

# **D. E. Shaw Investment Management, L.L.C.**

## **Form ADV Part 2A: The Brochure**

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This brochure provides information about the qualifications and business practices of D. E. Shaw Investment Management, L.L.C. (the “Adviser” or “DESIM”), an investment adviser registered with the United States Securities and Exchange Commission (the “SEC”) under the U.S. Investment Advisers Act of 1940, as amended (the “Advisers Act”). Such registration does not imply a certain level of skill or training. If you have any questions about the contents of this brochure, please contact us at (212) 478-0000. The information in this brochure has not been approved or verified by the SEC or by any state securities authority.

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

This brochure is for informational purposes only. It does not convey an offer of any type and is not intended to be, and should not be construed as, an offer to sell, or the solicitation of an offer to buy, any interest in any entity, investment, or investment vehicle.

### **Material Changes**

The only material change to this brochure since its most recent annual update on May 8, 2014 is an update in Item 9 regarding a disciplinary event involving a related person of DESIM.

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## **Item 4: Advisory Business**

DESIM is a Delaware limited liability company and an investment adviser registered with and regulated by the SEC under the Advisers Act. DESIM serves as an investment adviser to certain clients through separately managed accounts and as the managing member or manager of, and/or the investment adviser to, certain affiliated collective investment schemes and other entities in the D. E. Shaw group (collectively, the “Funds”). With respect to certain Funds, the Adviser provides investment advice to such Funds in its capacity as their managing member or manager. (As used herein, the term “clients” refers both to the Adviser’s separately managed account clients and to the Funds, as applicable.)

The Funds are institutional vehicles whose investor base consists of institutional investors and other highly sophisticated, high-net-worth participants. These investors must meet certain minimum financial requirements (*e.g.*, an institution must generally own and invest on a discretionary basis at least \$25 million of certain investments), among others, in order to be eligible to participate in the Funds, which are structured as private investment companies that are exempt from registration as investment companies under U.S. law by virtue of Section 3(c)(7) of the Investment Company Act of 1940, as amended (the “Investment Company Act”).

DESIM was formed in and has been a registered investment adviser since 2005. Since the D. E. Shaw group’s organization in 1988, the D. E. Shaw group has built a significant presence in many of the world’s capital markets, investing in a wide range of companies and financial instruments within both the major industrialized nations and a number of emerging markets. The D. E. Shaw group’s past activities have ranged from the deployment of investment strategies based on either mathematical models or human expertise to the acquisition of existing companies and the financing or development of new ones.

D. E. Shaw & Co., L.P. (“DESCO LP”) is the managing member and sole owner of DESIM. DESCO LP’s principal owner is Dr. David Elliot Shaw. Other entities and individuals hold minority stakes in DESCO LP.

DESIM bases its advice to clients on the investment objectives and restrictions (if any) set forth in the applicable investment management agreement, offering memorandum, organizational documents, and/or subscription agreements, as the case may be (each and collectively, the “Governing Document”).

DESIM managed approximately \$9.0 billion in investment capital on a discretionary basis as of January 1, 2014.

## **Item 5: Fees and Compensation**

DESIM acts as an investment adviser on a discretionary basis to managed accounts and to Funds. Fees for such services generally include an asset-based fee and may include a performance-based fee. Fees are generally set forth in the applicable Governing Document. Asset-based fees are generally paid in arrears, unless set forth otherwise in the applicable Governing Document. The asset-based fee schedule for managed accounts is generally based upon the client’s account size and expected risk level, although managed account clients may negotiate alternative fees. The following table sets forth the current standard asset-based fee schedules for DESIM’s various investment strategies for managed accounts (this table is subject to change (*e.g.*, fees and/or investment strategies may be added, deleted, or modified)):

	Initial	Next	Over
Targeted Tracking Error (bps)	\$100 mn	\$100 mn	\$200 mn
<b>Large Cap/Broad Market Core Strategies</b>			
<i>Long-Only</i>			
100	30 bps	27 bps	24 bps
200	51 bps	46 bps	41 bps
300	63 bps	57 bps	51 bps
<i>Alpha Extension</i>			
300	78 bps	78 bps	78 bps
<b>SMID Cap Core Strategies</b>			
<i>Long-Only</i>			
300	80 bps	80 bps	80 bps
<b>All Cap Core Strategies</b>			
<i>Long-Only</i>			
100	33 bps	30 bps	27 bps
200	54 bps	49 bps	44 bps
300	67 bps	60 bps	54 bps
<i>Alpha Extension</i>			
300	82 bps	82 bps	82 bps
<b>International/World Strategies</b>			
<i>Long-Only</i>			
100	35 bps	32 bps	29 bps
250	70 bps	65 bps	60 bps
<i>Alpha Extension</i>			
300	84 bps	84 bps	84 bps
<b>All Country Global Strategies</b>			
<i>Long-Only</i>			
100	38 bps	35 bps	32 bps
250	75 bps	70 bps	65 bps
<i>Alpha Extension</i>			
300	89 bps	89 bps	89 bps
<b>Orienteer Strategy</b>			
	90 bps	90 bps	90 bps

Managed account fees shown in the preceding table are for investment management services only; third-party custodial fees and brokerage commissions and other fees are not included.

Performance-based fees may also be used in certain circumstances. DESIM may enter into performance-based fee arrangements with clients that fall within the definition of a “qualified client” pursuant to Rule 205-3 under the Investment Advisers Act of 1940 (“Advisers Act”) or as permitted under Section 205(b) of the Advisers Act. Performance-based fees are generally paid in arrears or, where applicable, at the time of termination of the advisory agreement or with respect to a Fund, at the time of a withdrawal, redemption, or distribution of capital, in each case unless otherwise set forth in the applicable Governing Document.

The fees with respect to a Fund are set forth in the applicable Governing Document. Funds that deploy DESIM’s “Structured Equity Strategies” (as described in “Methods of Analysis and Investment Strategies” in Item 8 below) generally have two series of regular member interests. One series is assessed an asset-based fee generally comparable to the asset-based fee applied to managed accounts utilizing the corresponding investment strategy. The other series is currently assessed a reduced asset-based fee as well as a performance-based fee, typically equal to 20% of the Fund’s outperformance of the stated benchmark for the relevant investment strategy. Funds that deploy DESIM’s “Orienteer Strategy” (as described in “Methods of Analysis and Investment Strategies” in Item 8 below) have only a single series of regular member interests; such series is assessed an asset-based fee generally comparable to the asset-based fee applied to managed accounts utilizing Orienteer Strategy.

In general, if an asset-based fee has been paid in full in advance for a period in which either the advisory contract with the relevant client has been terminated, or, with respect to a Fund, for the period in which an investor has withdrawn or redeemed its investment in such Fund, the applicable portion of such asset-based fee paid relating to the portion of the period after such termination, withdrawal, or redemption will be returned or credited to the client or to the withdrawing or redeeming Fund investor, subject to the actual terms of the applicable Governing Document; however, Governing Documents related to Funds typically do not permit a termination, withdrawal, or redemption mid-period. A client may terminate an advisory contract before its expiration date by complying with the provisions regarding termination provided in the advisory contract, including without limitation sending a notice of termination to the address designated under the advisory contract.

The Adviser may from time to time enter into agreements with certain underlying investors in the Funds that may provide for terms of investment that are more favorable than the terms described in the applicable Governing Document. Such terms may include, among other things, the waiver, reduction, or rebate of management fees, Fund expenses, and/or performance fees; the provision of additional information or reports; or more favorable transfer rights. No such agreement will necessarily entitle any other Fund investor to the same terms of investment.

Clients advised by DESIM may incur expenses in connection with custodial or brokerage services discussed in Item 12. In addition, each client bears its operating costs and expenses as described more fully in the applicable Governing Document. Furthermore, the Adviser may be entitled under the Governing Document to be reimbursed for some or all expenses that it or its related persons incur on behalf of the relevant client.

Neither the Adviser nor its supervised persons receives compensation for the sale of securities or other investment products to clients or investors.

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

DESIM enters into performance-based fee arrangements with clients as discussed in Item 5 above.

The performance-based fees available to the Adviser in connection with a particular client may be higher than those available to the Adviser in connection with another client, whether in percentage or absolute dollar amounts. Therefore, the Adviser may have an incentive to devote more research and development or other activities, and/or to allocate investment opportunities, to such higher fee-paying client.

When trading on behalf of multiple clients with differing performance-based fees, the Adviser endeavors to allocate investment opportunities among clients in a fair and equitable manner. The Adviser's trade allocation for any given client may vary based on, among other things, differences in investment objectives among clients, different capital constraints of each client, varying leverage preferences of each client, and any scheduled increase or decrease of any particular client's assets under management. The Adviser does not alter its allocation policy with respect to a client, or allocate trades among multiple advisory clients, without the approvals of relevant senior management and compliance personnel.

## **Item 7: Types of Clients**

DESIM clients include public and private pension plans, investment companies registered under the Investment Company Act, and certain other institutional investors. DESIM's clients also include the Funds, which are structured as private investment companies that are exempt from registration under Section 3(c)(7) of the Investment Company Act. A minimum dollar value of assets and other conditions are typically imposed on clients. DESIM may advise clients, whether managed account clients or Funds, that are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). DESIM qualifies as a "qualified professional asset manager" (QPAM) as defined by ERISA. As a result, client transactions directed by the Adviser may be exempt from certain prohibited transaction rules of ERISA.

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

### **Methods of Analysis and Investment Strategies**

The Adviser's focus is the pursuit of potentially attractive investment opportunities. In connection with this activity, the Adviser acts as an investment adviser on a discretionary basis to managed accounts and Funds with respect to securities, commodities, other financial instruments, other interests, and any other property of any kind (collectively, "Investments"). The Adviser also may engage in activities, including certain financing activities, in furtherance of or incidental to the purchase and sale of Investments. The Adviser's trading and other authority with respect to a particular client will be outlined in the applicable Governing Document.

Currently, the Adviser deploys two types of investment strategies, its "Structured Equity Strategies" and its "Orienteer Strategy." With respect to its Structured Equity Strategies, the Adviser applies the D. E. Shaw group's quantitative models and computational techniques, based on the D. E. Shaw group's

twenty-five-year experience in managing alternative investment strategies, to construct benchmark-relative equity strategies for both separately managed accounts and Funds. The Adviser can customize its Structured Equity Strategies by allowing a client to select a portfolio benchmark from a number of U.S., international, and global equity indices and either preserve the long-only constraint or relax it using a “130/30” investment approach.

The Adviser expects to pursue its investment objective in the Structured Equity Strategies primarily through the purchase and sale of Investments, expected to include common and preferred stock (including ETFs and other investment companies), swaps and other derivative instruments and contracts related to the foregoing, and money market instruments. In particular, the portfolios of Funds and managed accounts managed by the Adviser using the Structured Equity Strategies are expected to be focused on corporate equity securities publicly traded in U.S. and foreign markets (whether held directly or via swap) and ETFs.

With respect to its Orienteer Strategy, the Adviser seeks attractive risk-adjusted returns across various asset classes through asset allocation, risk premium capture, and alpha generation. In deploying its Orienteer Strategy, the Adviser makes extensive use of subjective, qualitative evaluation in both the formulation and execution of many of its investment decisions. Such decisions also may be informed by, and/or made or executed algorithmically according to, quantitative models.

