

FIRM BROCHURE



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ADDITIONAL INFORMATION ABOUT PARADIGM CAPITAL CORPORATION ALSO IS AVAILABLE ON THE SEC'S WEBSITE AT WWW.ADVISERINFO.SEC.GOV.

APRIL 1, 2013

Item 2: Material Changes

Paradigm Capital Corporation is providing this brochure for its 2013 ADV annual updating amendment. Since Paradigm's last annual updating amendment in 2012, the following changes occurred:

- Paradigm's assets under management as of December 31, 2011 have increased.
- Update the minimum initial capital contribution required for an investor in the Apogee Fund from \$1,000,000 to \$500,000
- In the March 2012 Brochure, we indicated that Centella Capital, LLC (formerly of Rolandi Capital, LLC) was no longer acting as strategic advisor to Systemic Risk Hedge, L.P and revisions were made to reflect the removal of Centella as strategic advisor to Systemic Risk Hedge, L.P. However, Centella is now serving as the commodity pool operator for Systemic Risk Hedge and revisions were made to reflect the addition of Centella serving as the commodity pool operator to Systemic Risk Hedge, L.P and further detail has been added to clarify the roles of the Investment Manager, General Partner, general partner to the General Partner and the Commodity Pool Operator relative to Systemic Risk Fund, L.P.
- The investment objectives and strategies of Systemic Risk Hedge, L.P. have been updated in accordance with the applicable offering memorandum.
- The disclosure regarding the frequency of Systemic Risk Hedge, L.P.'s Management Fee for Class E was added from monthly in advance to quarterly in advance.
- The addition of the Systemic Risk Fund Class E performance fee has been added; and
- Additional withdrawal terms relating to Systemic Risk Fund Class E have been added to the appropriate sections.

The information set forth herein is qualified in its entirety by reference to applicable offering and governing documents. In the event of a conflict between the information set forth in this brochure and the information in the applicable governing and/or offering documents, the governing and/or offering documents shall control.

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Item 4: Advisory Business

FIRM DESCRIPTION

Paradigm Capital Corporation (“Paradigm”), a Texas corporation and private investment advisory firm, was established in 1996. Paradigm provides investment management services to private pooled investment vehicles, interests of which are offered to investors on a private placement basis. Paradigm has full discretionary authority with respect to investment decisions, and our investment advice is made in accordance with the investment objectives and guidelines set forth in the applicable offering memoranda and governing documents.

PRINCIPAL OWNERS

Paradigm Capital Corporation is owned by Emmett M. Murphy; however, Brian K. Sneed has the sole authority for the management by our firm of the Systemic Risk Fund and the International Gold Fund and Emmett M. Murphy has the sole authority for the management by our firm of the Apogee Fund.

TYPES OF ADVISORY SERVICES

Paradigm and/or certain of its affiliates serve as general partner of and/or investment manager to various private pooled investment vehicles organized as Delaware limited partnerships, including Apogee Fund, L.P. (the “Apogee Fund”) and Systemic Risk Hedge, L.P. (the “Systemic Risk Fund”; together with Apogee Fund, “Paradigm’s clients”).

Paradigm also serves as the investment manager to International Gold Safekeeping Fund, LP, a Delaware multi-series limited partnership (the “International Gold Fund,” and together with the Apogee Fund and the Systemic Risk Fund, the “Funds”), the assets of which consist solely of gold and other precious metals. Paradigm has discretionary investment management authority to invest and reinvest the assets of the Funds in securities, financial instruments and other assets, as described in the applicable governing and offering documents.

Paradigm tailors its advisory services to the individual needs of our clients and clients generally are not permitted to impose restrictions on investments in certain securities or types of securities.

ASSETS UNDER MANAGEMENT

As of December 31, 2012, we had approximately \$136.9 million in assets under management for our advisory clients. All of these assets are managed on a discretionary basis.

Item 5: Fees and Compensation

DESCRIPTION OF COMPENSATION AND BASIC FEE SCHEDULE

In consideration of our advisory services, we and/or our affiliates generally are entitled to receive management fees and/or performance-based fees or allocations from each of the Funds and with respect to each investor. The fees applicable to each Fund are described in detail in the applicable governing and offering documents. A brief summary of our advisory fees is set forth below.

Apogee Fund

With respect to each investor who was admitted to the Apogee Fund after June 30, 2005, we are entitled to receive management fees, payable quarterly in arrears, equal to 0.375% (1.5% per annum) of the net assets of the capital account of each such investor. With respect to each investor who was admitted to the Apogee Fund on or before June 30, 2005, we are entitled to receive management fees, payable quarterly in arrears, equal to 0.25% (1.0% per annum) of the net assets of the capital account of each such investor.

With respect to investors admitted to the Apogee Fund on or after June 1, 2002, we are entitled to receive incentive allocations equal to 20% of each investor's allocable share of net profits for the applicable performance period. With respect to investors admitted to the Apogee Fund prior to June 1, 2002, we are entitled to receive incentive allocations equal to 20% of each investor's allocable share of net profits for the year in excess of a "hurdle return amount." A hurdle return amount is equal to 3% per annum of the net asset value of such investor's capital account at the beginning of the year, as described more fully in the offering memorandum. Incentive allocations are subject to a "high water mark" limitation. As a result, we receive no incentive allocation when the amount of an investor's interest has fallen below an amount at which the incentive allocation was previously assessed.

Systemic Risk Fund

Paradigm is the Investment Manager of Systemic Risk Fund. SRH GP, LP, a Texas limited partnership acts as general partner of the Systemic Risk Fund and is controlled by Brian K. Sneed. The general partner of the General Partner is SR Top GP, LLC, a Texas limited liability company also controlled by Brian K. Sneed. Centella Capital, LLC, a Texas limited liability company similarly controlled by Mr. Sneed, serves as the commodity pool operator for the Systemic Risk Fund and Mr. Sneed manages all of its day-to-day investment activities.

With respect to the Systemic Risk Fund, Paradigm is entitled to receive management fees, payable quarterly in advance, equal to one-quarter of 1.5% (1.5% per annum) of the capital account balance of each Limited Partner. With respect to the Systemic Risk Fund Class E, Paradigm is entitled to receive management fees, payable quarterly in advance, equal to one-twelfth of 2% (2% per annum) of the capital account balance of each Limited Partner.

In order to provide the Investment Manager with sustained income, while allowing for greater liquidity for Limited Partners, a Limited Partner withdrawing from the Fund during any calendar year at any time other than the day immediately preceding the date of the annual anniversary of its initial investment in the Fund will be required to pay an amount equal to the Management Fee for the time remaining in such 12-month period (such amount, the "Early Withdrawal Fee"), as discussed further below. The right to receive payment of the Management Fee, may be transferred from the Investment Manager to Centella as the CPO in the General Partner's sole discretion.

In addition, with respect to Class A, which is currently a closed class and does not accept new subscriptions, one of our affiliates is entitled to receive carried interest distributions equal to 12.5% of the amount distributable to each investor whose aggregate capital contributions are \$500,000 or more and 15% of the amount distributable to each investor whose aggregate capital contributions are less than \$500,000. The carried interest distribution will be applied after an investor has received cumulative distributions equal to such investor's total capital contribution, less any amounts paid as an Early Withdrawal Management Fee (as defined below) and any costs associated with withdrawing from the Systemic Risk Fund.

In addition, with respect to Class E, the General Partner is entitled to a performance allocation at the end of each calendar year (the "Performance Allocation"), which is calculated and charged separately with respect to each Limited Partner, equal to 20% of the amount by which the Limited Partner's "Performance Change Amount" (if positive) for the current calendar year exceeds the Limited Partner's "Loss Carryforward Amount," as more fully described in the applicable offering memorandum..

International Gold Fund

With respect to the International Gold Fund, we or International Gold Safekeeping Management, LLC are entitled to receive management fees, payable quarterly in advance, equal to: (i) with respect to Class A Interests, one-fourth of 1.25% (1.25% per annum) of the capital account balance of each investor, and (ii) with respect to Class B Interests, one-fourth of 1.0% (1.0% per annum) of the capital account balance of each investor. If an investor chooses to invest in precious metals other than gold, or if the storage costs related to gold are greater than anticipated, upon consent from each investor, the management fee may vary.

