

**DISCLOSURE BROCHURE**

(FORM ADV, PART 2)

**Ramius Structured Credit Group LLC**  
**File No. 801-64302**  
**599 LEXINGTON AVENUE**  
**NEW YORK, NY 10022**  
**[www.cowen.com/alternativeinvestments](http://www.cowen.com/alternativeinvestments)**

**March 2013**

**This brochure provides information about the qualifications and business practices of Ramius Structured Credit Group, LLC. If you have any questions about the contents of this brochure, please contact us at (212)845-7900. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Ramius Structured Credit Group, LLC is registered as an investment adviser with the SEC. Registration does not imply a certain level of skill or training.**

**Additional information about Ramius Structured Credit Group, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Please retain a copy of this brochure for your records.**

## **Item 2**

### **Material Changes**

The following is a discussion of material changes that have occurred with respect to Ramius Structured Credit Group, LLC (the “Adviser”) since the last annual update of the Adviser’s Form ADV Part 2 dated March 30, 2012.

1. Michael Singer was named the Chief Executive Officer of Ramius LLC, the managing member of the Adviser, in December 2012. Mr. Thomas Strauss has now assumed the role of Chairman of Ramius LLC and Vice-Chairman of Cowen Group, Inc.
2. The Adviser has updated its list of Financial Industry Affiliations. In addition to the SEC registered broker-dealers listed on the last annual update to the Form ADV Part 2 dated March 31, 2012, the Adviser is now affiliated with Cowen Equity Finance LP and Cowen Securities LLC. In addition, the Adviser is now also affiliated with the following SEC registered investment advisers: Starboard Value LP; RCG Longview Management LLC; RCG Longview Partners II LLC; RCG Longview Debt Fund IV Management LLC; RCG Longview Equity Management LLC; and Orchard Square Partners, LLC, a newly formed SEC registered investment adviser. Furthermore, the Adviser has updated its Financial Industry Affiliations to also include: Orchard Square Partners GP, LLC, Ramius UK Limited, an FSA registered entity and Cowen International Limited, an FSA registered entity and broker-dealer.

**Ramius Structured Credit Group LLC**  
**March 2013**

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**Item 3**  
**TABLE OF CONTENTS**

<b>Item Number</b>		<b>Page</b>
<b>Item 2</b>	Material Changes.....	2
<b>Item 3</b>	Table of Contents .....	3
<b>Item 4</b>	Advisory Business .....	4
<b>Item 5</b>	Fees and Compensation .....	4
<b>Item 6</b>	Performance-Based Fees and Side-By-Side Management .....	4
<b>Item 7</b>	Types of Clients .....	5
<b>Item 8</b>	Methods of Analysis, Investment Strategies and Risk of Loss .....	5
<b>Item 9</b>	Disciplinary Information .....	21
<b>Item 10</b>	Other Financial Industry Activities and Affiliations .....	21
<b>Item 11</b>	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	21
<b>Item 12</b>	Brokerage Practices .....	22
<b>Item 13</b>	Review of Accounts .....	24
<b>Item 14</b>	Client Referrals and Other Compensation .....	24
<b>Item 15</b>	Custody .....	24
<b>Item 16</b>	Investment Discretion.....	24
<b>Item 17</b>	Voting Client Securities.....	25
<b>Item 18</b>	Financial Information .....	25

#### **Item 4. Advisory Business**

Ramius Structured Credit Group LLC (the "Adviser") is a Delaware limited liability company formed in 2005. The Adviser is 100% owned by Ramius LLC which itself is 100% owned by Cowen Group, Inc., a publicly traded company (NASDAQ: COWN).

The Adviser provides discretionary investment management services primarily in its capacity as investment adviser to various private investment partnerships, foreign investment companies and other collective investment vehicles (each a "Fund" and collectively, the "Funds"). Interests in the Funds are not registered under the Securities Act of 1933 and the Funds are not registered under the Investment Company Act of 1940 (the "Company Act"). Accordingly, interests in the Funds are offered exclusively to investors satisfying the applicable eligibility and suitability requirements either in private placement transactions within the United States or in offshore transactions.