The Adviser expects to pursue its investment objective in the Orienteer Strategy primarily through the purchase and sale of Investments. The portfolios of Funds and managed accounts managed by the Adviser using the Orienteer Strategy may include currencies; bonds, notes, debentures, bills, trade claims, and other forms of indebtedness or liability issued or incurred by sovereign nations, governmental agencies and instrumentalities, corporations, municipalities, or other persons; futures, options on futures, and forward contracts; energy-related products and instruments; weather-related instruments; emissions allowances and transmission rights; commodities; bank notes, term loans, debtor-in-possession loans, revolving loans, bank guarantees, letters of credit, and other forms of lender assets or obligations; options, rights, warrants, convertible securities, exchangeable securities, synthetic and/or structured convertible or exchangeable products, participation instruments, and investment contracts; swaps (including credit default swaps) and other derivative instruments; common and preferred stock; interests in investment companies; insurance- and reinsurance-related products; instruments having a value or return that is explicitly tied to the occurrence (or non-occurrence) of economic, political, legal, natural, technological, bankruptcy, default, and/or other events; catastrophe bonds, industry loss warranties, and other catastrophe risk-linked instruments; mortgages, mortgage-backed securities, and other asset-backed securities, including securities backed by various forms of consumer and asset-based finance receivables; royalty trusts; intellectual property; assets with specified tax attributes; cash and cash equivalents; money market instruments; limited partnership and other limited liability interests; general partnership and other unlimited liability interests; real estate and other forms of real property-related instruments; receivables; financial interests in settlements of legal disputes; and/or any other security, instrument, interest, or property selected by the Adviser. Investments held in connection with the Orienteer Strategy are expected to relate to markets and/or issuers both in the United States and outside the United States. Such Investments may be traded on exchanges, “over-the-counter,” or on any other markets, or may not be traded on any exchange or other market.

## **Potential Risk Factors**

An investment with the Adviser involves substantial risks that should be carefully considered. Certain risk factors that may be considered applicable to an investment with the Adviser are outlined below. Additional risk factors are outlined in the Governing Document for the applicable Fund. It should be noted, however, that there may be other risk factors applicable to such an investment that are not identified but that might still result in material losses to investors. Prospective investors should also consult their own legal, investment, tax, and other advisers, and the applicable Governing Document, as to whether an investment with the Adviser is appropriate for them.

It should be noted that many of the risks outlined under one caption or heading are applicable to one or more other captions and headings.

## **No Assurance of Investment Return**

An investment in a managed account or Fund managed by the Adviser may involve a high degree of risk, including the risk that the entire amount invested will be lost. An investment in a managed account or Fund managed by the Adviser is not intended as a complete investment program. Such an investment should be regarded as speculative in nature and appropriate only for a sophisticated investor that can afford a loss of all of its investment with the Adviser and that is able to invest for an indefinite period. It should not be assumed that an investment in a managed account or in a Fund managed by the Adviser will be profitable. In addition to the risk of loss on such a managed account's or Fund's Investments, an investment in a managed account or Fund managed by the Adviser is subject to the direct and indirect fees and expenses (including management fees and operating costs) outlined elsewhere in this brochure or applicable Governing Document, which will reduce returns and require that the managed account or Fund make a certain level of profit from its investing activities in order for an investment simply to break even.

Past performance of the Adviser's strategies or the investment vehicles sponsored, advised, and/or managed by the Adviser, or of any investment strategies operated within any such investment vehicle, is not indicative of the results that will be achieved by the Adviser in the future and provides no assurance of the success of the Adviser in achieving its investment objective.

## **General Factors**

The operating results, financial condition, activities, and prospects of an investment in a managed account or Fund managed by the Adviser could be materially adversely affected by changes or instability in market, economic, political, technological, regulatory, and social conditions, and by numerous other factors outside the control of the Adviser.

In recent years, disruptions in the global financial markets, the scope and severity of which are without precedent in recent financial history, have had materially adverse, and in certain cases catastrophic, consequences for the values, liquidity, and stability of certain types of Investments, including the types of Investments the Adviser's clients may pursue. Similar or dissimilar disruptions may occur in the future, and the duration, severity, and ultimate effect of such disruptions are difficult to forecast. These disruptions may lead to additional regulations or laws, which could have a material adverse effect on managed accounts or Funds managed by the Adviser.



In addition, many of the Adviser's investment strategies and/or Investments are likely to be exposed to risks relating to weaknesses in various global economies and risks relating to the economic cycle. Numerous factors affecting the performance of the Adviser's investment strategies, such as interest rates, commodity prices, equity prices, availability, and terms of financing, demand from market participants, and deflationary and inflationary pressures, may be affected by the economic cycle and long-term economic trends. Predictions about financial market conditions and economic factors are highly uncertain, and the presence, duration, and impact of any market or economic conditions could have a material adverse effect on the Adviser's investment strategies. Further, managed accounts and/or Funds managed by the Adviser may be unable to open or liquidate positions as a result of changes or instability in market conditions, trading halts due to regulatory limits (such as daily-price-fluctuation limits), emergency trading bans, counterparty actions, or other factors. Such inability to trade could have a material adverse effect on managed accounts and/or Funds managed by the Adviser.

The Adviser may choose not to attempt to, or be unable to, hedge the risk exposures outlined in this brochure, and there can be no assurance that any hedging attempted by the Adviser would reduce applicable risks.

### **Special Risks of Certain Markets**

Certain markets may pose special risks due to, among other factors, the limited availability of useful information, the reliance on self-interested persons for price and other information, a limited number of market participants, and more or less regulation. For example, price information might be available only from brokers or dealers and might not be verifiable. Further, less regulation in certain markets might enable market intermediaries or other investors to engage in "frontrunning" (whether directly or through their customers or agents) of the Adviser's trades, to misuse information about positions managed by the Adviser to reduce the value or liquidity of those positions, and to take other actions that materially adversely affect the Adviser's investment strategies. The limited availability of price information or actions of market intermediaries or investors could exacerbate other risk factors outlined in this brochure, including short squeezes, and could have a material adverse effect on the Adviser's investment strategies. In addition, brokers, dealers, or other market participants may withdraw or substantially reduce the scope of their activity with regard to certain markets or Investments without notice, resulting in disruptions to strategies, pricing, and/or the ability to liquidate or close out positions. Any of the foregoing could have a material adverse effect on the Adviser's investment strategies.

### **International Investments**

The Adviser is expected to cause one or more of its clients to purchase, sell, hold, trade, originate, structure, and restructure Investments relating to markets and/or issuers both in the United States and outside the United States, including in certain developing or emerging markets. International investing and trading involve special risks not typically associated with trading in Investments relating to markets and/or issuers solely in the United States. Depending on the particular countries and Investments involved and on the nature of the particular transactions executed outside of the United States, these special risks may include changes in exchange rates and exchange control regulations; downgrades in sovereign credit ratings; devaluations or non-convertibility of non-U.S. currencies; failures or disruptions in central banks, banking systems, markets, or financial exchanges; changes in monetary policies, interest

rates, or interest-rate policies; political, social, and economic instability; adverse diplomatic developments; investment and repatriation restrictions; the nationalization and/or expropriation of assets; government intervention in the private sector; default by public and private issuers on their financial obligations (and limited recourse in connection with such defaults); the imposition of non-U.S. taxes; discrimination against foreign investors; and less liquid markets, less information, higher transaction costs, greater difficulty in enforcing contractual obligations, fewer or different rights for creditors generally, more uncertain procedures (if any) for bankruptcy or other reorganization or liquidation proceedings (“Reorganization Proceedings”), less information regarding legal and regulatory risks, less uniform accounting and auditing standards, greater price volatility, less reliable clearance and settlement procedures, more onerous regulatory requirements for private investment funds, and/or less government supervision of exchanges, brokers, market intermediaries, issuers, and other markets and market participants than is generally the case in the United States.

Further, individual non-U.S. economies may differ favorably or unfavorably from the U.S. economy in various respects, such as pace of economic growth, rate of inflation, amount of capital reinvestment, degree of resource self-sufficiency, and balance of payments position. For example, inflation and rapid fluctuations in inflation rates have had and may continue to have very negative effects on the economies and securities markets (both public and private) of certain countries in which the Adviser may invest, and may therefore have a material adverse effect on the Adviser’s investment strategies.

The Adviser may trade, directly or indirectly, Investments on exchanges located outside the United States. Some non-U.S. exchanges, in contrast to domestic exchanges, are “principals’ markets” in which performance is solely the responsibility of the individual member with whom the trader has entered into a contract and not that of an exchange or its clearinghouse. Clients thus may be subject to the risk of the inability of, or refusal by, a counterparty to perform with respect to any such contract. Moreover, as there may be less government supervision and regulation of non-U.S. exchanges, clearinghouses, and clearing firms than of those in the United States, clients may also be subject to greater risk of failures of the exchanges on which its positions trade and/or failures of such exchanges’ clearinghouses or clearing firms than it would be in the United States.

The foregoing risks are likely to be more pronounced in connection with Investments in countries with developing or emerging markets.

### **Availability of Investment Opportunities**

There can be no assurance that the Adviser will be able to identify and/or successfully take advantage of suitable investment opportunities. In addition, the Adviser decides which investment opportunities to pursue based on its assumptions, assessments, and estimates, all of which are subject to error. Even if the Adviser takes advantage of an investment opportunity, there is a risk that such investment opportunity will result in losses to the Adviser’s clients. Further, the Adviser may elect to stop deploying any particular investment strategy on behalf of a particular Fund at any time, regardless of whether such strategy has been successful or whether other Funds continue (or begin) to deploy such strategy. If the Adviser is not able to identify and/or take advantage of suitable investment opportunities, it may alter its investment strategy and/or risk tolerances in order to deploy capital, which may have a material adverse effect on the Adviser’s investment strategies.

Even if investment opportunities are identified, the Adviser may cause one or more of its clients to hold extensive cash positions for extended periods of time, which may reduce the returns of such client(s).

### **Correlation; Possible Concentration and Limited Diversification**

It is expected that certain of the Adviser's clients will experience returns that are closely correlated with one or more market indices or other strategies, including various equity, debt, commodities, or currency markets around the world. In addition, the Adviser is expected to cause its clients to maintain extensive unhedged exposure for an indefinite period to various sources of market and/or other risk, whether known or unknown (and thus not to be "market neutral"). Such sources of risk may include changes in current or future levels of interest rates, currency prices, commodity prices, sovereign credit spreads, corporate credit spreads, and levels of equity markets, as well as the level of volatility of any such risks. There can be no assurance that an investment managed by the Adviser would improve the risk/return profile of any investor's overall portfolio or otherwise improve the performance of such portfolio, and such an investment may in fact result in material losses.

Although certain of the portfolios managed by the Adviser are expected generally to be relatively diversified in certain respects, in some circumstances they may be concentrated (either in absolute terms or relative to a particular market index) in particular issuers, issuances, companies, countries, industries, exchanges, counterparties, types of Investments, or other shared characteristics. Such concentration could magnify the risks associated with such Investments, including the risk of significant losses. Portfolios managed by the Adviser may not have any specific diversification requirements. In general, less diversification will tend to expose the applicable client to greater volatility and/or risk than would be the case with a more broadly diversified portfolio. Even if a particular client's portfolio is diversified, however, there can be no assurance that such diversification will reduce volatility and/or risk. In addition, certain Investments may represent a significant percentage of the markets in which such Investments are traded, and there are no restrictions (other than limits imposed by applicable law or regulation) on the percentage of any market that the overall portfolios of the Adviser's clients may represent. Occupying a significant position in any given market may result in a portfolio's Investments in such market being less liquid than would be the case with a smaller position, may subject a portfolio to additional regulatory scrutiny or restrictions, and/or may have other adverse effects.