With respect to Class B Interests, IGSF GP, LP, the general partner of the International Gold Fund, is entitled to receive a performance-based profit allocation equal to 5% of each investor's allocable share of net profits attributable to the relevant series for the applicable performance period. Performance allocations are subject to a "high water mark" limitation. As a result, after the first performance allocation is made, IGSF GP, LP will only receive a performance allocation if an investor's share of net profits attributable to the relevant capital contribution for the applicable performance period, measured on a cumulative basis, net of losses, exceeds the highest level of cumulative net profits achieved through the close of any prior performance allocation period. Class A Interests are not subject to the performance allocation.

General

We and/or certain of our affiliates may alter the management fees, Early Withdrawal Fees (as defined below), performance allocations and/or carried interests in our discretion.

Our advisory fees with respect to each Fund and each investor generally are not negotiable. However, Paradigm may enter into arrangements with certain investors that grant different terms (including lower fees) to such investors than the terms generally applicable to other investors.

PAYMENT OF FEES

Apogee 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. Incentive allocations are allocated directly from the capital account of each investor as of the end of each applicable calendar year.

Systemic Risk Fund

Management fees are payable by investors monthly, in advance, as of the beginning of each calendar month. With respect to Class E, management fees are payable by investors quarterly, in advance, as of the end of each fiscal quarter. Management fees are deducted directly from the capital account of each investor.

The carried interest is calculated and distributed when a distribution is made, including liquidating distributions or distributions made upon a withdrawal by an investor.

International Gold Fund

Management fees are payable by investors quarterly, in advance, as of the first business day of each calendar quarter. Each investor selects whether fees are deducted directly from their capital accounts or billed to the investor.

Performance allocations are made directly from the capital account of each Class B investor as of the end of the 36-month period following the investor's initial contribution of capital to the International Gold Fund, and as of the end of each applicable 36-month period thereafter.

OTHER FEES AND EXPENSES

Apogee Fund

In addition to management fees and incentive allocations, the Apogee Fund generally bears all legal, accounting, auditing and other expenses incurred in connection with offering interests and the operation of the Apogee Fund, and all extraordinary expenses. The Apogee Fund generally is responsible for and pays all brokerage fees. See **"Item 12: Brokerage Practices."**

Systemic Risk Fund

In addition to management fees, the Systemic Risk Fund generally bears the expenses of the organization of the

Fund and the offering of interests (including legal and accounting fees, “blue sky” filing fees and expenses and out-of-pocket expenses), up to a maximum amount of \$75,000. The Systemic Risk Fund also bears all costs and expenses directly related to its investment program and all out-of-pocket costs of the administration and operation of the Systemic Risk Fund, including (i) expenses related to proxies, underwriting and private placements; (ii) interest on debit balances or borrowings; (iii) custody fees; (iv) any withholding or transfer taxes; (v) accounting, audit and legal expenses; (vi) costs of litigation or investigation involving the Systemic Risk Fund’s activities; and (vii) costs associated with reporting and providing information to investors and prospective investors. The Systemic Risk Fund generally is responsible for and pays all brokerage fees. See “**Item 12: Brokerage Practices.**”

International Gold Fund

In addition to management fees and performance allocations, each series in the International Gold Fund generally bears its pro rata portion of the expenses of the organization of the International Gold Fund (including legal and accounting fees, “blue sky” filing fees and expenses and out-of-pocket expenses). Each series in the International Gold Fund also bears all costs and expenses directly related to its investment program, except for custody costs such as general insurance coverage, if available at the relevant vault(s), and storage of precious metals, which we shall bear. Each series in the International Gold Fund also bears all out-of-pocket costs of the administration and operation of the International Gold Fund, including (i) accounting, audit and legal expenses; (ii) costs of any litigation or investigation involving such series’ activities; and (iii) costs associated with reporting and providing information to investors and prospective investors. The costs and expenses borne by each series may vary depending on each series’ specific investment program.

TERMINATION OF ADVISORY SERVICES

Systemic Risk Fund

The investment management agreement with the Systemic Risk Fund may be terminated by any party upon at least 75 days’ prior written notice.

International Gold Fund

The investment management agreement with the International Gold Fund may be terminated by any party upon at least 75 days’ prior written notice.

WITHDRAWALS

Apogee Fund

As described more fully in the applicable offering memorandum, each investor in the Apogee Fund generally is permitted to make complete or partial withdrawals of amounts from its capital account balance as of the last business day of each calendar quarter after the first anniversary of the date of its initial investment in the Apogee Fund. Notice of any withdrawal generally must be given in writing at least 45 days prior to the proposed withdrawal date. Paradigm may allow an investor to withdraw at other times and/or accept less than 45 days’ prior written notice for withdrawal in our discretion. We will use our best efforts to distribute to a withdrawing investor that portion of such investor’s capital account beneficially invested in public companies, which we deem liquid, as soon as possible following the end of the quarter. Paradigm may withhold 15% of the proceeds until completion of the Apogee Fund’s audit for the year in which withdrawal occurs. Any remaining balance will be settled as promptly as possible following completion of the audit of the Apogee Fund’s financial statements for the applicable fiscal year. If the Apogee Fund’s assets are invested in private companies, it may be impossible to liquidate such investments. In such case, Paradigm may delay payment to the withdrawing investor as described more fully in the offering memorandum.

Systemic Risk Fund

As described more fully in the applicable offering memorandum, each investor in the Systemic Risk Fund generally is permitted to make complete or partial withdrawals of amounts from its capital account balance as of the close of business on the last day of each calendar quarter. However, if an investor makes a capital contribution at any time other than the beginning of a calendar quarter, the first withdrawal date for such investor is the close of business on the last day of the subsequent calendar quarter. Subject to certain exceptions, an investor withdrawing from the Systemic Risk Fund prior to the end of the one-year anniversary of its initial investment will be required to pay Paradigm an amount equal to the management fee applicable to the withdrawn amount for the time remaining in such one-year period (the “Early Withdrawal Fee”). If an investor withdraws before the end of any month, such

investor will receive a pro-rated rebate of the management fee paid in advance. Notice of any withdrawal generally must be received by the general partner at least 45 days prior to the requested withdrawal date. In general, a withdrawing investor will receive at least 90% of the estimated amount due within 30 business days after the requested withdrawal date, provided that the general partner may delay such payment if the delay is reasonably necessary to prevent such withdrawal from having a material adverse effect on the Systemic Risk Fund. Any remaining balance will be settled promptly following completion of the audit of the Systemic Risk Fund's financial statements for the applicable fiscal year.

With respect to Class E, each Limited Partner is permitted to make withdrawals of each capital contribution made by a Limited Partner (each, a "Tranche") as of the close of business on the last day of each calendar quarter; provided, however, that if a Limited Partner contributes a Tranche at any time other than the beginning of a calendar quarter, the first withdrawal date for such Tranche will be the close of business on the last day of the subsequent calendar quarter. Withdrawal requests may be subject to reserves for contingencies, hold-back pending audit, suspension restrictions and liquidity restrictions, as described further in the applicable offering memorandum

The General Partner or the Investment Manager (as applicable) reserves the right, in its sole discretion, to agree with certain investors to a variation of the terms set forth the applicable offering memorandum, including different Management Fees, Performance Allocation or withdrawal rights. Such different rights may be affected by issuance of a separate class of limited partner interests or any other permissible means. The Fund currently has other classes of limited partner interests outstanding with different fees, allocations and withdrawal rights.

International Gold Fund

As described more fully in the applicable offering memorandum, each investor in the International Gold Fund generally may withdraw from the International Gold Fund in cash, gold or other precious metals as of the close of any business day upon one day's advance notice to the general partner. An investor withdrawing from the International Gold Fund prior to the end of the one-year anniversary of its initial investment in the International Gold Fund will be required to pay us an amount equal to the management fee applicable to that investor on the withdrawn amount for the time remaining in such one-year period. After an investor's one-year anniversary of its initial investment in the International Gold Fund, if an investor withdraws before the end of any calendar quarter, such investor will receive a pro-rated refund of the management fee paid in advance. Notice of any withdrawal (or requested sale of gold or other precious metal) must be received in writing with a verbal confirmation by the general partner on or prior to the requested withdrawal date. In general, a withdrawing investor will receive at least 98% of the estimated amount due as soon as practicable after the receipt of the proceeds of such withdrawal. Any remaining balance will be distributed promptly following completion of the audit of the International Gold Fund's financial statements for the applicable year.