The Adviser's investment decisions and advice with respect to each Fund are subject to each Fund's investment objectives and guidelines, as set forth in its offering documents. The Adviser has full discretionary authority with respect to investment decisions and its advice with respect to the Funds is made in accordance with the investment objectives and guidelines as set forth in the Funds' respective offering memoranda or investment management agreement, if applicable.

The Adviser does not participate in wrap fee programs.

As of January 1, 2012 the Adviser managed \$105,929,381 of client assets on a discretionary basis. The Adviser did not manage any non-discretionary client assets.

#### **Item 5. Fees and Compensation**

As general partner or manager to the Funds, the Adviser is paid a "Management Fee" equal to a fixed percentage off the assets of such Funds, computed and payable monthly in arrears. Compensation received by the Adviser from the Funds is comprised of fees based on a percentage of assets under management at annual rates which will range from 1% to 2%. The Adviser may also charge the Funds a performance-based fee or partnership profit allocations ("Performance Compensation") in an amount up to 20% of net realized and unrealized profits for each year after restoration of any losses carried forward from prior years and, in some cases, after achieving a threshold annual return on invested capital at varying rates. Performance Compensation generally is billed or allocated after the close of each calendar year. The Adviser does not require prepayment of advisory fees by any client. Performance Compensation will be charged in compliance with all applicable requirements of Rule 205-3 under the Investment Advisers Act of 1940, as amended (the "Advisers Act") and the Adviser only accepts Performance Compensation from qualified clients. In the sole discretion of the Adviser, the Management Fee and Performance Fee may be waived, reduced or calculated differently with respect to certain clients.

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

The Adviser accepts performance based fees or allocations from certain clients. However, Performance Compensation may not be accepted from all clients. As described above in Item 5, the Adviser charges the Funds Performance Compensation in an amount up to 20% of net realized and unrealized profits for each year after restoration of any losses carried forward from prior years. These fees are in addition to the asset based fees charged to clients which are also described above in Item 5. Full details regarding the services, fees, investor suitability standards, and other terms applicable to the Funds are included in the offering memorandum of each such Fund.

When applicable, Performance Compensation will be charged in compliance with all applicable requirements of Rule 205-3 under the Investment Advisers Act of 1940 and the Adviser only accepts Performance Compensation from qualified clients.

The variation of Performance Compensation structures among the Adviser's clients may create an incentive for the Adviser to direct the best investment ideas to, or to allocate or sequence trades in favor of, clients that pay or allocate Performance Compensation. The Adviser is committed to allocating investment opportunities on a fair and equitable basis and has established policies and procedures to address the conflict of interest described above.

#### **Item 7. Types of Clients**

The Adviser's clients are privately placed investment companies. Typically, each investor in a Fund is required to qualify as a "qualified purchaser" within the meaning of Section 2(a)(51) of the Company Act and are required to certify that they are at least an "accredited investor" within the meaning of Rule 501 of Regulation D under the Securities Act of 1933 (the "Securities Act") and non-US investors are required to certify that they meet the requirements of the Regulation S safe harbor under the Securities Act; however, certain Funds advised by the Adviser do not collect Performance Compensation for services related to these Funds therefore only requiring investors to qualify as an "accredited investor" within the meaning of Rule 501 of Regulation D under the Securities Act. As noted above in Item 6, if the Adviser collects Performance Compensation, investors will be required to meet the requirements of Rule 205-3 under the Advisers Act and certify that they are at least a "qualified client". Please see the Private Placement Memorandum or other offering documentation for a Fund's specific investor qualifications. The minimum investment in the Funds is generally \$1 million, provided that the Adviser may accept subscriptions for a lesser amount.

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

The Adviser may engage in one or more of a number of strategies with respect to the Funds, including but not limited to credit trading, merger arbitrage, macro hedging and trading, hedging, convertible arbitrage (involving but not limited to, short sales, as well as investments in "busted" convertible bonds), private placements in public companies, purchasing the securities of distressed companies, purchasing both long and short equity positions, investing in mortgage-backed securities, real estate, futures, commodities and derivative instruments.

In addition, Adviser may enter into various derivative instruments including swaps, and forwards on behalf of its clients. In addition, the Adviser may direct its clients to purchase loans, bank debts, trade claims and other bankruptcy claims. The Adviser may obtain advice from attorneys, accountants and other experts to assist in its analysis of convertibles, private placements, extraordinary corporate transactions, distressed asset/bank transactions and other investments.