### **Low Creditworthiness Investments**

A (possibly substantial) portion of the Investments held in connection with certain of the Adviser's investment strategies may, whether at the time of investment or at a later time, be unrated; rated below "investment grade" by recognized rating agencies; and/or defaulted. Unrated, sub-investment-grade, and defaulted Investments generally involve greater risk of loss in either a short or a long position than do investment-grade Investments. For example, the market values and yields of unrated, sub-investment-grade, and defaulted Investments generally react more dramatically to changes in general economic conditions, in the levels of interest rates, and in the financial condition and prospects of their issuers than do those of more highly rated Investments. During periods of economic downturn or rising interest rates, issuers of unrated, sub-investment-grade, and defaulted Investments may experience, to a greater degree than issuers of more highly rated Investments, certain forms of financial stress that could materially adversely affect such Investments. Such issuers may be in early stages of development; may not have

proven operating histories; may be operating at a loss or have significant variations in operating results; may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence; may require substantial additional capital to support their operations, to finance expansion, or to maintain their competitive position; or may otherwise have a weak financial condition. Additionally, such issuers may be highly leveraged, which may present greater risks to these companies.

Adverse publicity and investor perceptions, whether based on fundamental analysis, market rumors, distress of related issuers, or other sources, may materially adversely affect such low creditworthiness Investments. Adverse effects on long positions in these Investments include the increased probability of default, the decreased value of any recovery in connection with a reorganization proceeding, decreased secondary market prices (if any) for these Investments, and general decreases in the liquidity of these Investments. The secondary market for these Investments is concentrated among relatively few market-makers or investors and may be expected to be less liquid than the secondary market for Investments that have higher ratings or are issued by non-distressed issuers. In addition, the lower liquidity of unrated, sub-investment-grade, and defaulted Investments, as well as other factors outlined above, could exacerbate the risks of short positions in these Investments.

Certain forms of low creditworthiness Investments may be issued pursuant to note indentures, promissory notes, or other indicia of indebtedness that contain fewer debt covenants, rights, or remedies compared to those afforded to lenders under a credit agreement. As a result, such Investments may be more sensitive to certain risk factors as compared to similar debt instruments with greater debt covenants, rights, or remedies. Moreover, the lack of certain financial covenants with respect to such Investments may result in a higher risk of loss and may hinder the ability of the Adviser to restructure a problematic loan in order to mitigate its exposure to loss.

### **Credit Ratings**

Certain of the loans or other forms of indebtedness that the Adviser may recommend for its clients may receive ratings from Moody's, Standard & Poor's, Fitch, or another credit rating agency. No assurance can be given that ratings assigned by a credit rating agency will not be withdrawn or revised downward if, in the view of such credit rating agency, circumstances so warrant. Any such withdrawal or downward revision with respect to an Investment could have a material adverse effect on such Investment. Such ratings reflect only the views of those credit rating agencies, which views may prove inaccurate, and the Adviser is not obligated to obtain such ratings or to provide any such ratings to its clients.

### **Currencies**

Client accounts generally will be denominated in U.S. dollars. Investments in such accounts therefore may be subject to fluctuations in the value of the applicable client's own domestic currency relative to the U.S. dollar.

With respect to certain of its clients, the Adviser expects to recommend Investments that are denominated in currencies other than U.S. dollars, and there may be no limit on the portion of Investments that may comprise such Investments. In addition, for certain client accounts, the Adviser may make investments in non-U.S. currencies themselves. As a result, a client may be exposed to currency risks, including the risk of fluctuations in the value of the applicable currency relative to the U.S. dollar. The occurrence of any

such currency risk could have a material adverse effect on the client. The Adviser may or may not hedge such exposures, and there can be no assurance that any such hedging would reduce applicable risks. A client may also incur costs in connection with hedging against currency exposures and conversions between various currencies.

### **Derivative Instruments**

In certain circumstances, the Adviser may cause its clients to trade derivative instruments. (Derivative instruments are financial instruments that derive their performance, at least in part, from the performance of an underlying asset, index, interest rate, or other reference instrument. Examples of derivative instruments include swaps, futures, forwards, options, warrants, options on futures, and swaptions.) To the extent such Investments are consistent with the applicable client's investment objectives, the Adviser will have authority to trade all types of derivative instruments on behalf of such client without limitation other than any limitations imposed by applicable regulations and/or by the client's counterparties and clearing brokers.

Investments and trading in derivative instruments are generally highly speculative and involve various risks that are different in certain respects from, and are possibly greater than, the risks associated with investing directly in the applicable underlying assets or reference instruments. Examples of various risks associated with derivative instruments include market risk, complexity, a high degree of leverage, illiquidity, the absence of reliable price quotes and/or a reliable trading market, unstable correlation between a derivative instrument and the underlying asset or reference instrument, volatility, tax risk, government intervention to influence prices, legal or regulatory uncertainty, and non-performance of the client's counterparties (including direct or central counterparties).

A decrease in the value of the derivative instruments held by a client of the Adviser could result in losses exceeding the capital allocated to them. Further, because trading such derivative instruments often requires amounts of capital that are small relative to the instruments' notional value, such trading may result in leveraging effects for the client's overall portfolio. Although such leveraging effects may have the effect of increasing returns experienced by the client in the event of favorable investment results, returns experienced by such client will be reduced by the cost of borrowing, and investment losses and other losses will be exacerbated by such leveraging effects (possibly causing substantial losses). Such leveraging effects may increase the volatility of the investment performance of the client's Investments and, as a result, the returns experienced by such client. The Adviser may cause a client to employ leveraging effects up to the maximum amount permitted by applicable law and regulation and by the client's counterparties, and may effect derivatives transactions resulting in leveraging effects through off-balance-sheet transactions or methods.

In addition, agreements that govern the Adviser's investments in derivative instruments typically impose obligations on the Adviser or the applicable client. Under such agreements, a failure to observe such obligations (e.g., a failure to meet a required margin call) may result in the declaration of an event of default, which could permit the counterparty to exercise a range of remedies, possibly including the ability to unilaterally terminate Investments governed by such agreements and to require the Adviser's client to pay such counterparty the replacement cost of the terminated Investments based on prices determined by such counterparty, which may be materially different than market prices. Such agreements also typically

include payment or valuation provisions that require determinations by a calculation agent or a valuation agent (typically the dealer). If the Adviser is unable to negotiate favorable terms for such provisions or rights to dispute such determinations, the counterparty may have rights to make determinations that adversely affect the applicable Investments.

Trading derivative instruments might deprive a client of certain tax benefits obtained from trading the underlying assets or reference instruments and/or, with respect to over-the-counter derivative instruments, from trading otherwise similar exchange-traded instruments.

Trading in options or warrants involves a risk of loss related to the premium for the option or warrant as well as a risk of loss related to the value of the underlying security or instrument, which loss in either case could be substantial. The writing of an uncovered option by a client may result in an unlimited loss of a client's capital within a relatively short period of time.

Trading in futures contracts and options on such contracts may be subject to limitations imposed by regulatory authorities and relevant exchanges, which may prevent a client from liquidating positions and could subject such client to substantial losses. Many derivative instruments are not traded on exchanges and are generally not regulated.

The regulation of derivative instruments is evolving, and changes in such regulation may affect a client, possibly adversely. For example, several U.S. legislative bodies and regulatory authorities have enacted or are considering legislation and rules for oversight and/or regulation of the previously largely unregulated market in over-the-counter derivatives.

### **Debt Investments**

Without limiting the scope of its possible activities, the Adviser may cause certain clients to hold, structure, and restructure loans and other forms of indebtedness.

The discussion in this section is based in part upon principles of U.S. federal and state laws. With respect to Investments relating to non-U.S. borrowers, there can be no assurance that the laws of certain non-U.S. jurisdictions (and/or the consequences of such laws) would not result in additional risks.

### **General Risks; Default**

In general, any Investments by a client of the Adviser in loans and other forms of indebtedness will entail various market risks (i.e., the risk that certain market factors, including interest rates and credit spreads, will cause the value of the applicable Investment to decline) and issuer-specific risks (e.g., the risk of non-payment of interest and principal; the risk that changes in an issuer's credit quality causes the value of the applicable Investment to decline). Further, the Adviser may cause a client to invest in debt instruments that are currently in default or that may later experience events of default. Any default in payment under any debt instrument owned by a client of the Adviser may result in material losses to such client. Certain of the Adviser's clients may also invest in pools of loans, which may be subject to additional risks, such as high correlation of the performance of the loans in any such pool.

### **Debt Market Conditions**

In recent years, disruptions in debt markets have affected the price of, as well as participants' ability to make, certain types of Investments, and there can be no assurance that these disruptions will not continue

or worsen in the future. Any such disruptions may negatively affect a wide range of issuers and may increase the likelihood that such issuers will be unable to make principal and interest payments on, or refinance, outstanding debt when due. Moreover, the risk that such disruptions will affect an issuer's ability to pay its debts and obligations when due is enhanced if such issuer in turn provides credit to third parties or otherwise participates in the credit markets. In the event of a default by an issuer, the Adviser's clients could lose both capital invested in, and anticipated profits from, any affected Investment. The continuation or worsening of the events described in this paragraph, or other similar or dissimilar events, could have an adverse impact on the availability of credit to businesses generally and may lead to an overall weakening of the U.S. and other economies around the world. In addition, any disruptions of this kind may affect a client's ability to procure its own financing arrangements and/or the terms of any such arrangements.

### **Secured Loans; Unsecured or Subordinated Loans**

Certain clients of the Adviser may invest in loans secured by property of the borrower. Measures taken by the Adviser to protect clients' interests in loans in which they may invest, including the validity or enforceability of such loans and the creation and maintenance of the anticipated priority and perfection of applicable security interests, may prove to be inadequate. There can be no assurance that any collateral would be sufficient to cover the obligations being collateralized or the amount of a client's investment. Any collateral may decline in value; may be subject to competing claims of creditors; may be difficult to recover or sell due to legal, regulatory, or other reasons; or otherwise may be inadequate to allow a client to recoup its investment.

The Adviser may cause a client to invest in loans that are secured with a junior priority interest or lien on collateral that is subordinated to other secured obligations. Such loans are subject to a risk that the cash flow of the related borrower and the property securing such loan may be insufficient to make scheduled payments after giving effect to any obligations in respect of the senior secured loans of the borrower. As a result, in certain situations no recovery may be available following a default with respect to such a loan. Such loans are also expected to be less liquid than senior secured loans.

Finally, the Adviser may cause a client to invest in various types of unsecured indebtedness (such as senior unsecured, subordinated, or general indebtedness) that would be junior in priority to the claims of secured creditors. The claims of secured or senior creditors may exhaust some or all of the assets of a borrower before unsecured, subordinated, or general creditors may participate in such assets, thus materially adversely affecting the value of the applicable Investment.

### **Lender Liability; Equitable Subordination; Fraudulent Conveyance**

Investments structured as loans or other forms of indebtedness may subject clients to claims of lender liability and/or may be subject to claims of equitable subordination or recharacterization. The risk of such claims may be exacerbated if a client holds a significant equity position and/or certain management positions (including representation on the board of directors) with respect to the applicable borrower. It is also possible that such claims could arise without the direct involvement of a client or the Adviser with the applicable borrower. Any successful claims of lender liability against a client or any equitable subordination or recharacterization of any Investment (which may result in the claims of a client being

subordinated to the claims of certain or all other creditors) could have a material adverse effect on such Investment held by a client (possibly resulting in losses that exceed the value of such Investment).

Investments structured as loans or other forms of indebtedness may also be subject to claims of fraudulent conveyance if the borrower was insolvent or rendered insolvent. Any successful claims of fraudulent conveyance or preferential payment with respect to an Investment could have a material adverse effect on such Investment and, possibly, on a client, and the client and/or one or more of its investors may be required to return related payments.