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: Fees and Compensation—Description of Compensation and Fee Schedule**” above, we or our affiliates generally are entitled to receive performance-based allocations or carried interest with respect to each of the Funds. Performance-based allocations and carried interest could motivate us to make investment decisions that are riskier or more speculative than would be the case if these arrangements were not in effect.

SIDE-BY-SIDE MANAGEMENT

Paradigm does not manage accounts for which we or our affiliates are entitled to receive performance-based fees or allocations alongside accounts for which we or our affiliates are not entitled to receive any performance-based fees or allocations.

Item 7: Types of Clients

DESCRIPTION

Paradigm currently provides investment advisory and supervisory services with respect to the Funds, our sole advisory clients. Paradigm may provide investment advisory services to other clients in the future.

ACCOUNT REQUIREMENTS

The minimum initial capital contribution required for an investor in the Apogee Fund is \$500,000. With respect to the Apogee Fund, Paradigm may waive, reduce or increase the minimum initial capital contribution required in our discretion.

The minimum initial capital contribution required for an investor in the Systemic Risk Fund or the International Gold Fund is \$250,000 (subject to reduction).

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

METHODS OF ANALYSIS AND INVESTMENT STRATEGIES

Apogee Fund

With respect to the Apogee Fund, we will seek to achieve superior capital appreciation by investing in equity and debt securities of domestic and foreign issuers. Paradigm may also invest in private placements and may sell short equity securities. We believe that fundamental research, combined with sophisticated investment strategies, such as the use of options, creates superior investment results over time. We will utilize fundamental research to identify both undervalued and overvalued situations.

Systemic Risk Fund

With respect to the Systemic Risk Fund, our investment strategy is focused on providing portfolio protection and profit during trending and volatile markets. There are no guarantees of timing in the present volatile markets. Ultimately, the fund manager has a long-term, short-market bias. In the short term, the manager's market directional bias varies and is contingent upon shorter-term fundamental indicators, technical analysis and, to a lesser degree, market sentiment.

The Systemic Risk Fund's strategy uses trading techniques that have been developed and honed by the investment team since the Fund's inception. The Systemic Risk Fund may commonly use multiple asset classes, including futures and index credit default swaps ("CDS") and its portfolio may include long-credit and long commodity and financial future positions. The Systemic Risk Fund may trade in CDS, bonds, options, futures contracts, equities, equity options, currency options, rate swaptions (no more than 2.5% of the portfolio) or physical precious metal. The Systemic Risk Fund may be long or short, but not use excessive leverage. As a general guide, the Systemic Risk Fund will limit the futures leverage to approximately 10.5% margin to equity.

International Gold Fund

With respect to the International Gold Fund, we provide high net worth investors and institutions with geographically diverse investments primarily in physical gold, but also in other precious metals.

CERTAIN RISK FACTORS

There can be no assurance that we will achieve our investment objectives. Our investment program involves 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 program is low risk or risk free. Our investment program is appropriate only for sophisticated persons who fully understand and are capable of bearing the risks of investment. Prospective investors should consider the following risks, among others, before making any investment decisions. The various risks outlined below are not the only risks associated with our investment strategies and processes. Investors are urged to consult with their own independent financial, legal and tax advisors before making any investment decisions. These risks are qualified in their entirety by the risks set forth in the applicable offering document of each Fund.

Apogee Fund

General Economic and Market Conditions. The success of any investment activity is affected by general economic conditions, which may affect the level and volatility of interest rates and the extent and timing of investor participation in the securities markets. Unexpected volatility or illiquidity in the markets in which the Apogee Fund (directly or indirectly) holds positions could impair the Apogee Fund's ability to carry out its business or cause it to incur losses.

Institutional Risk. Institutions (such as brokerage firms, banks or limited partnerships) will have custody of the Apogee Fund's assets. Often these assets will not be registered in the name of the Apogee Fund or of the entity in which the Apogee Fund has invested. Bankruptcy or fraud at one of these institutions could impair the operational capabilities or the capital position of the Apogee Fund or of any entity in which the Apogee Fund has invested.

Investments in Equity Securities. Common stock and similar equity securities generally represent the most junior position in an issuer's capital structure and, as such, generally entitle holders to an interest in the assets of the issuer, if any, remaining after all more senior claims to such assets have been satisfied. Holders of common stock generally

are entitled to dividends only if and to the extent declared by the governing body of the issuer out of income or other assets available after making interest, dividend and any other required payments on more senior securities of the issuer. Warrants and stock purchase rights are securities permitting, but not obligating, their holders to subscribe for other equity securities, and they do not represent any rights in the assets of the issuer. As a result, warrants and stock purchase rights may be considered more speculative than other types of equity investments.

Investment in Lower Rated Securities. The Apogee Fund may invest in debt securities that are unrated or rated the lowest rating category by Standard & Poor's or Moody's. The Apogee Fund may have difficulty disposing of lower quality debt securities because there may be a thin trading market for such debt securities. There may be no established secondary market for many of these debt securities, and the Apogee Fund anticipates that such securities could be sold only to a limited number of dealers or institutional investors. The lack of a liquid secondary market also may have an adverse impact on market prices of such instruments and may make it more difficult for the Apogee Fund to obtain accurate market quotations for purposes of valuing its portfolio securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, also may decrease the values and liquidity of lower rated debt securities, especially in a thinly traded market. The Apogee Fund also may incur additional expenses to the extent it is required to seek recovery upon a default in the payment of principal or interest on its portfolio securities. We attempt to minimize the speculative risks associated with investments in lower quality securities through research analysis and by carefully monitoring current trends in interest rates, political developments and other factors. Nonetheless, investors should carefully review the investment objective and policies of the Apogee Fund, and consider their ability to assume the investment risks involved before making an investment in the Apogee Fund.

Investment in Thinly Traded Securities. The Apogee Fund may invest in thinly traded securities. As a result, the Apogee Fund may be required to hold such securities despite an adverse price movement. In addition, to the extent the Apogee Fund makes a short sale of an illiquid security, it may have difficulty in covering the short sale.

Long-Term Investment Horizon. Because of the long development cycle of most small and mid-capitalization companies, it is expected that a long investment horizon will be required (i.e. years as opposed to days). Accordingly, investors should view their investments in the Apogee Fund as long-term.

Lack of Diversification. Although we generally intend to diversify the Apogee Fund's investments, it is possible that the Apogee Fund's investments may at times be concentrated in a limited number of companies. If such an investment performs poorly, this concentration could cause a proportionately greater loss than if a larger number of investments were made, and if such proportionately greater loss occurs, it may adversely impact the overall return on investment realized by investors.

Lack of Liquidity in Markets. Despite the heavy volume of trading in securities, the markets for some securities have limited liquidity and depth. This lack of depth could disadvantage the Apogee Fund, both in the realization of the prices which are quoted and in the execution of orders at desired prices.

Use of Leverage. The Apogee Fund may use leverage to enable it to make investments in excess of its equity and may borrow up to an amount equal to 100% of its net assets. Although such techniques increase the opportunity for a higher return on investment, they also increase the risk of loss. If income and appreciation on investments made with borrowed funds are less than the required interest payments on the borrowings, the value of the Apogee Fund's net assets will decrease. Accordingly, any event that adversely affects the value of an investment by the Apogee Fund would be magnified to the extent that the Apogee Fund is leveraged. The cumulative effect of the use of leverage by the Apogee Fund's investments could result in a substantial loss to the Apogee Fund that would be greater than if the Apogee Fund were not leveraged. There is a risk that the initial cash portion of the purchase price that is paid by the Apogee Fund for securities purchased on margin will be insufficient due to fluctuations in the market price of the securities and that the Apogee Fund will be required to contribute additional cash in order to meet margin requirements which may, in turn, require the Apogee Fund to liquidate part of its portfolio or to borrow additional funds. There is no assurance that the Apogee Fund will be able to meet additional margin requirements, if any. The Apogee Fund will be subject to margin rules of the Federal Reserve System and stock exchanges. To the extent the margin rules become more restrictive, the investment results of the Apogee Fund may be adversely affected. Generally speaking, securities margin is in the nature of an installment payment whereby the broker extends credit to the purchaser. Tax-exempt investors should note, in addition, that securities acquired with borrowed funds will constitute "debt-financed" property under the unrelated business income rules. For tax-exempt investors, the Apogee Fund's income, if any, from "debt-financed" property will be characterized as unrelated business income in an amount which is proportionate to the "debt-financing" with respect to such property. Tax-

exempt entities, including certain Employee Benefit Plans, may be taxed on their distributive share of income from the Apogee Fund to the extent the Apogee Fund's investment in the asset from which such income is derived is "debt-financed."

