodians. Northern Trust, Societe Generale, Bank of New York Mellon and Piquet Galland & Sie, SA currently serve as custodians to one or more of the Funds. We may change the custodians at any time and from time to time without the consent of, or notice to, investors. We have engaged a nationally-recognized, independent public accounting firm to conduct an annual audit of each Fund, and audited financial statements (prepared in accordance with generally accepted accounting principles) are provided annually to investors. We attempt to provide such statements to investors within 180 days (or such other period set forth in the applicable governing documents or required by applicable law) after the end of each fiscal year, but there can be no assurance that we will be successful in this regard. Qualified custodians of the Funds do not provide account statements directly to investors in the Funds.

### SMAs

We do not intend to have physical possession of the cash or securities in SMA's at any time. In general, all cash and securities owned by SMA clients will be held by one or more qualified custodians that are appointed by such clients pursuant to separate custody or other agreements. **Clients generally will receive account statements directly from their applicable custodians and they should carefully review those statements. We urge SMA clients to compare the account statements they receive from their qualified custodian(s) with any statements that they receive from us.**

If we have, or are deemed to have, custody of SMA cash and securities, such cash and securities may (to the extent required by Rule 206(4)-2 under the Advisers Act) be verified by a surprise examination at least once each calendar year by an independent public accountant.

### Registered Funds

Registered Funds are subject to the requirements of the Company Act, which generally requires all assets to be held at the Registered Fund's custodian.

## **Item 16: Investment Discretion**

### **DISCRETIONARY AUTHORITY**

Details of the relationship between Meritage and the Client, as well as investment objectives, guidelines, and restrictions, are outlined in each Client's respective offering materials, prospectus, or similar account opening documents.

#### Funds

We generally have discretionary power and authority over the types of financial instruments to be bought or sold, as well as the amount to be bought or sold on behalf of the Funds. We have authority to determine the broker-dealer, futures commission merchant or other counterparty to be used for client transactions and the negotiation of commission rates and other consideration to be paid by the Funds.

#### SMAs

Depending on the terms and conditions of the applicable investment management agreements, we may have discretionary power and authority over the types of investments to be bought or sold, as well as the amount to be bought or sold, on behalf of the SMA's. We may also provide advisory services to SMA clients on a non-discretionary or limited discretionary basis.

#### Registered Funds

Our authority to trade securities will be subject to and may be limited by applicable laws.

### **LIMITED POWER OF ATTORNEY**

#### Funds

Each investor in the Funds generally grants us or our affiliate a limited power of attorney to enable us to execute the applicable partnership agreement on their behalf.

#### SMAs

Each SMA client generally grants us a limited power of attorney to enable us to conduct authorized trading on its behalf.

## Item 17: Voting Client Securities

Underlying managers generally are responsible for voting proxies with respect to securities owned by the underlying funds and/or held in the underlying accounts.

### Funds

Each of the Funds invests primarily in and indirectly through underlying funds and underlying accounts, and we generally are not responsible for voting the underlying investments held or maintained by the underlying funds and underlying accounts. Nevertheless, to the extent that we receive proxies, we have the authority to vote proxies on behalf of the Funds. Rule 206(4)-6 under the Advisers Act requires registered investment advisers that exercise voting authority over client securities to implement proxy voting policies and procedures. In accordance with such rule, we have adopted proxy voting policies and procedures in our compliance manual. In general, our policy is to vote proxy proposals, amendments, consents or resolutions relating to Fund securities, including interests in private investment funds, in a manner that serves the best interests of the Funds, as determined in our discretion, taking into account various factors. Subject to the foregoing sentence, our general policy is to vote proxies in accordance with company management (to the extent applicable). Investors generally may not direct or otherwise influence our vote with respect to any particular proxy solicitation. Investors may obtain copies of our proxy voting policy, together with information regarding how we have voted past proxies, by contacting us.

### SMAs

We may accept authority to vote securities held by or on behalf of SMA clients. In the event that we do accept (or otherwise have) proxy voting authority on behalf of an SMA, we generally will vote proxy proposals, amendments, consents or resolutions relating to SMA securities, including interests in underlying funds, in accordance with the instructions of the applicable client. We will use commercially reasonable efforts to vote according to the client's request in these circumstances. In the absence of specific voting guidelines or instructions from the client, we will attempt to vote proxies in a manner that serves the best interests of the SMA and the applicable client, as determined in our discretion, taking into account various factors.

SMA clients may obtain copies of our proxy voting policy, together with information regarding how we have voted past proxies, by contacting us.

For SMAs in respect of which we do not have authority to vote proxies, such clients should work with their custodians to ensure they receive proxies and other solicitations for securities held in their SMAs. These SMA clients may contact us if they have questions on any particular solicitation.

### Registered Funds

Open-end Registered Funds may engage in direct trading of securities. In cases where this occurs, we typically delegate the authority and responsibility to exercise proxy voting rights to the Sub-Adviser pursuant to such Sub-Adviser's proxy voting policies.

Closed-end Registered Funds invest primarily in underlying funds. As Sub-Adviser, our policy is to provide the Adviser with recommendations in accordance with our proxy voting policy.

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

We do not have any financial commitment that impairs our ability to meet contractual and fiduciary commitments to our clients, nor have we been the subject of any bankruptcy proceeding.

## **General Information**

### **PRIVACY POLICY**

We have adopted policies and procedures reasonably designed to protect various records and information of clients and investors. Except as set forth in the applicable offering materials and as otherwise authorized by each client and/or investor, private information about clients and investors is disclosed only as permitted by applicable law to our affiliates and service providers, including our accountants, attorneys, brokers, custodians, transfer agents and any other parties whose services are necessary or convenient to the operation of our clients.