### **Certain Additional Risks**

Certain of the loans in which the Adviser may cause a client to invest may be subject to additional obligations, including intercreditor agreements (pursuant to which certain creditors agree to restrictions on their rights) or future extensions of credit to the borrower. Such obligations may adversely affect the value of such loans, such as by limiting the ability of the applicable client to exercise its rights under the loan agreement or by increasing such client's exposure to the borrower.

### **Asset-Backed Securities**

The Adviser may cause certain clients to invest directly or indirectly in asset-backed securities, which are structured securities collateralized or backed by another asset or assets, such as residential or commercial mortgages, home equity loans, auto loans, student loans, installment sale contracts, credit card receivables, commercial loans, corporate loans, investment-grade or high yield debt, or, in some cases, other asset-backed securities. Asset-backed securities may include instruments such as collateralized mortgage obligations, collateralized bond obligations, collateralized debt obligations, and collateralized loan obligations, and may include synthetic structures that are backed by derivative instruments instead of by the relevant loans, bonds, or other assets themselves. Other types of asset-backed securities, including interest-only and principal-only securities, may participate in only certain types of income streams generated by the underlying assets.

Asset-backed securities are often extremely complex, and their values and returns may be subject to significant fluctuations as a result of relatively small changes in interest rates; the rates of prepayments, defaults, late payments with respect to the relevant underlying assets; or other factors. The value of an asset-backed security is highly dependent upon the performance of its underlying assets and upon the expected quality of the underlying assets.

Substantial leverage may be inherent in the structure of some asset-backed securities. Consequently, asset-backed securities may present a greater degree of risk than other types of fixed income securities and may be more volatile, less liquid, and more difficult to price accurately than less complex securities. The Adviser may recommend hedging transactions in certain circumstances to protect against interest rate movements, prepayment risk, defaults, or other factors, but there can be no assurance that such hedging transactions, if any are undertaken, would fully protect a client against such risks.

Asset-backed securities are typically separated into tranches representing different degrees of credit quality, with lower-rated tranches being subordinate to senior tranches. It is expected that the returns on the junior tranches of such securities would be especially sensitive to the rate of defaults in the collateral



pool and would be subject to a substantially greater risk of non-payment than would senior tranches of such securities. There are no restrictions on the tranches in which clients of the Adviser may invest.

Because mortgage-backed securities comprise pools of underlying loans, such securities are subject to risks similar to those applicable to investments in particular mortgage loans. In addition, certain types of mortgage-backed securities contain highly complex interest-rate and cash-flow provisions and may be highly volatile with respect to yield, total return to maturity, and market value. For example, a mortgage-backed securities position may experience losses due to defaults in one or more underlying mortgage loans, but it may be difficult to assess the extent of such loss because the resolution of such defaults may occur only after extended settlement negotiations, or after the foreclosure and subsequent liquidation of the underlying properties, which could take a significant period of time.

Asset backed securities backed by other types of loans may be subject to similar risks. Even though assets typically support the underlying loans, full recovery of a loan in the event of default may not be possible due to litigation costs or delays, legal uncertainties, limited marketability or reduced valuations of the asset, and other similar or dissimilar factors. Accordingly, any defaults may materially adversely affect an Investment in asset-backed securities. In addition, the quality of certain asset-backed securities in which clients of the Adviser may invest is subject to the accuracy and completeness of representations made by the borrowers under the underlying loans. Accordingly, clients of the Adviser who invest in asset-backed securities are subject to the risk that originators of certain such securities fail to adequately verify such representations, whether because of defects in the verification systems used by such originators or otherwise.

### **Sovereign Debt**

Certain clients of the Adviser may make Investments in sovereign debt instruments. Certain sovereign issuers have in the past experienced substantial difficulties in servicing their external debt obligations, which has led to defaults on certain obligations and the restructuring of certain indebtedness. Countries in which clients of the Adviser may invest may experience high rates of inflation, high interest rates, exchange rate fluctuations and currency devaluation, large amounts of external debt, balance of payments and trade difficulties, political and/or social uncertainty and instability, and/or poor economic performance or conditions. Any of these factors, as well as other factors, could materially increase the risk of a total or partial default by such sovereign issuers and/or the risk of the restructuring of all or certain indebtedness of such sovereign issuers, either of which may result in substantial losses for the Adviser's clients.

### **Distressed Debt and Other Investments**

The Adviser may cause certain clients to invest in long and short positions in Investments issued by or otherwise related to companies that at the time of the applicable investment are experiencing, or subsequent to the applicable investment do experience, various forms of financial, business, operational, legal, and/or other distress or impairment, including companies involved in bankruptcy or other reorganization or liquidation proceedings (collectively, "Reorganization Proceedings"), as well as those emerging from Reorganization Proceedings and those seeking financial restructurings or reorganizations outside such proceedings. These Investments involve a high degree of risk and the total value of the applicable Investment may be lost.

The Adviser also may cause clients to purchase from banks, other financial institutions, or other investors bank loans (whether through assignment or participation transactions) and other forms of direct or indirect indebtedness (including revolving loans and letters of credit) of distressed companies. Investments in loan participations would expose a client to risks related to the creditworthiness of the banks or other financial institutions issuing such participations.

The Adviser also may cause clients to purchase bankruptcy claims (including trade claims), which are amounts owed to creditors of a distressed company. Investments in bankruptcy claims are difficult to value. Moreover, bankruptcy claims generally are illiquid and non-interest-bearing, and there can be no assurance that a company will be able to satisfy its obligations under a claim.

Sophisticated financial and legal analysis is required to invest successfully in distressed companies, and there can be no assurance that the Adviser will adequately perform such analysis. Among other things, the Adviser may not correctly determine the value of the collateral (if any) supporting the Investments held by a client or the prospects for a successful reorganization or similar action. Such Investments may be subject to additional risks, such as significant volatility in the value of the Investment; the involuntary exchange of such Investments for cash, financial instruments, or other property (including illiquid Investments) having substantially less value than the original Investment; and/or delayed or extended payment for such Investments.

In addition, Reorganization Proceedings, as well as other financial restructurings or reorganizations, are subject to a number of risks. For example, such proceedings may be of uncertain duration; may be subject to unanticipated and possibly lengthy delays; may involve substantial legal, professional, and administrative costs to the reorganizing company and its investors; may involve other factors that are beyond the control of the reorganizing company and its investors; and/or may result in the liquidation of the reorganizing company. Further, the Adviser, on behalf of a client, may decide to become involved in the restructuring of a particular distressed company, including through representation on creditors' or equityholders' committees or other groups (whether formal or informal) and participation in litigation or direct negotiations with the company's management, each of which may involve special risks and/or conflicts of interest for a client. The occurrence of any of these risks could have a material adverse effect on the value of the applicable Investment or on the Adviser's ability to dispose of or to act to protect the value of such Investment.

Administrative costs related to Reorganization Proceedings may be substantial and generally are paid from the reorganizing company's assets prior to any payments to creditors or equityholders. Certain other claims, including claims for taxes, have priority by law over claims of creditors and equityholders. Such administrative costs and other claims could materially reduce the return to the Adviser's clients on a particular Investment.

### **Energy-Related Strategies**

The Adviser may deploy various energy-related strategies on behalf of certain of its clients. Energy markets operate in a politically charged environment and are subject to extensive regulation by various U.S. federal, state, local, and/or non-U.S. governmental authorities. These authorities directly or indirectly set, approve, or accept certain rates and contracts; encourage or discourage capital projects; oversee energy transmission and distribution infrastructure; regulate energy markets; and otherwise

govern matters relating to energy. The political environment and the high degree of regulation increase uncertainty with respect to pricing, supply, transmission, and/or delivery in energy markets.

There is often only limited price information available in markets for trading energy and other energy-related Investments, and certain of this price information may be unreliable because it may reflect illiquidity, regulatory intervention, and/or improper behavior by market participants, including possible manipulation. Many of these markets also suffer from high volatility and a lack of transparency, and data from these markets may not prove useful when creating or applying quantitative trading strategies. In addition, many of these markets function or are regulated in isolation. These factors may result in limited coordination among markets and market participants and limited usefulness of various data.

Investment strategies deployed by the Adviser might not be based upon reliable data, and may be deployed based on the available data without correction. Also, applying models based upon data from other markets or even earlier time periods may prove unprofitable as a result of the limited applicability of these models across markets or time periods. The deployment of investment strategies based upon the data described herein could have a material adverse effect on a client of the Adviser, particularly because energy-related strategies that may be deployed on behalf of a client include quantitative investment strategies and certain risk models that depend on reliable historical information for their successful development and implementation.

The markets for trading energy and energy-related Investments are affected by the number and type of market participants, which have varied significantly over time. Risks associated with illiquidity and volatility in energy markets may be exacerbated during periods in which many participants exit the market or significantly reduce their trading activities, or in which trading decreases generally due to market redesign or regulatory or other changes. In other periods, the depth and liquidity of such markets may change depending upon the mix of market participants such as suppliers, distributors, end users, and “financial” investors. Regulatory authorities or market participants may respond to any perceived uncertainty by changing the available products or services, the accessibility of markets, regulation, or other matters relating to the industry. Any such change could have a material adverse effect on a client of the Adviser.

Many regulators or operators of energy markets in which the Adviser may participate have authority to impose price caps, price restrictions, retroactive price changes, position limits, “circuit breakers,” and other mechanisms to address volatility or manage supply and/or demand in such markets. Various authorities may intercede in markets to exercise this authority. Such interventions may be difficult to predict and may significantly affect the markets in which the Adviser operates or hopes to operate.

### **Commodities**

The Adviser may recommend that certain of its clients invest in commodities, commodity futures contracts, and other instruments, interests, or property relating to or commonly regarded as commodities, along with rights and options, including puts and calls, with respect to any of the foregoing (collectively, “Commodity Interests”), potentially including Investments in energy-related commodities, such as natural gas, electricity, coal, oil, and oil products; weather; metals; minerals; agricultural products; livestock; and emissions allowances and other environmental commodities.

The prices and/or liquidity of Commodity Interests may be highly volatile and may be influenced by a multitude of factors, including supply and demand relationships; interest rates; international trade; rates of inflation; governmental regulation; monetary and exchange control policy; policies of commodities exchanges; and environmental, social, political, or economic events. This volatility may be further magnified by commodities investors' use of leverage, including leverage resulting from low margin deposits required with respect to certain types of Commodity Interests. Many positions in Commodity Interests may be highly leveraged, and as a consequence relatively minor price changes could result in immediate and substantial losses to the Fund.

In addition, the Adviser's ability to trade successfully in certain commodities markets on behalf of its clients may be undermined by limited or unreliable price information and/or improper behavior of market participants, including price fixing, market manipulation, and other predatory practices.

No actively traded market may exist for certain Commodity Interests, which may impair the ability of the Adviser to sell or to realize, on behalf of its clients, the full value of Investments in such Commodity Interests.

Commodity Interests and/or commodity markets are generally subject to complex and stringent laws, as well as to extensive and, in certain cases, evolving regulations imposed by applicable governmental agencies or exchanges. The Adviser's clients may bear substantial costs complying with such laws and regulations, and any actual or alleged violation of such laws or regulations may involve civil or criminal penalties; expose such clients to lawsuits from public and private parties; and/or cause such clients to incur material legal, contractual, settlement, reputational, or other costs. In addition, changes in such laws or regulations may increase uncertainty among market participants, may undermine contractual or market expectations of such clients and other market participants, may increase compliance costs, and may adversely affect liability of market participants (including such clients).