Nature of Portfolio Investments. It is possible that some of the securities in which the Apogee Fund is likely to invest may be more vulnerable than the securities of larger companies are to adverse business or market developments, may have limited markets or financial resources and may lack experienced management. In addition, many small and medium size companies are not well-known to the investing public, do not have significant institutional ownership and are followed by relatively few securities analysts, with the result that there may tend to be less publicly available information concerning such companies compared to what is available for exchange-listed or larger capitalization over-the-counter securities. Finally, some securities traded in the over-the-counter market may have fewer market makers, wider spreads between their quoted bid and asked prices and lower trading volumes, resulting in comparatively greater price volatility and less liquidity than those of securities of companies that have larger market capitalizations and/or that are traded on the New York or American Stock Exchanges, or the market averages in general. Thus, the investment in the Apogee Fund involves considerably more risk than more liquid equity securities of companies traded on national stock exchanges.

Trading Strategies. There can be no assurance that the specific investment strategies utilized for the Apogee Fund will produce profitable results. Profitable investing is often dependent on anticipating specific scenarios. Markets subject to random price fluctuations, rather than defined patterns, may generate a series of losing investments. There have been periods in the past when the markets have been subject to limited and ill-defined price movements, and such periods may recur. Certain unanticipated factors (such as governmental regulation affecting the markets) may reduce the prospect for future investment profitability. Any factor which would make it difficult to execute trades, such as reduced liquidity or extreme market developments, also could be detrimental to profits. No assurance can be given that the techniques and strategies we use will be profitable in the future.

Changes in Investment Methods and Strategy. We do not presently anticipate that the investment methods and strategy employed on behalf of the Apogee Fund will vary significantly from that described herein. However, as the Apogee Fund is a private investment partnership, we reserve the right to vary the Apogee Fund's investment methods and strategy in our sole discretion. For example (but not by way of limitation), although it is not presently anticipated, Paradigm may determine to employ leverage or invest in other markets. Such new investment methods and strategies may not be thoroughly tested before being employed and may not, in any event, be successful.

Risk Associated with Options Transactions. There is no assurance that a liquid secondary market on an option exchange will exist for any particular exchange traded option or at any particular time. If the Apogee Fund is unable to effect a closing purchase transaction with respect to covered options it has written, the Apogee Fund will not be able to sell the underlying securities or dispose of assets held in a segregated account until the options expire or are exercised. Similarly, if the Apogee Fund is unable to effect a closing sale transaction with respect to options it has purchased, it would have to exercise the options in order to realize any profit and will incur transaction costs upon the purchase or sale of underlying securities. The Apogee Fund may purchase and sell both options that are traded on exchanges and options traded over-the-counter. The market for over-the-counter options is more limited than that for exchange traded options and may involve the risk that broker-dealers participating in such transactions will not fulfill their obligations.

Transactions by the Apogee Fund in options on securities will be subject to limitations established by security exchanges or other trading facilities governing the maximum number of options in each class which may be written or purchased by a single investor or group of investors acting in concert, regardless of whether the options are written or purchased on the same or different exchanges or other trading facilities or are held or written in one or more accounts or through one or more brokers. The writing and purchase of options is a highly specialized activity which involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. The successful use of protective puts for hedging purposes depends in part on our ability to predict future price fluctuations and the degree of correlation between the options and securities markets.

Short Selling. The Apogee Fund may engage, from time to time, in short selling shares of common stock of publicly held companies. Short selling, and especially short selling on margin, is considered a risky trading strategy. When it makes a short sale, the Apogee Fund may sell securities which it does not own. To make delivery of the security sold, the Apogee Fund will be required to borrow the security. An investment manager will make a short sale when he anticipates he will be able to purchase and return the securities to the lender after they have declined in value. The gain realized will be the difference between the sale price for the securities and the price at which the securities

are purchased. However, in the event the market price of the security has increased, the Apogee Fund may be forced to cover the short position at a price higher than the sale price and, if the interest earned on the proceeds of the short sale is insufficient to offset the price differential, this will result in a loss. Since there is theoretically no limit to how high the price of a security will sell for, a short sale involves the theoretically unlimited risk of an increase in the market price of the securities involved.

The borrowed securities in a short sale are subject to call from the lender at any time at its discretion, which would require the Apogee Fund to cover its position at that time. A lender may call a security for a variety of reasons, some of which may be rather arbitrary. In the event the call is made when the security has increased in price or is, in fact, rapidly increasing in price, the Apogee Fund will be required to cover at the higher price, thus realizing a loss. The Apogee Fund may be required to attempt to borrow the called security from a different broker. However, under certain circumstances, the Apogee Fund may have difficulty in finding the security to borrow. The call feature of short selling takes control over the decision to cover short positions out of our hands.

The Apogee Fund may use margin to increase its short positions. In the event the market price of a security borrowed for a short sale on margin increases, the Apogee Fund will be subject to a margin call, whereby it will be required to deposit additional collateral with its broker. There is no guarantee that the Apogee Fund will have sufficient reserve funds to meet this margin call. If it does not, Paradigm may have to liquidate the Apogee Fund's position in the security (requiring the covering of the short sale), resulting in a loss, or liquidate a position in another security sooner than it would have liked.

It is possible that where the number of short sellers of a security is large, the Apogee Fund will have difficulty in finding the security to borrow. In such event, the cost of borrowing the security will increase. In other situations where it is difficult to borrow a security, it may limit the Apogee Fund's ability to meet its investment objectives.

Systemic Risk Fund

Investment Judgment; Market Risk. The profitability of a significant portion of the Systemic Risk Fund's investment program depends to a great extent upon correctly assessing the future course of the price movements of securities and other investments. There can be no assurance that we will be able to predict accurately these price movements. With respect to the investment strategy utilized by the Systemic Risk Fund, there is always some, and occasionally a significant, degree of market risk.

Investment Program. Substantial risks are involved in trading in government securities, loans, options, caps, swaps and the various other financial instruments in which the Systemic Risk Fund trades. The prices of these investments are volatile, market movements are difficult to predict and financing sources and related interest and exchange rates are subject to rapid change. One or more markets in which the Systemic Risk Fund trades may move against the positions held by it, thereby causing substantial losses. Many of these instruments are not traded on exchanges, but rather through an informal network of banks and dealers. These banks and dealers have no obligation to make markets in these instruments, and can essentially apply discretionary margin requirements. Government policies, especially those of the central banks, have profound effects on interest and exchange rates which, in turn, affect prices in areas of the Systemic Risk Fund's planned activities. Many other unforeseeable events, including actions by various government agencies and domestic and international political events, may cause sharp market fluctuations. The Systemic Risk Fund may undertake a high level of investment, which may result in increased transaction costs to be borne by the Systemic Risk Fund.

Credit Derivatives. Credit derivatives are contracts that transfer price, spread and/or default risks of debt and other instruments from one party to another. The market for credit derivatives is relatively illiquid and there are considerable risks that may make it difficult either to buy or sell the contracts as needed or at reasonable prices. Sellers of credit derivatives carry the inherent price, spread and default risks of the debt instruments covered by the derivative instruments. Buyers of credit derivatives carry the risk of nonperformance by the seller due to inability to honor its contractual commitments. There are also risks with respect to credit derivatives in determining whether an event will trigger payment under the derivative, and whether such payment will offset the loss or payment due under another instrument. In the past, buyers and sellers of credit derivatives have found that a trigger event in one contract may not match the trigger event in another contract, exposing the buyer or the seller to further risk. The value of this type of instrument depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to trading derivatives related to such asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a

relatively small adverse market movement can not only result in the loss of the entire investment, but may also expose the Systemic Risk Fund to the possibility of a loss exceeding the original amount invested. There can be no assurance that derivatives that the Systemic Risk Fund acquires will be available at any particular times, at satisfactory terms or at all.

Credit Default Swaps. The Systemic Risk Fund will enter into credit derivative contracts such as credit default swaps (“CDS”). The typical CDS contracts require the seller to pay to the buyer, in the event that a particular reference entity experiences specified credit events, the difference between the notional amount of the contract and the value of a portfolio of securities or loans issued by the reference entity that the buyer delivers to the seller. In return, the buyer agrees to make periodic and/or upfront payments equal to a fixed percentage of the notional amount of the contract. In circumstances in which the Systemic Risk Fund does not own the debt or loans that are deliverable under a CDS, the Systemic Risk Fund will be exposed to the risk that deliverable securities or loans will not be available in the market, or will be available only at unfavorable prices, as would be the case in a so-called “short squeeze.” In certain instances of issuer defaults or restructurings, it has been unclear under the standard industry documentation for CDS whether or not a “credit event” triggering the seller’s payment obligation had occurred. In either of these cases, the Systemic Risk Fund would not be able to realize the full value of the CDS upon a default by the reference entity. As a seller of CDS, the Systemic Risk Fund incurs leveraged exposure to the credit of the reference entity and is subject to many of the same risks it would incur if it were holding debt securities or loans issued by the reference entity. However, the Systemic Risk Fund will not have any legal recourse against the reference entity, and will not benefit from any collateral securing the reference entity’s debt obligations. In addition, the CDS buyer will have broad discretion to select which of the reference entity’s debt obligations to deliver to the Systemic Risk Fund following a credit event, and will likely choose the obligations with the lowest market value in order to maximize the payment obligations of the Systemic Risk Fund. Given the recent sharp increases in volume of credit derivatives trading in the market, settlement of such contracts may also be delayed beyond the time frame originally anticipated by counterparties. Such delays may adversely impact the Systemic Risk Fund’s ability to otherwise productively deploy any capital that is committed with respect to such contracts.

Emerging Market Debt. The Systemic Risk Fund may invest in distressed sovereign, sub-sovereign and debt securities and loans of issuers in emerging market countries. The value of emerging market debt instruments may be drastically affected by political developments in the country of issuance. In addition, the existing governments in the relevant countries could take actions that could have a negative impact on the Systemic Risk Fund, including nationalization, expropriation, imposition of confiscatory taxation or regulation or imposition of withholding taxes on interest payments.

Emerging Market Inflation. Emerging market countries tend to have periods of high inflation and high interest rates, as well as substantial volatility in interest rates. The value of emerging market debt can be expected to be extremely sensitive to changes in interest rates worldwide and, in particular, in the country of the relevant issuer.

Emerging Market Credit Ratings. Emerging market debt issuers and their obligations are frequently not rated by any credit rating agency, and a significant proportion of such issuers and obligations would likely fall into the lowest rating categories if they were rated. The Systemic Risk Fund’s investments may include emerging market debt instruments that would be the equivalent of high yield “junk bonds” on the U.S. market.

Fixed Income Securities. The value of fixed-income securities in which the Systemic Risk Fund will have exposure will change in response to fluctuations in interest rates. Except to the extent that values are independently affected by currency exchange rate fluctuations, when interest rates decline, the value of fixed-income securities generally can be expected to rise. Conversely, when interest rates rise, the value of fixed-income securities generally can be expected to decline. The Systemic Risk Fund may invest in zero coupon bonds and deferred interest bonds, which are debt obligations issued at a significant discount from face value. The original discount approximates the total amount of interest the bonds will accrue and compound over the period until maturity or the first interest accrual date at a rate of interest reflecting the market rate of the security at the time of issuance. While zero coupon bonds do not require the periodic payment of interest, deferred interest bonds generally provide for a period of delay before the regular payment of interest begins. Such investments experience greater volatility in market value due to changes in interest rates than debt obligations that provide for regular payments of interest. In addition, such investments may result in substantial taxes being payable on “original issue discount” before the Systemic Risk Fund actually receives interest payments thereon.

Foreign Securities. Investments in foreign securities involve certain factors not typically associated with investing in U.S. securities, such as risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange

between the U.S. dollar (the currency in which the books of the Systemic Risk Fund are maintained) and the various foreign currencies in which the Systemic Risk Fund's portfolio securities will be denominated and costs associated with conversion of investment principal and income from one currency into another; (ii) differences between the U.S. and foreign securities markets, including the absence of uniform accounting, auditing and financial reporting standards and practices and disclosure requirements and less government supervision and regulation; (iii) political, social or economic instability; (iv) imposition of foreign income, withholding or other taxes; and (v) the extension of credit, especially in the case of sovereign debt.

Hedging/Derivative Instruments. The use of derivative instruments involves a variety of material risks, including the high degree of leverage often embedded in such instruments and the possibility of counterparty non-performance, as well as of material and prolonged deviations between the actual and the theoretical value of a derivative (i.e., nonconformance to anticipated or historical correlation patterns). In addition, the markets for certain derivatives are frequently characterized by limited liquidity, which can make it difficult as well as costly to the Systemic Risk Fund to close out positions in order either to realize gains or to limit losses.

Most of the derivatives which the Systemic Risk Fund trades will be principal to principal or "over the counter" contracts between the Systemic Risk Fund and third parties entered into privately, rather than on an exchange. As a result, the Systemic Risk Fund is not afforded the regulatory and financial protections of an exchange or its clearinghouse (or of the government regulator that oversees such exchange and clearinghouse). In privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices.

Many derivatives are valued on the basis of dealers' pricing of these instruments. However, the price at which dealers value a particular derivative and the price that the same dealers would actually be willing to pay for such derivative should the Systemic Risk Fund wish or be forced to sell may be materially different. Such differences can result in an overstatement of the Systemic Risk Fund's net assets and could materially adversely affect the Systemic Risk Fund in situations in which the Systemic Risk Fund is required to sell derivative instruments.

Investments in Undervalued Assets. We may invest the Systemic Risk Fund's assets in undervalued assets. The identification of investment opportunities in undervalued assets is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued assets offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the Systemic Risk Fund's investments may not adequately compensate investors for the business and financial risks assumed. An investor should be aware that it may lose all or part of its investment in the Systemic Risk Fund.

The Systemic Risk Fund may be forced to sell, at a substantial loss, assets that are not, in fact, undervalued. In addition, the Systemic Risk Fund may be required to hold such assets for a substantial period of time before realizing their anticipated value. During this period, a portion of the Systemic Risk Fund's capital would be committed to the assets purchased, possibly preventing the Systemic Risk Fund from investing in other opportunities.

Short Sales. The Systemic Risk Fund may enter into transactions, known as "short sales," in which it sells a security it does not own in anticipation of a decline in the market value of the security. Short sales by the Systemic Risk Fund that are not made "against the box" theoretically involve unlimited loss potential since the market price of securities sold short may continuously increase. The Systemic Risk Fund may mitigate such losses by replacing the securities sold short before the market price has increased significantly. Under adverse market conditions, the Systemic Risk Fund might have difficulty purchasing securities to meet its short sale delivery obligations, and might have to sell portfolio securities to raise the capital necessary to meet its short sale obligations at a time when fundamental investment considerations would not favor such sales.

Commodities and Futures. The Systemic Risk Fund may trade on a limited basis in commodities and futures. Such trading activity is regulated by the Commodity Futures Trading Commission (the "*CFTC*"). Centella Capital, LLC is registered with, and a member of, the National Futures Association as a commodity pool operator and as a commodity trading advisor under the U.S. Commodity Exchange Act, but has filed a notice of exemption under Regulation 4.7 of the Commodity Futures Trading Commission, which exempts it from certain reporting, recordkeeping and disclosure requirements. However, the Fund is currently being operated pursuant to a claim of exemption under Section 4.13(a)(3) of the Commodity Exchange Act. Among other things, the exemption requires the filing of a claim of exemption with the National Futures Association by Centella Capital, LLC, the Systemic

Risk Fund's commodity pool operator. It is also required that at all times either: (a) the aggregate initial margin and premiums required to establish commodity interest positions does not exceed 5% of the liquidation value of the Systemic Risk Fund's portfolio; or (b) the aggregate net notional value of the Systemic Risk Fund's commodity interest positions does not exceed 100% of the liquidation value of the Systemic Risk Fund's portfolio and further that all pool participants are required to be accredited investors or certain other qualified investors. Finally, it is required that the general partner nor the investment manager of the Systemic Risk Fund provide advice solely to the pool or pools for which it has filed a claim of exemption as a commodity pool operator.