A client may be treated as a U.S. person for purposes of CFTC regulations, which may limit such client's ability to participate in certain non-U.S. futures. Alternatively, if a client is treated as a non-U.S. person under CFTC regulations, such client may be permitted to invest in non-U.S. futures, which are not subject to CFTC regulation or review. Any such client's status as a U.S. person or non-U.S. person for these purposes will depend on, among other factors, the level of investment in such client by U.S. investors and, accordingly, such status may change from time to time.

The Adviser does not currently expect that any of its clients will be required to make or take physical delivery of any commodities underlying its Commodity Interests. However, it is possible that such a client may be required to make or take such delivery in certain situations, including in the event of an extended shut down of a commodity exchange on which such Commodity Interests trade or in any other situation that severely limits the liquidity of any Commodity Interests. A client may also make or take physical delivery of commodities if the Adviser determines such client should do so. Making or taking physical delivery of commodities would result in additional risks and costs to a client, including those associated with acquiring, storing, transporting, hedging, insuring, and reselling such commodities. In addition, such client may lack necessary licenses or approvals to make or take delivery of such commodities, and such delivery may expose such client to additional laws and regulations that would not otherwise apply to

such client's trading of Commodities Interests. The realization of any such risks could have a material adverse effect on such client.

### **Insurance- and Reinsurance-Related Instruments and Products**

The Adviser may cause certain clients to purchase, sell, hold, trade, structure, and restructure instruments that offer direct or indirect exposure to insurance, reinsurance, and insurance- and reinsurance-related risks (collectively, "Insurance-Related Investments"). These instruments may include insurance-linked securities, such as catastrophe bonds, catastrophe options, and catastrophe futures; and securities in other public or private entities (insurance- or reinsurance-related or otherwise). Insurance-Related Investments that may be held by a client are generally characterized as having values that are directly or indirectly tied to the occurrence or non-occurrence of catastrophic or other events that are traditionally the subject of insurance. Such Insurance-Related Investments generally would require a payment by one party or a forfeit of principal and interest if specified loss thresholds are exceeded or other events occur, resulting in potentially material losses for a client.

The success of a client's Insurance-Related Investments is largely dependent on the ability of the Adviser to forecast the probabilities and risks of various events. However, such probabilities and risks are difficult to forecast accurately, and any such forecasts will require subjective judgments. In addition, models that seek to forecast such probabilities and risks with respect to the type, frequency, and severity of such events are frequently inaccurate and/or inadequate. Errors or inaccuracies in such forecasts could have a material adverse effect on Insurance-Related Investments that were based in whole or in part on such forecasts. In addition, it is possible that the occurrence of the insured risks (e.g., natural disasters or other catastrophic events) would result in potentially material losses for a client, even in the absence of errors or inaccuracies in such forecasts.

There is often only limited price information available in markets for Insurance-Related Investments. There may not be active secondary markets for certain Insurance-Related Investments. Where a secondary market does exist, there is no assurance that it would have a sufficient number of participants to provide efficient or even adequate pricing or liquidity. As a result, Insurance-Related Investments are generally highly illiquid and their prices may be highly volatile, thus resulting in an increased risk of material losses. This illiquidity and price volatility may be particularly pronounced during certain seasons or around the time of a specific weather-related event, even in cases where a particular Insurance-Related Investment has only a limited apparent connection to such season or event.

### **Leverage; Margin**

Certain of the strategies deployed by the Adviser may be highly dependent on the use of leverage for their success. Further, with respect to certain of its strategies, the Adviser intends to use instruments (including futures, swaps, options, and other derivative instruments) that, if such instruments were to decrease in value, could result in losses exceeding the capital allocated to them. In addition, the Adviser may cause certain clients to buy certain Investments on margin and may enter into swaps or other derivative instruments to enhance leverage or for another reason.

The amount of leverage employed from time to time by clients is determined by the Adviser. The Adviser may cause a client to employ leverage up to the maximum amount permitted by the terms of the

applicable Governing Document, by applicable law and regulation, and by the persons extending credit or otherwise providing leverage to the client. Only a limited amount of the leverage employed by a client may be apparent from the balance sheet or other financial statements of the client, and it is possible that a large portion (and possibly the majority) of the leverage employed may be effected through off-balance sheet transactions or methods, such as total return swaps (which can offer leveraged exposure to the applicable reference instruments).

A client may incur potentially significant expenses, including interest charges and commitment fees, in connection with any leverage that it uses. In addition, the rights of any lenders to a client to receive payments of interest or repayments of principal generally will be senior to the rights of the client's investors and the terms of any such borrowings may restrict certain activities of a client (including the client's ability to make distributions).

Although any financial leverage may have the effect of increasing returns in the event of favorable investment results, returns will be reduced by the cost of borrowing, and investment losses and other losses will be exacerbated by leverage (possibly causing substantial losses, including losses exceeding the total value of the assets of a client). The use of leverage by the Adviser will increase the volatility of the investment performance of the applicable investment strategies.

Notwithstanding the foregoing, there can be no assurance that clients will be able to borrow money, use margin, or engage in any financing transaction in order to obtain and/or employ leverage. Events in the global financial markets in recent years have decreased the availability, and increased the cost, of certain forms of financing, particularly with respect to illiquid and/or difficult-to-value investments. Further, a client may not be able to obtain leverage and/or other financing, whether at a reasonable cost or at all, in the event that the Investments held by the client are not sufficiently diversified. Any inability of a client to obtain, employ, and/or maintain leverage or other forms of financing, whether at a reasonable cost or at all, would be expected to result in (possibly materially) lower returns to the client than had the client been able to obtain, employ, and/or maintain such leverage at a reasonable cost.

### **Short Sales and Leveraging Effects**

Certain investment strategies deployed by the Adviser involve the execution of "short sales." In a short sale, an investor borrows securities from a lender and sells such securities to another person while retaining an obligation to return to the lender an equivalent quantity of the borrowed securities at a later date. Short selling allows an investor to profit from declines in a security's value.

More generally, although short sales may be useful under certain circumstances in the pursuit of potential profit opportunities and/or the mitigation of certain forms of risk, they may result in an unlimited loss of capital within a relatively short period of time, whether due to price changes, recalls sought and penalties imposed by lenders of the borrowed securities, short squeezes, unavailability of the securities at the time the Adviser desires to close out the short position, or other causes. Purchasing securities to close out the short position can itself cause the price of such securities to rise, further exacerbating the loss.

Further, the Adviser may in certain circumstances make use of the proceeds of short sales to support an increase in the client's positions in various Investments, resulting in leveraging effects for the client's overall portfolio. It is anticipated that, over the long term, the success of certain investment strategies

deployed by the Adviser will be materially affected by the leveraging effects associated with short selling, and applicable clients may employ leveraging effects up to the maximum amount permitted by applicable law and regulation and by such clients' counterparties. Although such leveraging effects may have the effect of increasing returns experienced by such clients in the event of favorable investment results, returns experienced by such clients will be reduced by the cost of borrowing, and investment losses and other losses will be exacerbated by such leveraging effects (possibly causing substantial losses). Such leveraging effects may increase the volatility of the investment performance of such clients' Investments and, as a result, the returns experienced by such clients.

A number of countries from time to time have imposed restrictions or outright bans on short sales and related transactions in financial sector securities (and, in some cases, other securities or instruments), making it difficult or impossible for many market participants (including participants employing investment strategies similar to those deployed by the Adviser) either to continue to implement their strategies or to control the risk of their open positions. In addition, short sales historically have been, and continue to be, subject to certain restrictions under U.S. federal securities laws. Moreover, pursuant to certain provisions of the Dodd-Frank Act, the SEC may propose certain short sale and/or short position reporting requirements that may have the effect of deterring or limiting short selling of U.S. equities in general. Other countries have adopted or may adopt similar or other types of short selling restrictions and short position reporting requirements. Any ongoing or future regulatory limitations on short selling, or any ongoing or future requirement to disclose short sales or short positions, may materially adversely affect the Adviser's ability and willingness to implement its investment strategies.

Financing methods employed or derivative transactions entered into by a client of the Adviser may involve the economic equivalent of short positions in various Investments, which could have economic consequences substantially similar to those caused by the execution of short sales.

### **Hedging Techniques and Transactions**

The Adviser generally will not be obliged to hedge any particular form of risk in any particular situation and may, without notice to or the consent of any client, assume any such risk as determined by the Adviser. Under certain circumstances, hedging techniques intended to reduce certain forms of risk may actually increase risk, whether due to the unintended market impact of hedging transactions, leverage effects associated with hedging positions, unexpected adverse price movements of a hedging instrument relative to the hedged instrument (i.e., adverse changes in the "basis" between the hedging and hedged instrument), lower liquidity of the hedged and hedging positions relative to an unhedged position, the general risks related to the use of derivative instruments, or other factors.

Further, even where the Adviser seeks to hedge a particular risk, a suitable hedging transaction might not be identified by the Adviser, might not be available to the applicable client, and/or might not be successfully executed.

### **Complexity of Quantitative Strategies**

Many of the investment strategies that the Adviser deploys on behalf of clients are highly complex. In many cases, the successful deployment of a particular investment strategy may require or involve sophisticated mathematical calculations and complex computer programs. Although the Adviser intends

to use good faith efforts to carry out such calculations and programs correctly and to use them effectively, there can be no assurance that it will successfully do so. Errors have occurred and may continue to occur in designing, writing, testing, monitoring, and/or implementing such calculations and programs, including errors in the manner in which such calculations and programs function together. Any such error may be difficult to detect, may not be detected for a significant period of time, and could have a material adverse effect on the Adviser's clients. This risk may be exacerbated by the fact that elements of certain investment strategies deployed by the Adviser are expected to include executing a significant number of trades over a particular time period, which may result in many trades being affected by any such error before it can be detected and corrected. In addition, such calculations and programs are dependent upon accurate market and other data, and inaccuracies in or any corruption of such data (or errors in incorporating such data) may have a material adverse effect on the results of such calculations and programs. The Adviser may seek to apply existing calculations and programs to different components of the investment strategies deployed on behalf of its clients (including different markets, strategies, or Investments), but there can be no assurance that such application would prove effective in such different contexts. Moreover, the effectiveness of such calculations and programs may diminish over time, including as a result of market changes and changes in the behavior of other market participants. The Adviser may respond to such diminishing effectiveness by making certain changes to the investment strategies and/or the manner in which they are implemented. Any such changes also could increase the likelihood of the errors described above.

The complexity of the components of the investment strategies that apply such calculations and programs, and the interactions among such components, may make it difficult or impossible to detect the source of any weakness or failure in such components and/or such calculations and programs before material losses are incurred. For example, it may be difficult or impossible to distinguish unexpected trading results caused by market activity from unexpected trading results caused by an error in the applicable calculations or programs. The mathematical calculations and computer programs utilized by the Adviser are subject to inherent limitations and may be improved upon as experience is gained, strategies are refined, and markets change. However, there can be no assurances that the Adviser would be able to or will make any such improvements, and its inability or failure to do so could have a material adverse effect on the Adviser's clients.

Further, the Adviser's clients are exposed to risks arising from the systematic or algorithmic trading of other market participants. Market events such as the "flash crash" of May 6 2010 illustrate how the behavior of one or a small number of market participants can cause dramatic movements in the prices of individual securities and/or the market as a whole. The systematic nature of certain investment strategies deployed by the Adviser may make the Adviser's clients particularly susceptible to such movements, which could have unforeseen effects on one or more such investment strategies. Any such market event could have a material adverse effect on a client of the Adviser.

### **Reliance on Technology; Back-up Measures**

The Adviser's investment activities and investment strategies are dependent upon various computer and telecommunications technologies, many of which are provided by or are dependent upon third parties such as data feed, data center, telecommunications, or utility providers. The successful deployment, implementation, and/or operation of such activities and strategies, and various other critical activities of



the Adviser on behalf of its clients, could be severely compromised by system or component failure, telecommunications failure, power loss, a software-related “system crash,” unauthorized system access or use (such as “hacking”), computer viruses and similar programs, fire or water damage, human errors in using or accessing relevant systems, or various other events or circumstances. It is not possible to provide comprehensive and foolproof protection against all such events, and no assurance can be given about the ability of applicable third parties to continue providing their services. Any event that interrupts such computer and/or telecommunications systems or operations could have a material adverse effect on the Adviser’s clients, including by preventing the Adviser from trading, modifying, liquidating, and/or monitoring its clients’ Investments.

The Adviser maintains back-up electronic books and records at their disaster recovery site, which is a fully operational data center facility. In the case of events that interrupt the Adviser’s computer and/or telecommunications systems or operations, the Adviser hopes to resume trading, modifying, liquidating, and/or monitoring its clients’ Investments relatively promptly, subject to any circumstances that are outside the control of the Adviser. In the case of severe business disruptions (e.g., regional power outage or loss of personnel), the Adviser may not resume such activities for one or more business days because (among other things) such resumption is dependent on other critical business constituents, such as brokers and exchanges, and on the nature of the disruption. Although the foregoing reflects the Adviser’s objectives, designs, and/or plans, no assurance can be given that these objectives, designs, and/or plans will be realized, or that, in particular, the Adviser would be able to resume operations following a business disruption.

### **Electronic Trading**

The Adviser expects to trade on electronic trading and order routing systems. Transactions using an electronic system are subject to the rules, regulations, and policies of the exchanges or persons offering the system or listing the instrument. Characteristics of electronic trading and order routing systems vary widely with respect to order matching procedures, opening and closing procedures and prices, trade error policies, and trading limitations or requirements. There are also differences regarding qualifications for access, grounds for termination of access, limitations on the types of orders that may be entered into the system, and other applicable terms. Each of these matters may present different risk factors with respect to trading on or using a particular system. Each system may also present risks related to system access, varying response times, security, service providers, and the receipt and monitoring of electronic mail.

Trading through an electronic trading or order routing system is also subject to risks associated with system or component failure, whether such failure affects the hardware or software of the exchange or person offering the relevant system or of the Adviser. In the event of system or component failure, it is possible that, for a certain time period, it might not be possible to enter new orders, execute existing orders, or modify or cancel orders that were previously entered. System or component failure may also result in loss of orders or order priority. Trading venues offering an electronic trading or order routing system typically adopt rules to limit their liability, the liability of member brokers and software and communication system vendors, and the amount that may be collected for system failures and delays, which rules vary among the venues.

In addition, changes in laws or regulations related to electronic trading and order routing systems are being considered in certain jurisdictions. Any such changes may have a material adverse effect on certain strategies deployed by the Adviser.

### **Portfolio Turnover**

Certain investment strategies that are expected to be deployed by the Adviser are based at least in part on short-term considerations and thus are characterized by rapid portfolio turnover. Such rapid turnover is expected, among other things, to cause clients to experience substantial brokerage fees, commissions, and/or commission-equivalents, and/or increased aggregate liquidity costs (or price “slippage”), any or all of which could have a material adverse effect on the investment performance of the Adviser’s investment strategies.

### **Publicly Available Information; Disclosures to Separately Managed Accounts**

Certain information regarding clients of the Adviser and/or their Investments is likely to be required to be made publicly available. For example, the Adviser may cause one or more of its clients to engage in transactions that, as a result of ownership of a security or other instrument by such client, another client of the Adviser, or otherwise, would require filings with a governmental agency or compliance with other regulatory requirements. In addition, the Adviser may have clients that may be (or whose underlying owners may be) required, under applicable law (including freedom of information laws), to make publicly available certain information provided by the Adviser to any such client or owner. Moreover, clients of the Adviser (or such clients’ underlying owners), whether or not subject to freedom of information laws or similar disclosure requirements, could disclose information regarding the Adviser and/or its investments in violation of their confidentiality obligations to the Adviser or the client. Because various aspects of the Adviser’s investment strategy are based upon quantitative trading methods or other proprietary information, any of the foregoing disclosures of information would increase the already material risk that other market participants will seek to use such information to their advantage (such as by reverse engineering the Adviser’s investment strategy, by seeking to adversely affect the prices of a client’s Investments, by “frontrunning” a client’s Investments, by causing a client to prematurely liquidate Investments, or by other actions), which could have a material adverse effect on or more clients. This risk is further exacerbated by the fact that the Adviser deploys its investment strategies in separately managed accounts for individual clients, and each such client generally has complete information about the positions and trading in its separately managed account.

### **Regulatory Ownership and/or Trading Restrictions and Reporting Requirements**

Certain governments, regulators, and self-regulatory bodies have imposed (and may impose) limits, triggers, and/or other thresholds with respect to positions in certain types of securities, futures contracts, and other assets that the Adviser may recommend for its clients. Positions owned, held, or controlled by related entities (such as the Adviser, its affiliates, or one or more of their clients) may be aggregated for purposes of determining whether such thresholds have been reached or exceeded. With respect to positions managed by such entities, the Adviser or its affiliates may (a) limit trading in such positions in order to avoid reaching such thresholds or (b) if such thresholds are exceeded, (i) dispose of positions to the extent necessary to fall below those thresholds, (ii) be limited in purchasing or selling such positions for a certain period of time, or (iii) be subject to disclosure obligations, fines, limits on short-term trading

profits, or other consequences; in each case which could have a material adverse effect on the Advisers' clients. For example, the CFTC and/or certain exchanges may require aggregation of a particular client's positions in certain futures contracts with positions held by other clients of the Adviser (or its affiliate) in applying limits on net long or net short positions in such contracts. In such cases, such other client may utilize the full amount of available position limits for their own benefit, and, as a result, the original client could be required to limit its use of futures or liquidate its positions on such exchanges. When multiple entities are affected by such limits, triggers, and/or other thresholds, the Adviser or its affiliates may determine to allow the consequences to fall disproportionately on certain entities, which could have a material adverse effect on one or more of the Adviser's clients.

In certain situations, the Adviser may recommend that a client engage in transactions that, as a result of ownership of a security or other instrument by such client, another client, or otherwise, would require filings with a governmental agency or compliance with other regulatory requirements, such as mandatory takeover offers or certain restrictions on trading. In addition, the Adviser may be restricted (by law or by its internal policies) in its ability to trade a particular Investment or may determine to limit or prohibit the participation of the client in a particular Investment or to recommend that the client to liquidate a particular Investment at an inopportune time. Compliance with filing and other requirements (including additional reporting requirements imposed in the future on the Adviser and/or its clients) may result in additional costs to a client and/or may delay its ability to trade, or to respond in a timely manner to changes in the markets with respect to, the applicable security or other instrument. The regulatory regimes outlined above may change over time, and any such changes may adversely affect one or more clients.

### **Small or Midsized Companies**

Certain Investments recommended by the Adviser may be issued by, or otherwise related to, small or midsized companies. Such Investments may involve greater risk than comparable Investments issued by or related to large companies. Small or midsized companies may face intense competition for important resources, such as experienced management and personnel, capital, and financing. Such companies may be at a disadvantage relative to larger companies, including with respect to sales or distribution resources, operational and financial controls, or other economies of scale. Small and midsized companies may be more likely to experience financial, operational, legal, and/or other distress.

Investments in or related to small and midsized companies may be less liquid or exhibit more price volatility than Investments in large companies. The securities of small and midsized companies are often traded over-the-counter or on regional exchanges, which may have lower volumes than are typical on national exchanges, or may be privately held, with no secondary market for such securities.

### **Competition**

Changing, evolving, and maturing markets, as well as an increase in the number of market participants employing strategies similar to or otherwise in competition with the strategies employed by the Advisers, may make it significantly more difficult to compete for profitable Investments. Certain of these market participants may possess competitive advantages over the Adviser or any of its clients, including greater expertise, experience, or resources; superior access to investment opportunities; lower cost of capital;

and/or higher risk tolerances. There can be no assurance that any effort by the Adviser to minimize any competitive disadvantages will be successful.

The Adviser may face other competitive challenges, whether due to regulation, limited liquidity, crowded markets, increased competition for personnel, or other similar or dissimilar factors. Competition and its challenges may have a material adverse effect on the Adviser and/or its clients.

### **Investments in Additional Strategies; Investments in Emerging Strategies and Companies, Vehicles, Regions, and Markets**

Subject to the terms of the applicable Governing Document, the Adviser may invest certain clients' assets in additional strategies not outlined in this brochure. Such investment decisions will be based on one or more factors that the Adviser may deem relevant from time to time, including liquidity constraints and the availability of opportunities that it deems attractive, and the Adviser is permitted to invest in strategies that have investment styles, investment returns, leverage, asset classes, and associated risks that are different (possibly materially) from those outlined in this brochure. The Adviser may allocate a portion of the applicable client's assets directly or indirectly to strategies with which the Adviser has limited or no familiarity, to companies and/or other vehicles having limited or no operating histories, and to regions or markets in which the Adviser has limited experience. Because such strategies, companies, vehicles, regions, and markets may, among other things, be more difficult to evaluate and/or monitor, they may expose clients to greater risk and lower returns than those with which the Adviser has more extensive experience. There can be no assurance that any decisions outlined in this paragraph will be successful or will not have a material adverse effect on a client.

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

In November 2012 and October 2013, certain entities in the D. E. Shaw group advised by certain of DESCO LP's Related Advisers unintentionally violated a position limit applicable to natural gas futures traded on the New York Mercantile Exchange ("NYMEX") and ICE Futures U.S., Inc. ("ICE"). In each case, the violation was discovered prior to the open of trading on the day after which it occurred, and corrective trades were placed soon thereafter to bring the applicable positions into compliance. With respect to each violation, DESCO LP submitted to NYMEX a settlement offer in which DESCO LP agreed to pay a fine of \$25,000 (in the case of the November 2012 violation) and \$75,000 (in the case of the October 2013 violation). NYMEX entered orders effective on May 1, 2014 accepting the settlement offers. ICE issued a warning letter to the D. E. Shaw group for the November 2012 violation. With respect to the October 2013 violation, DESCO LP entered into a settlement agreement with ICE, effective January 16, 2015, in which DESCO LP agreed to pay a fine of \$20,000 and to cease and desist from such position limit violations.

DESCO LP received a request for information from the SEC in June 2013 relating to compliance with Rule 105 of Regulation M under the Securities Exchange Act of 1934 (the "Exchange Act") and identified five inadvertent violations of Rule 105 from 2010 through 2012. DESCO LP submitted an Offer of Settlement to the SEC, in which DESCO LP consented to cease and desist from such violations and to the payment of \$667,492.37, including disgorgement of \$447,794.00, prejudgment interest of \$18,192.37,

and a civil monetary penalty of \$210,506.00. The SEC entered an Order on September 16, 2013, accepting the Offer of Settlement.

In April 2010 and June 2010, certain entities in the D. E. Shaw group advised by DESCO LP unintentionally violated futures contract position limits set by the U.S. Commodities Futures Trading Commission (“CFTC”) in connection with trading soybeans and corn, respectively, on the Chicago Board of Trade, a member of the CME Group. In each case, the violation was as of the close of trading on a single day, and in each case, the D. E. Shaw group discovered the violation and put on correcting trades on or before the next trading day and before receiving notification of the violations, so that its positions were below the applicable limits. DESCO LP submitted to the CFTC an Offer of Settlement, in which DESCO LP consented to cease and desist from such violations and to the payment of a civil monetary penalty of \$140,000. The CFTC entered an Order on February 22, 2012, accepting the Offer of Settlement. The CME Group issued warning letters to the D. E. Shaw group for each violation.