Commodity Trading. Commodity interest contract prices are highly volatile. Price movements for commodity interest contracts may be influenced by, among other things, changing supply and demand relationships, weather, agricultural, trade, fiscal, monetary, and exchange control programs and policies of governments, domestic and foreign political and economic events, changes in domestic and foreign interest rates and rates of inflation, currency devaluations and re-evaluations, and emotions of the marketplace. In addition, governments from time to time intervene, directly and by regulation, in certain markets -- particularly those in interest rates, currencies and gold. Such intervention is often intended to influence prices directly. The Systemic Risk Fund are also subject to the risk in the unlikely event of the failure of any of the exchanges on which the Systemic Risk Fund trades or of clearinghouses for such trades.

Daily Trading Limits. Most United States futures exchanges limit fluctuations in certain commodity interest contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." During a single trading day, no trades may be executed at prices beyond the daily limits. Once the price of a particular contract has increased or decreased by an amount equal to the daily limit, positions in the contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Contract prices have occasionally moved to the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Investment Manager from promptly liquidating unfavorable positions and subject the Systemic Risk Fund to substantial losses which could exceed the margin initially committed to such trades. In addition, even if contract prices have not moved to the daily limit, trades may not be able to be executed at favorable prices if little trading in the contracts involved is taking place. Under some circumstances, the Systemic Risk Fund, on behalf of the Systemic Risk Fund, might be required to make or take delivery of the commodity underlying a particular contract if the position cannot be liquidated prior to its expiration date. In addition, if the Investment Manager deems it to be in the best interests of the Systemic Risk Fund, it may make or take delivery of an underlying commodity on behalf of the Systemic Risk Fund.

Position Limits. The CFTC and United States exchanges have established limits referred to as "speculative position limits" or "position limits" on generally the maximum net long or net short (although certain exchanges set such limits based upon the total gross) speculative position which any person or group of persons may hold or control in particular commodity interest contracts. In addition, the CFTC requires United States exchanges to set position limits on all contracts that do not have such limits. The assets of the Systemic Risk Fund and all other accounts managed and controlled by the Investment Manager are combined for position limit purposes. The Investment Manager believes that established position limits will not adversely affect its contemplated trading for the Systemic Risk Fund. However, it is possible that from time to time the trading decisions of the Investment Manager may have to be modified and positions held or controlled by it may have to be liquidated in order to avoid exceeding applicable position limits. Such modification or liquidation, if required, could adversely affect the performance of the Systemic Risk Fund. If the application of position limits were to affect the Investment Manager's trading decisions, it will attempt to modify its recommendations in such a manner so as not to affect disproportionately the performance of the Systemic Risk Fund compared with that of any other account managed or controlled by the Investment Manager.

Suspension of Trading. Each exchange on which futures are traded and the CFTC typically have the right to suspend or limit trading in the contracts which each such exchange lists. Such a suspension or limitation could render it impossible for the Investment Manager to liquidate positions held by the Systemic Risk Fund and thereby expose the Systemic Risk Fund to losses. In addition, there is no guarantee that exchange and other secondary markets will always remain liquid enough for the Investment Manager to close out existing futures positions. It is also possible that an exchange or the CFTC could order the immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only.

Foreign Futures Exchanges. The Investment Manager may trade some of the assets of the Systemic Risk Fund on futures exchanges outside the United States. Trading on such exchanges is not regulated by any United States

governmental agency and may involve certain risks not applicable to trading on United States exchanges. For example, some foreign exchanges, in contrast to United States exchanges, are “principals’ markets” in which performance is the responsibility only of the individual counterparty with whom the trader has entered into a futures contract and not of an exchange or clearing corporation. Foreign futures trading may be subject to whatever regulatory provisions are applicable to transactions effected outside the United States, whether on foreign exchanges or otherwise. Trading on foreign exchanges involves the additional risks of expropriation, burdensome or confiscatory taxation, moratoriums, restrictions on currency movements and investment controls or political or diplomatic events which might adversely affect the Investment Manager’s trading activities on behalf of the Systemic Risk Fund. Engaging in trading on foreign exchanges is also subject to the risk of changes in the exchange rate between United States dollars and the currencies in which contracts traded on such exchanges are settled. Although the CFTC is prohibited by statute from promulgating rules which govern in any respect, any rule, contract term or action of any foreign futures exchange, the CFTC has full authority to regulate the sale of foreign futures contracts within the United States and has adopted regulations which may restrict the contracts and markets on which the Investment Manager may trade on behalf of the Systemic Risk Fund, which may have an impact on future performance results of the Systemic Risk Fund.

Foreign Over-the-Counter Markets. The Investment Manager may trade in the over-the-counter foreign exchange and financial instrument markets on behalf of the Systemic Risk Fund. These markets do not have the safeguard mechanisms of a clearing organization that, in effect, guarantee every exchange-traded instrument. In contrast to exchange-traded futures contracts, over-the-counter instruments rely on the dealer or counterparty being contracted with to fulfill its contract. Failure by a counterparty to fulfill its contractual obligations could expose the Systemic Risk Fund to unanticipated losses.

Forward Contracts. The Investment Manager may trade in spot and forward contracts on behalf of the Systemic Risk Fund. Such spot and forward trading may involve less protection against defaults than trading on exchanges. There is generally no limitation on price moves, and such trading is subject to the risk of bank or dealer failure or inability or refusal to perform with respect to such contracts. Due to these and other factors, the trading of forward contracts on foreign currencies may thus involve greater risks than trading of futures contracts on exchanges.

Options Trading. The Investment Manager may trade options on futures contracts on behalf of the Systemic Risk Fund. Each such option is a right, purchased for a certain price, to either buy or sell a futures contract during a certain period of time for a pre-established price. Although successful options trading requires many of the same skills required for successful futures trading, the risks involved may be somewhat different. Specific market movements of the futures contracts underlying an option cannot accurately be predicted. The purchaser of an option is subject to the risk of losing the entire purchase price of the option plus commissions and fees. The grantor of a call option who does not have a long position in the underlying futures contract is subject to risk of loss should the price of the underlying futures contract be higher than the strike price upon exercise or expiration of the option by an amount greater than the premium received for granting the call option. The grantor of a put option who does not have a short position in the underlying futures contract is subject to risk of loss should the price of the underlying futures contract decrease below the strike price upon exercise or expiration of the option by an amount in excess of the premium received for granting the put option.

The Systemic Risk Fund’s Futures Commission Merchant May Fail. Under CFTC regulations, the Systemic Risk Fund’s futures commission merchant (“FCM”) is required to maintain its customers’ assets intended for futures trading in a segregated account. If the FCM fails to do so, the customer may be subject to risk of loss of funds in the event of its bankruptcy. Even if such funds are properly segregated, the customer may still be subject to a risk of a loss of its funds on deposit with the FCM should another customer of the FCM or the FCM itself fail to satisfy deficiencies in such other customers’ accounts. Bankruptcy law applicable to all U.S. futures brokers requires that, in the event of the bankruptcy of such a broker, all property held by the broker, including certain property specifically traceable to the customer, will be returned, transferred or distributed to the broker’s customers only to the extent of each customer’s pro-rata share of all property available for distribution to customers. If the Systemic Risk Fund’s FCM were to become bankrupt, it is possible that the Systemic Risk Fund would be able to recover none or only a portion of its assets held by such FCM.

Concentration of Investments. We have broad discretion over the Systemic Risk Fund’s investment program and may choose to allocate substantial portions of the Systemic Risk Fund’s assets to a particular investment. Such an occurrence may tend to result in more rapid changes in the Systemic Risk Fund’s portfolio, upward or downward, than would be the case with greater diversification, with the result that a loss in any such position could have a

material adverse impact on the Systemic Risk Fund's capital. We may also make similar market timing decisions and asset allocation decisions regarding the investments or some combination of other strategies.

Currency Risk. The Systemic Risk Fund invests its capital in, among other things, securities denominated in currencies other than the U.S. dollar and in other financial instruments the prices of which are determined with reference to currencies other than the U.S. dollar. The Systemic Risk Fund values its securities and other capital in U.S. dollars and therefore may be affected by fluctuations in currency values.

Options. Investing in options can provide a greater potential for profit or loss than an equivalent investment in the underlying asset. The Systemic Risk Fund may purchase exchange-listed and over-the-counter put and call options on specific investments. Options on specific investments may be used by the Systemic Risk Fund to seek enhanced profits with respect to a particular investment or for various defensive or hedging purposes. Use of put and call options may result in losses to the Systemic Risk Fund, force the sale or purchase of portfolio investments at inopportune times or for prices higher than (in the case of put options) or lower than (in the case of call options) current market values, limit the amount of appreciation the Systemic Risk Fund can realize on its investments or cause the Systemic Risk Fund to hold an investment it might otherwise sell.