DESIM believes there are no other legal or disciplinary events that are material to a client’s or prospective client’s evaluation of its advisory business or the integrity of its management.

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

Certain management persons of the Adviser are registered representatives of D. E. Shaw Securities, L.L.C. (“SEC LLC”), which is a related person of the Adviser and a broker-dealer registered under the Securities and Exchange Act of 1934, as amended (the “Exchange Act”) and a member of Financial Industry Regulatory Authority, Inc. (“FINRA”).

DESIM and certain of its related persons are currently registered as commodity pool operators (each, a “CPO”) pursuant to the Commodity Exchange Act (the “CEA”) and are members of the National Futures Association (the “NFA”). Certain other of DESIM’s related persons have been listed with the Commodity Futures Trading Commission (the “CFTC”) as commodity pools and will be operated as “exempt pools” in accordance with Commodity Futures Trading Commission Rule 4.7. DESIM is also registered as a commodity trading advisor with the CFTC. One of the management persons of DESIM is registered with the NFA as an associated person of the Adviser and each of the Adviser’s related persons that is registered as a CPO.

### **Related Persons**

The Adviser is part of an international financial services firm. The Adviser acts as managing member, manager, holding company, and/or “parent company” for certain of its related persons, and this activity may be considered to be separate from the provision of investment advice. For purposes of this brochure, the Adviser does not consider itself to be engaged in the business of its related persons.

DESIM provides investment advice to certain Funds in its capacity as their managing member or manager, and also acts as adviser to other clients.

Subject to applicable law, the Adviser may use for clients, or suggest or recommend to clients, placement agent services offered by the Adviser’s related person, SEC LLC. To the extent that the services of SEC LLC are used, clients may be charged a fee.

The Adviser's related person, DESCO LP, is registered with the Securities and Exchange Commission as an investment adviser under the Advisers Act, is registered as a CPO pursuant to the CEA, and is a member of the NFA. The Adviser licenses certain intellectual property from DESCO LP and utilizes certain assets and resources of DESCO LP (including without limitation certain of DESCO LP's employees) in connection with its own investment advisory activities. All of the persons treated as the Adviser's employees in this Form ADV are employees of DESCO LP; may share their time among the Adviser, DESCO LP, and/or affiliates of the foregoing; and receive compensation and other benefits from DESCO LP and/or such affiliates. In addition, as agreed between the entities, the Adviser may reimburse DESCO LP for certain expenses and DESCO LP may reimburse the Adviser for certain expenses.

The Adviser's related person, D. E. Shaw & Co. (London), LLP ("DESCO London") has received permission from the U.K. Financial Conduct Authority under Part 4A of the Financial Services and Markets Act 2000, authorizing it to engage in certain regulated activities in the United Kingdom. Pursuant to that authorization, DESCO London provides investment management and other services to the Adviser that will ultimately be for the benefit of certain of the Adviser's advisory clients; the Adviser compensates DESCO London for those services. DESCO London may utilize certain of the Adviser's employees in connection with its own investment management activities. In addition, as agreed between the entities, the Adviser may reimburse DESCO London for certain expenses and DESCO London may reimburse the Adviser for certain expenses. The members of DESCO London are D. E. Shaw & Co. (U.K.), Ltd. ("DESCO UK"), Neil Cosgrove, and Julius Gaudio. The directors of DESCO UK are Neil Cosgrove, Julius Gaudio, and Chris Zaback. In addition to being a director of DESCO UK, Mr. Cosgrove is a Managing Director of DESCO LP, having joined DESCO LP in February 1998. Mr. Cosgrove received his B.A. from St. Catherine's College, University of Cambridge. In addition to being a director of DESCO UK, Mr. Gaudio is a Managing Director of DESCO LP and a member of that entity's Executive Committee. Mr. Gaudio, who joined DESCO LP in August 1993, received his A.B. from Harvard University. Please refer to Form ADV Part 2B for the education and business background of Mr. Zaback.

The Adviser's related person, D. E. Shaw & Co. (Asia Pacific) Limited ("DESCO AP") is licensed with the Securities & Futures Commission in Hong Kong to engage in certain regulated activities, pursuant to which DESCO AP provides asset management and other services to the Adviser that will ultimately be for the benefit of certain of the Adviser's advisory clients; the Adviser compensates DESCO AP for those services. DESCO AP may utilize certain of the Adviser's employees in connection with its regulated activities. In addition, as agreed between the entities, the Adviser may reimburse DESCO AP for certain expenses and DESCO AP may reimburse the Adviser for certain expenses. The directors of DESCO AP are Julius Gaudio, Chris Zaback, and Donald Tang. In addition to being a director of DESCO AP, Mr. Tang is a Senior Vice President of DESCO AP. Mr. Tang, who joined the D. E. Shaw group in July 2004, received his B.S. from Carnegie Mellon University. Please refer to the preceding paragraph for the education and business backgrounds of Mr. Gaudio, and to Form ADV Part 2B for the education and business background of Mr. Zaback.

### **Certain Potential Conflicts of Interest**

DESIM and its related persons and their directors, partners, officers, and employees may have various advisory, transactional, financial, and other interests in securities and/or other financial instruments that may be purchased or sold by the Adviser's advisory clients (or clients of related advisers), which

themselves may be related persons. DESIM, and/or its related persons that are investment advisers, has established a variety of restrictions, procedures, and disclosures designed to address potential conflicts between the interests of its clients and the interests of itself and/or its related persons in this regard, to ensure that its actions are consistent with the best interests of its advisory clients in this context. When conflicts of interest in this regard arise, they are addressed in compliance with all legal requirements and such restrictions, procedures, and disclosures, as applicable. Restrictions and procedures generally are established by heads of the applicable strategies, senior management, and/or compliance personnel.

The Adviser has actual and potential conflicts of interest with respect to its clients. Such conflicts arise from, among other things, the management and operation of its clients, as well as from other activities (“Other Activities”) that are unrelated (or only partly related) to the business and affairs of the Adviser’s clients. The Adviser and its related persons may, and in certain cases currently do, engage in a range of Other Activities, and there are no limits on the nature or the extent of Other Activities that they may engage in or may establish in the future. Examples of Other Activities include: (a) providing investment advice and/or operational or other services to various clients or other persons; (b) engaging in investment, trading, lending, or financial businesses and activities unrelated to its clients; (c) engaging in technology-related or other businesses and activities; and (d) serving as general partner or manager of, or holding a limited partner, shareholder, member, or other ownership interest in, other investment vehicles or other businesses. These Other Activities may be for the benefit of the person performing the activity or for the benefit of other persons. No client of the Adviser shall have any right to participate in or otherwise receive the benefit of any Other Activity.

The Adviser may establish a new Fund or other entity in the future that would be exposed to certain of the investment strategies deployed on behalf of clients. Clients might or might not be permitted to participate in such new Fund or other entity, as determined by the Adviser. The Adviser may determine to continue or discontinue any such competing activity being conducted for the benefit of a client. If such activity is discontinued, the relevant client may forgo the benefit of material future investments and of expertise developed by the Adviser. If such activity is continued, then competition with such new Fund or other entity may materially adversely affect the relevant client. Among the factors the Adviser would consider in making such decision are the operational, tax, regulatory, and legal efficiencies; capital stability; sources of additional capital; and the expected performance profile of the applicable strategy.

As disclosed in the applicable Governing Document, DESIM has no obligation to recommend for purchase or sale by its clients any securities that the Adviser, its related persons, and/or personnel of the foregoing may purchase for themselves or for other clients. In addition, the ability of DESIM to effect and/or recommend transactions for certain or all clients may be restricted due to actual or perceived regulatory requirements in the United States or elsewhere, to the Adviser’s or a related person’s internal policies designed to comply with such requirements, to actual or perceived conflicts of interest, to operational issues, and/or to other issues. Regulatory or contractual limitations related to effecting transactions for certain of DESIM’s clients may not apply to other clients, resulting in differences among the composition of and return from client portfolios. DESIM reserves the right not to effect transactions for clients with or through its related persons.

As disclosed in the applicable Governing Document, DESIM may give advice and take action with respect to any of its clients that may differ from the advice given, or may involve a different timing or nature of

action taken, with respect to any one or all other clients that the Adviser or its related persons advise, and thus effect transactions for such clients at prices or rates that may be more or less favorable than for other clients. DESIM may advise one or more clients to take positions the same as, different from, or opposite to positions the Adviser or its related persons advise one or more other clients to take. In general, the Adviser will act in the best interests of its clients, subject to applicable law and to any agreement, organizational or other document, or disclosure applicable to a particular client or underlying investor. DESIM and/or its related persons may hold the same (or the opposite) position in a given security, commodity, or other financial instrument as that held by the client at the same time.

Any common (or opposing) positions described above may limit the ability of DESIM to add to the position held on behalf of any particular client, to readily liquidate such a position, or to obtain a favorable price in the course of such liquidation. In effecting transactions for the client, related person, and/or any other persons or entities, it may not always be possible or consistent with the investment objective of the client or of such other persons or entities to take or liquidate the same investment positions at the same time or at the same prices. The “market impact” associated with a liquidation by such other persons or entities may adversely affect a client’s ability to liquidate its position; or where a client’s position is liquidated, the price at which such liquidation occurs; or where a client does not liquidate its position, the mark-to-market value of such position.

DESIM, its related persons, and/or their clients may trade with each other from time to time upon the advice of the Adviser and, as applicable, related persons. DESIM generally does not itself trade securities on a principal basis with clients. Certain clients and related persons of the Adviser, however, are deemed principals (and in the future other clients may be deemed principals), based on SEC staff guidance, due to the investment in each such client or related person by the Adviser and controlling persons exceeding 25% of that client’s or related person’s assets. To the extent that DESIM and/or its related persons (including Funds) engage (or are deemed to engage) in principal securities transactions, any such transactions will comply with applicable law. DESIM and/or its related persons may have interests in such transactions that are adverse to a particular client.

To the extent permitted by applicable law and the applicable Governing Documents, DESIM or its related persons may effect “cross transactions” between the Adviser’s and/or its related persons’ client accounts in which one client will purchase securities held by another client. DESIM and/or its related persons will direct clients to enter into such transactions only when the transactions are consistent with the best interests of both clients and at a price that the Adviser and/or its related persons believe constitutes best execution for both clients. Neither DESIM nor any related party receives any commission or commission equivalent in connection with these transactions.

Disclosures regarding conflicts of interest and their resolution generally will be contained in the applicable Governing Document, this brochure, and/or another document. Other documents, such as financial or periodic reports, furnished to clients or investors also may contain disclosure regarding conflicts of interest.



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

DESIM and its affiliated investment advisers have adopted a code of ethics (the "Code") that establishes the standard of business conduct that must be followed by, among others, all partners, directors, officers, and employees of the Adviser and these investment advisers (collectively "Supervised Persons"). The Code incorporates the following general principles, which all Supervised Persons are expected to uphold: act in the best interests of clients; conduct personal securities transactions in a manner consistent with the Code, which seeks to address certain conflicts of interest in this regard; avoid taking any inappropriate advantage of one's position at the Adviser; maintain confidentiality of information concerning the Adviser's securities recommendations and client securities holdings and transactions; and provide accurate disclosure in reports required by auditors, regulators, or government bodies.

The Adviser believes that these general principles not only help the Adviser fulfill its obligations undertaken as an investment adviser, but also protect the Adviser's reputation and instill in employees the Adviser's commitment to honesty, integrity, and professionalism.