Illiquid Investments. Many of the investments made by the Systemic Risk Fund may become very illiquid, and consequently the Systemic Risk Fund may not be able to sell such investments at prices that reflect our assessment of their value or the amount paid for such investments by the Systemic Risk Fund. Illiquidity may result from the absence of an established market for the investments, as well as legal, contractual or other restrictions on their resale by the Systemic Risk Fund and other factors. In the event the general partner makes distributions in-kind, such in-kind assets could be illiquid or subject to legal, contractual and other restrictions on transfer.

Competitive Markets. The investments industry in general, and the markets in which we intend to trade, are extremely competitive. In pursuing our trading methods and strategies, we will compete with investment firms, including many of the larger investment advisory and private investment firms, as well as institutional investors and, in certain circumstances, market-makers, banks and broker-dealers. In relative terms, the Systemic Risk Fund has little capital and may have difficulty in competing in markets in which its competitors have substantially greater financial resources, larger research staffs and more trading professionals than we have or expect to have in the future. In any given transaction, investment and trading activity by other firms will tend to narrow the spread between the price at which an investment may be purchased by the Systemic Risk Fund and the price it expects to receive upon consummation of the transaction.

International Gold Fund

Investment Judgment; Market Risk. The profitability of a significant portion of the International Gold Fund's investment program depends to a great extent upon the future course of the price movements of gold and other precious metals in certain locations. There can be no assurance that we will be able to predict accurately these price movements. With respect to the investment strategy utilized by the International Gold Fund, there is always some, and occasionally a significant, degree of market risk.

Investment Program. Substantial risks are involved in holding physical gold and other precious metals. The prices of precious metals are volatile, market movements are difficult to predict and financing sources and related interest and exchange rates are subject to rapid change. The precious metals will not be traded on exchanges, but rather through an informal network of banks, precious metal refineries and dealers. These banks, precious metal refineries and dealers have no obligation to make markets in gold or other precious metals. Government policies, especially those of the central banks, have profound effects on interest, tax and exchange rates, which, in turn, affect prices in areas of the International Gold Fund's planned activities. Many other unforeseeable events, including actions by various government agencies and domestic and international political events, may cause sharp market fluctuations.

Concentration of Investments. Since the International Gold Fund's investments will consist solely of physical gold and other precious metals, the International Gold Fund's portfolio may experience more rapid changes, upward or downward, than would be the case with greater diversification, with the result that a loss in any position could have a material adverse impact on the International Gold Fund's capital.

Currency Risk. The International Gold Fund invests its capital in bars of gold and other metals that may be custodied in different countries, the prices of which may be determined with reference to currencies other than the U.S. dollar. We do not analyze anticipated currency value fluctuations as part of our investment strategy. We and the general partner will not be responsible for any losses resulting in currency value fluctuations.

Volatility of the Price of Gold and Other Precious Metals. Many factors may affect the prices of various precious metals, including, without limitation: (i) global supply and demand, which is influenced by such factors as forward selling by precious metal producers, purchases made by precious metal producers to unwind hedge positions in precious metals, central bank purchases and sales and lending and production and cost levels in major gold- and other applicable metal-producing countries; (ii) global or regional political, economic or financial events and situations; (iii) investors' expectations with respect to the rate of inflation and global monetary and fiscal policies; (iv) currency exchange rates and interest rates; and (v) investment and trading activities of other pooled investment funds and commodity funds. In addition, the possibility of large-scale distress of precious metal prices in times of crisis may have a short term negative impact on the price of precious metals and adversely affect an investment in the International Gold Fund. Crises in the future may impair the price performance of gold and other precious metals, which would, in turn, adversely affect an investment in the International Gold Fund. Furthermore, substantial sales of gold or other applicable metals by the official sector could adversely affect an investment in the International Gold Fund. The official sector consists of central banks, other governmental agencies and multilateral institutions that buy, sell and hold precious metals as part of their reserve assets.

Risks Associated with Custody of Physical Gold and Other Precious Metals. Physical metals held by the International Gold Fund may be subject to loss, damage, theft or restriction on access. There is a risk that some or all of the International Gold Fund's physical metals could be lost, damaged or stolen. In addition, some or all of the International Gold Fund's physical metals could be seized by one or more governments, including the United States government. The probability of confiscation increases when banking crises occur. Access to the International Gold Fund's physical metals could also be restricted by natural events (such as an earthquake) or human actions (such as a terrorist attack). Any of these events may adversely affect the operations of the International Gold Fund and, consequently, an investment in the International Gold Fund.

The International Gold Fund may not have adequate sources of recovery if its physical metals are lost, damaged, stolen or destroyed and recovery may be limited, even in the event of fraud, to the market value of the metals at the time the fraud is discovered. The International Gold Fund is not required to insure any of its precious metals. In addition, the insurance coverage of the custodians selected by us to store the physical gold or other precious metals may not be adequate or available. Furthermore, the custodians may not require any direct or indirect sub-custodians to be insured or bonded with respect to their custodial activities or in respect of the metals held by them on behalf of the International Gold Fund. Consequently, a loss may be suffered with respect to the International Gold Fund's metals which is not covered by insurance and for which no person may be held liable.

Claims against the custodians under the custody agreements (or sub-custodians thereunder) may only be asserted by the International Gold Fund and not by the investors. The liability of the custodians (and their sub-custodians) to the International Gold Fund is limited under the custody agreements between the International Gold Fund and the respective custodians. If the International Gold Fund's physical metals are lost, damaged, stolen or destroyed under circumstances rendering a party liable to the International Gold Fund, the responsible party may not have the financial resources sufficient to satisfy the International Gold Fund's claim.

Neither we nor any of the custodians are required to confirm the fineness of any physical gold or any other precious metals held by the International Gold Fund. Physical metals held by the International Gold Fund may be different from the reported fineness or weight required by the International Gold Fund or the markets in which it may trade physical metals. In such an event, the International Gold Fund and the investors may suffer significant losses; however, standard practice vault inspection processes will be performed upon arrival and departure of the gold or other precious metal at each vault to verify authenticity.

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

Item 9: Disciplinary Information

Neither Paradigm nor any of our employees have been involved in any legal or disciplinary events related to past or present investment clients or investors.

Item 10: Other Financial Industry Activities and Affiliations

International Gold Safekeeping Management, LLC, a Texas limited liability company, serves as strategic advisor to the International Gold Fund. International Gold Safekeeping Management, LLC is controlled by Brian K. Sneed. Management duties with respect to the International Gold Fund may be transferred from us to another entity, including International Gold Safekeeping Management, LLC, in the discretion of the general partner of the International Gold Fund. Mr. Sneed owns and controls the general partner of the general partner of the International Gold Fund and, as a result, controls the activities of the International Gold Fund. Mr. Sneed receives a portion of the management fee and performance allocation received with respect to the International Gold Fund. International Gold Safekeeping Management, LLC is currently not a registered investment adviser. We attempt to address any conflict raised by such arrangement through full and fair disclosure to investors.

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

CODE OF ETHICS

Paradigm has adopted and implemented a code of ethics, 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 and address conflicts of interest that arise from personal trading by employees. Among other things, we impose restrictions on all employees and access persons relating to the purchase or sale of securities for their own accounts and the accounts of certain affiliated persons. Our code of ethics also provides that access persons are subject to additional procedures, including quarterly and annual reporting of personal securities transactions and a supervisory review of such transactions. We will furnish a copy of our code of ethics to investors and prospective investors upon request.

PERSONAL TRADING

From time to time, Paradigm, its principals, employees and affiliates may invest in securities and other investment instruments in which the Funds have invested or may invest, and these investments may be purchased, sold or liquidated independently of the Funds' investments. Paradigm, its principals, employees and affiliates may compete for investment positions with the Funds, provided, however, that we or such persons may not buy or sell such securities during designated "restricted" periods during which the Funds have purchased or sold, or expect to imminently purchase or sell, such securities. All transactions by access persons and employees are subject to pre-clearance by our Chief Compliance Officer, except for those securities transactions that are exempt from transaction reporting requirements. Access persons are subject to additional procedures, including quarterly and annual reporting of personal securities transactions and a supervisory review of such transactions. Paradigm and its personnel intend to place the interests of our clients first and may not participate in any investment activities that may conflict with those interests, except as otherwise permitted by our code of ethics.

Item 12: Brokerage Practices

SELECTING BROKERAGE FIRMS

In general, Paradigm has authority to determine the brokers and other counterparties to be used for client transactions and to negotiate commission rates and other monies paid by clients. We select brokers on the basis of obtaining the best overall terms available, which we evaluate based on a variety of factors, including, among other things: execution capability, commission rate, financial responsibility, reputation, responsiveness to the adviser, the value of research provided and the ability to engage in block transactions with attendant volume discounts. 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.

BEST EXECUTION

In placing orders for the purchase and sale of securities, we seek best net execution, which includes both commissions and execution prices. Orders are placed with brokers or dealers which we believe to be responsible and provide effective execution of client orders under conditions most favorable to client accounts.

SOFT DOLLAR PRACTICES

Paradigm may use “soft dollars” for the Apogee Fund, which are generated by client accounts to pay for certain research and/or related services provided by brokers described above. The term “soft dollars” refers to the receipt by an investment manager of products and services provided by brokers without any cash payment by the investment manager, based on the volume of revenues generated from brokerage commissions for transactions executed for clients of the investment manager. The products and services available from brokers include both internally generated items (such as research reports prepared by employees of the broker) as well as items acquired by the broker from third parties (such as quotation equipment).

Using “soft dollars” to obtain investment research and/or related services creates a conflict of interest between us and client accounts. To the extent that we are able to acquire these products and services without expending our own resources (including management fees paid by client accounts), our use of “soft dollars” would tend to increase our profitability.

The Apogee Fund is the only Fund that is serviced with soft dollar benefits, as they are the only Fund that generates such benefits.

Section 28(e) of the Securities Exchange Act of 1934, as amended, provides a “safe harbor” to investment managers who use soft dollars generated by their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the investment manager in the performance of investment decision-making responsibilities.

During the last fiscal year, using client brokerage commissions, we acquired certain items that fall under the Section 28(e) safe harbor, including Bloomberg services, Baseline database services, exchange fees, industry trade publications and computer data services specific to receiving investment statistical data. These services accounted for 95% of all soft dollar commissions. Those services outside of the Section 28(e) safe harbor for which we used soft dollar commissions included travel and hotel expenses to engage in company research, legal services related to supporting specific Fund investments and communications data feeds to our computers which support our research effort.

Paradigm may participate in soft dollar arrangements of general availability through brokers that provide us with research and related services as described above. We do not, however, negotiate higher rates on fees and expenses to be paid by managed accounts in exchange for lower rates on fees and expenses to be paid by us.

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, nor do we allow our clients to direct brokerage for order execution purposes.

ORDER AGGREGATION

With respect to each investment opportunity presented, we will decide whether it is in the interests of best execution to aggregate the orders of multiple accounts (including our account and our employees' accounts). If investments on behalf of multiple clients are made, the amount sought for each client is determined prior to entry of the order for the security expected, taking into consideration the following factors, among others: (i) investment objectives and requirements; (ii) risk-management requirements; (iii) adherence to any limits as defined in the client's investment guidelines; (iv) amount of assets in each client's account; (v) capital availability in each client account for trades of the type under consideration; and (vi) liquidity and availability of securities. We expect that most orders for multiple accounts will be aggregated and participants in the transactions will receive an average price.

ALLOCATION OF INVESTMENT OPPORTUNITIES

We generally allocate investment opportunities among clients in a manner we believe to be fair and equitable under the circumstances, taking into consideration the objectives, restrictions, investment strategy, asset allocation and benchmarks of each client.

Item 13: Review of Accounts

PERIODIC REVIEWS

Emmett M. Murphy generally conducts reviews of the performance of the Funds on a daily basis. We review investments for, among other items, concentration and position limits. With respect to accounting matters, Paradigm has engaged Deloitte & Touche, LLP to conduct an annual audit of the Apogee Fund and KPMG, LLP to conduct an annual audit of the Systemic Risk Fund and quarterly inventories of the gold and other precious metals of the International Gold Fund.

REPORTS TO INVESTORS/CLIENTS

Paradigm generally provides investors in each of the Funds with quarterly reports, annual audited financial statements and annual U.S. income tax information. With respect to the Systemic Risk Fund and the Apogee Fund, JPMorgan Hedge Fund Services, our outside administrator, provides monthly statements and reports to investors. All such statements and reports are written. In addition, we provide investors in the Systemic Risk Fund and the International Gold Fund with access to a private website that provides full disclosure of the investments of the Systemic Risk Fund and the International Gold Fund. We update the website as often as practicable.

Item 14: Client Referrals and Other Compensation

THIRD-PARTY COMPENSATION

Except as described in **Item 12: Brokerage Practices** above, 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 currently do not compensate any other professional for client or investor referrals.

Item 15: Custody

Paradigm has, or may be deemed to have, custody of each Fund's cash and securities. In accordance with Rule 206(4)-2 under the Investment Advisers Act of 1940, as amended, each Fund's cash and securities (except for privately placed securities) are held with one or more qualified custodians. Paradigm may change the qualified custodians at any time and from time to time without the consent of, or notice to, investors. Paradigm has engaged Deloitte & Touche, LLP to conduct an annual audit of the Apogee Fund and KPMG, LLP to conduct an annual audit of the Systemic Risk Fund and quarterly inventories of the gold and other precious metals of the International Gold Fund. Audited financial statements (prepared in accordance with generally accepted accounting principles) are provided annually to investors. Paradigm attempts to provide such statements to investors within 120 days after the end of each fiscal year, but there can be no assurance that we will be successful in this regard. Qualified custodians do not provide account statements directly to investors in the Funds.

Item 16: Investment Discretion

DISCRETIONARY AUTHORITY

Paradigm has 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 our advisory clients. Paradigm has authority to determine the broker or other counterparty to be used for advisory client transactions and the negotiation of commission rates and other consideration to be paid by the Funds.

LIMITED POWER OF ATTORNEY

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 his/her/its behalf.

Item 17: Voting Client Securities

VOTING POLICIES

Paradigm has 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, Paradigm has 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. Investors may obtain copies of our proxy voting policy, together with information regarding how Paradigm has voted past proxies, by contacting us.

Where a material conflict of interest has been identified and the matter is covered by our proxy voting policy, we will take one or some of the following steps: (i) inform the client of the material conflict and our voting decision; (ii) discuss the proxy vote with the client; (iii) fully disclose the material facts regarding the conflict and seek the client's consent to vote the proxy as intended; (iv) and/or seek the recommendations of an independent third party.

Item 18: Financial Information

Paradigm does not have any financial impairment that will preclude us from meeting contractual commitments to clients. A balance sheet is not required to be provided as we do not both (i) serve as custodian for client funds or securities and (ii) require prepayment of fees of more than \$1,200 per client, six months or more in advance.

General Information

PRIVACY POLICY

Paradigm has adopted policies and procedures reasonably designed to protect various records and information of clients and investors. No employee will directly or indirectly use, disclose, copy, furnish or make accessible to anyone any confidential information and each employee will carefully safeguard confidential information.

LEGAL PROCEEDINGS

We generally are not required to file claims or otherwise take any action in connection with class action lawsuits, bankruptcy proceedings, or any other legal or administrative proceeding, in any such case on behalf of a client in connection with any client security holding.

TRADE ERROR POLICY

It is our policy to take the utmost care in making and implementing investment decisions on behalf of clients. However, Paradigm may on occasion experience errors with respect to trades executed on behalf of our clients. Trade errors can result from a variety of situations, including, for example, when the wrong security is purchased or sold, the wrong quantity is purchased or sold (*e.g.*, 1,000 shares instead of 10,000 shares are traded), securities were purchased that we knew or should have known were not legally authorized for a client's account, or securities were purchased or sold that were not authorized by a private fund's offering documents. To the extent that any trade errors occur, they are to be corrected promptly and reported to the portfolio manager in charge of the account and the Chief Compliance Officer. If a trade error is discovered after execution of the trade, we endeavor to make the client whole if a loss is caused by such error. It is our policy that trade errors are not to be resolved through soft dollar or other reciprocal arrangements with broker-dealers.