The Code also provides guidelines for Supervised Persons regarding adherence to securities laws generally, transactions in personal accounts involving public and private securities and commodities, activities outside of the investment adviser's business, giving and receiving business-related gifts, and the maintenance and memorialization of certain family and/or close personal relationships. For example, the Code requires that all Supervised Persons obtain approval prior to effecting any securities or commodities transaction in a personal or related account for which the employee exercises control. In addition, the Code requires that all Supervised Persons report Code violations and outlines potential sanctions for such violations. The Adviser's Chief Compliance Officer is responsible for various aspects of the Code's administration, including without limitation the monitoring and review of personal securities and commodities transactions of Supervised Persons, and is available for any questions Supervised Persons have regarding the Code. The Adviser will provide a copy of the Code to any client or prospective client upon request and may elect to provide a copy of the Code to investors in the Funds.

Please see Item 10 for additional information regarding conflicts of interest.

## **Item 12: Brokerage Practices**

Generally, DESIM is authorized by each client to determine the financial institution or counterparty to be used, if any, for each transaction executed on behalf of such client. In selecting such financial institutions or counterparties for transactions, DESIM seeks to obtain the best execution of transactions for its clients under the circumstances (consistent with what it believes to be the best overall interests of the client), but need not solicit competitive bids, and does not have an obligation to seek the lowest available commission cost. The price offered by a financial institution or counterparty, including commissions and commission equivalents, if any, and other transaction costs, is normally an important factor in this decision, but financial institution and counterparty selection also takes into account the overall quality of the execution services offered, including without limitation such factors as: execution capability; willingness and ability to commit capital; creditworthiness and financial stability; clearance and settlement capability; ability to

maintain confidentiality; the provision of research and other services; and potential or perceived conflicts between clients of DESIM and DESIM's related persons. Accordingly, transactions will not always be executed at the best price or the lowest available commission. In addition, DESIM is not required to negotiate "execution only" commission rates; thus, the clients may be deemed to be paying for other services provided by the financial institution that are included in the commission rate. Subject to its duties under the express terms of any applicable agreement and under applicable law, DESIM may determine eligibility of and/or direct transactions or commissions to certain broker-dealers, exchanges, or other financial institutions and counterparties (or their affiliates) that are direct or indirect owners of DESIM, are owned directly or indirectly by DESIM, or are otherwise affiliated with DESIM; have made (or whose affiliates have made or directed) investments in Funds advised by DESIM or a related party; or may be willing to furnish other services for the benefit of DESIM or a related party. In the latter case, such services will include only brokerage and research services that are deemed to fall within the safe harbor provided by Section 28(e) of the Exchange Act or any amendment or successor to such provision. Such services may include the provision of information on economic trends or conditions, political developments, industries, groups of securities, individual countries, and individual companies, as well as brokerage services or communication services related to the execution, clearing, and settlement of transactions. Research or other services obtained in this manner may be used in servicing any or all advisory clients of DESIM and may be used in connection with advisory accounts other than those that pay commissions and commission equivalents to the financial institution relating to the research or other service arrangements. The receipt of such services from particular financial institutions or counterparties may cause the Adviser to have an incentive to select or recommend such financial institutions or counterparties rather than financial institutions or counterparties from which the Adviser's clients would receive the most favorable execution. The appropriateness of brokerage commissions is evaluated by DESIM on an ongoing basis.

Clients may need to maintain and use a number of brokerage accounts to facilitate the various trading strategies deployed by DESIM. Nevertheless, the clearing, settlement, and custody of client positions may be carried out by a limited number of counterparties and, depending on the Investment, may require negotiation on a transaction-by-transaction basis. This may create a concentration of exposure to the creditworthiness of the counterparties carrying out such clearing, settlement, and custody. Any failure of any such counterparty could have, and has had in the past, a material adverse effect on clients.

When portfolio decisions are made contemporaneously for multiple clients in the same instrument, the Adviser may, if consistent with market conditions, client characteristics, and applicable law, bunch or aggregate client orders (including orders for clients in which the Adviser, its related persons, and/or its personnel have beneficial interests) for execution. Such bunched or aggregated orders might facilitate execution and may reduce brokerage and other costs. DESIM, however, is not required to bunch or aggregate orders if (a) portfolio management decisions are not made contemporaneously, (b) DESIM determines that it would be consistent with its investment management duties or the interests of its clients not to do so, or (c) bunching or aggregating is not practical operationally or otherwise. Because of prevailing trading activity, it is frequently not possible to receive the same price or execution on the entire volume of positions purchased or sold in such bunched or aggregated orders. When this occurs, DESIM (in its sole and absolute discretion) may charge or credit clients participating in the bunched or aggregated order with the average price of the various prices received for that order, or alternatively, may

charge or credit such clients with a price determined in good faith to be an appropriate price. Positions purchased or sold in a bunched transaction are allocated to the participating clients using methods determined by DESIM in its sole discretion (which methods may include *pro rata* by assets under management or by proportionate order size). DESIM may, however, increase or decrease the transaction amount allocated to each client if necessary to avoid holding odd-lots or small numbers of positions for particular clients. If DESIM is unable to or does not fully execute a bunched transaction or DESIM determines that it would be impractical to allocate a small number of positions among all of the accounts initially intended to participate in the transaction, the Adviser may allocate such positions in a manner determined in good faith to be an appropriate allocation. Although it is anticipated that the bunching or aggregation of orders will benefit each client overall, aggregating orders may disadvantage clients, including without limitation by resulting in shared allocations of orders or worse execution prices for client orders. Alternatively, not aggregating orders may disadvantage clients, including without limitation by resulting in higher costs or worse execution prices for client orders.

A client who designates use of a particular broker-dealer or other financial institution, including a client who directs use of a broker-dealer or other financial institution in connection with payment for custodial services (whether or not recommended by the Adviser) should consider whether, under that designation, commission expenses, execution, clearance, and settlement capabilities, and whatever amount is regarded as allocable to custodian fees, if applicable, will be comparable to those otherwise obtainable. A client who directs use of a particular broker-dealer or other financial institution should understand that it may lose the possible advantage which non-designating advisory clients derive from aggregation of orders of several clients as a single transaction for the purchase and sale of a particular security (where applicable) and/or other benefits that might be available from broker-dealers or other financial institutions selected by DESIM or its related persons.

DESIM's related persons may also have independent authority to determine and direct the execution of DESIM's clients' portfolio transactions, within the objectives, risk and liquidity profiles, and policies (if any) specified by each client or outlined in the applicable Governing Document and/or other written agreement with a client, subject to the same policies and restrictions discussed above.

DESIM generally is retained by clients on a discretionary basis and is authorized to determine and direct the execution of portfolio transactions and to delegate such authority to related persons or others, within the objectives and policies (if any) outlined in the applicable Governing Document or another written agreement with a particular client.

DESIM attempts to correct any identified trade errors. Depending on the terms of the applicable Governing Document, financial gains or losses resulting from trade errors may be borne by the applicable client.

When trading on behalf of multiple clients with differing performance-based fees, the Adviser endeavors to allocate investment opportunities among clients in a fair and equitable manner. The Adviser's trade allocation for any given client may vary based on, among other things, differences in investment objectives among clients, different capital constraints of each client, varying leverage preferences of each client, and any scheduled increase or decrease of any particular client's assets under management. The

Adviser does not alter its allocation policy with respect to a client, or allocate trades among multiple advisory clients, without the approvals of relevant senior management and compliance personnel.

### **Item 13: Review of Accounts**

For each of DESIM's investment strategies, a strategy head and/or other supervisors are responsible for reviewing trading data and other reports on a regular basis and overseeing the trading activity performed on behalf of DESIM's clients within such investment strategy. Such reviews include without limitation a verification that actual trading activity is consistent with the intended strategy, investment guidelines, and investment restrictions (if any); a review of risks associated with a particular strategy; and a determination that trading is undertaken in compliance with applicable regulations. Certain of the principal executive officers of DESIM or its affiliates may review investment strategies periodically. In addition, DESIM uses independent third parties to conduct financial audits of the accounts of its clients that are Funds, and the Compliance Department reviews certain other aspects of regulatory compliance. The frequency of all such reviews is determined as warranted by the purpose of the review and other circumstances.

In addition to reports required by applicable law, DESIM provides reports in accordance with the applicable Governing Document or other written agreements with particular clients or underlying investors.

The Adviser provides advisory clients and/or investors in Funds with written reports on a periodic basis that generally include, among other things, the net asset value or the capital balance of such client's or investor's account and a measure of performance based on the change in valuation of such client's account or the applicable Fund during the report period.

In addition, an independent third-party administrator and other independent third parties conduct an independent monthly verification of the Adviser's pricing of the investment positions held directly or indirectly by certain Funds. The independent third-party administrator provides a monthly letter to investors in such Funds that confirms, among other things, the accuracy of the capital balances and of certain monthly performance information reported by the Adviser or the Adviser's related persons to those investors; the performance of an independent pricing verification; and the percentage (if any) of the relevant Fund's investments for which the independent third party was unable to verify prices.

### **Item 14: Client Referrals and Other Compensation**

The Adviser may enter into capital introduction agreements with certain financial institutions under which the financial institution does not receive compensation for this service. The Adviser does not currently use solicitors for client referrals. The Funds may engage, and in the past have engaged, internal and/or external placement agents for placement of new fund interests. DESIM does not currently select or recommend broker-dealers based on whether DESIM or its related persons receive client referrals from such broker-dealers.

### **Item 15: Custody**

Client assets are generally held in custody by unaffiliated qualified custodians; however, the Adviser is deemed to have custody of the assets of the Funds. Fund investors do not receive account statements

from the custodian; rather, the Funds are subject to an annual audit, and the audited financial statements are distributed to each Fund investor.

#### **Item 16: Investment Discretion**

DESIM accepts discretionary authority to manage securities on behalf of its clients. The procedures governing assumption of this authority are outlined in the applicable Governing Document.

#### **Item 17: Voting Client Securities**

The Advisers Act generally requires investment advisers to vote all proxies within their authority. The Adviser does not vote proxies where it does not have the authority to do so or where the cost of doing so, in the opinion of the Adviser, would exceed the expected benefits to the client. The Adviser generally votes most shares through and in accordance with the recommendations of an independent third party proxy voting service (the "Voting Service Recommendations"). The Adviser has designated particular individuals to review Voting Service Recommendations to determine if any such recommendation is in the best interest of each client. Designated employees of the Adviser or its related persons review selected material proxy matters for the applicable advisory client and determine whether the Voting Service Recommendations appear to be in the best interest of such client. When the designated employees believe that the Voting Service Recommendation may be contrary to the best interest of a client, the designated employees may consider an alternative vote, in which case they must obtain the approval of the Chief Compliance Officer and a Managing Director, or their respective designees, before instructing the proxy voting service to vote the applicable proxy. For the avoidance of doubt, the Adviser retains the authority to vote proxies, has not delegated such authority to any other party, and may vote against any Voting Service Recommendation if it determines such recommendation is contrary to the client's best interests.

The Adviser believes that the independent third party proxy voting service's internal policy regarding conflicts of interest, including the use of information barriers, adequately satisfies potential conflict of interest concerns. Additionally, the Adviser has established written policies and procedures designed to ensure that shares owned by a client to which the Adviser provides advice are voted in the best interest of such client (the "Proxy Voting Procedures"). The Adviser will provide a copy of the Proxy Voting Procedures to any client or prospective client upon request and may elect to provide a copy to investors.

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

The Adviser does not require or solicit prepayment of fees more than six months in advance. The Adviser has not been the subject of a bankruptcy petition at any time during the past ten years.