The Adviser may purchase or sell on behalf of its clients securities offered in private placements. On behalf of certain clients, the Adviser may engage in multiple strategies, including but not limited to the strategies noted above. The Adviser may obtain advice from attorneys, accountants and other experts to assist in its analysis of convertibles, private placements, extraordinary corporate transactions, distressed asset/bank transactions and other investments.

**Prospective investors should carefully consider the risks involved in an investment in a Fund including, but not limited to, those discussed below. Prospective investors should consult their own legal, tax and financial advisers as to all of these risks and an investment in a Fund generally.**

For purposes of the section below, unless otherwise individually identified, the Funds are collectively referred to as the "Fund".

Merger Arbitrage Generally. Merger arbitrage is a strategy that seeks to profit from changes in the price of securities of companies involved in mergers, acquisitions, corporate restructurings, spin-offs, recapitalizations, liquidations, substantial self-tenders or other extraordinary events ("Arbitrage Transactions"). This strategy involves taking long and short positions in securities that have either a perceived economic or mathematical relationship to each other and/or where a distortion exists between either the historical price or the fair value of that relationship. Although there is a perceived economic or mathematical relationship between such long and short positions, there is no guarantee that the Adviser's assessment of that relationship will be correct.

The Fund may invest in securities of U.S. and non-U.S. companies that the Adviser believes will engage in a corporate restructuring, recapitalization, spin-off or split-up. Such securities may have significant exposure to overall market movements. The Fund may attempt to preserve capital and minimize potential losses by, among other things, using options and other derivative instruments to hedge against market movements. The effectiveness of hedges may vary over time, certain types of losses may not be able to be hedged against or may not be anticipated, and the Fund may incur greater losses in a hedged position if the hedge is not effective than it would have incurred if the position had not been hedged.

The Fund may invest and trade in securities of companies that the Adviser believes are undervalued in the sense that, although they are not the subject of an announced tender offer, merger or acquisition transaction, in the Adviser's view the companies are potential candidates for such a transaction. In such case, if the anticipated transaction does not in fact occur, the Fund may sell the securities at a loss.

The price offered for securities of a company in a tender offer, merger or other acquisition transaction will generally be at a significant premium above the market price of the securities prior to the offer. The announcement of such a transaction generally will cause the market price of the securities to begin rising. The Fund may purchase such securities after the announcement of the transaction at a price that is higher than the pre-announcement market price, but that is lower than the price at which the Adviser expects the transaction to be consummated. If the proposed transaction is not consummated, the value of such securities purchased by the Fund may decline significantly. It also is possible that the difference between the price paid by the Fund for securities and the amount anticipated to be received upon consummation of the proposed transaction may be very small. If a proposed transaction in fact is not consummated or is delayed, the market price of the securities may decline sharply. In addition, where the Fund has sold short the securities it anticipates receiving in an exchange offer or merger, the Fund may be forced to cover its short position in the market at a higher price than its short sale, with a resulting loss. If the Fund has sold short securities that are the subject of a proposed exchange offer, merger or tender offer and the transaction is consummated, the Fund also may be forced to cover its short position at a loss.

The Fund may purchase securities at prices slightly below the anticipated value of the cash, securities or other consideration to be paid or exchanged for such securities in a proposed Arbitrage Transaction. However, such purchase price may be substantially in excess of the market price of the securities prior to the announcement of the Arbitrage Transaction. If it later appears that the proposed Arbitrage Transaction is not likely to be consummated or if, in fact, such Arbitrage Transaction is not consummated or is delayed, the market price of the security purchased by the Fund may decline sharply, thus resulting in losses when the securities are sold or exchanged.

Where the Fund has purchased put options with respect to the securities it anticipates receiving in an exchange or merger, if the proposed transaction is not consummated, the exercise price of the put options held by the Fund may be lower than the market price of the underlying securities, with the result that the cost of the options will not be recovered. If the Fund has purchased put options with respect to securities that are the subject of a proposed cash tender offer or cash merger and the transaction is consummated, the Fund also may not exercise its options and may

lose the premiums paid therefore. In addition, premiums paid for put options increase the Fund's transaction costs and, in certain situations, may result in a sufficient reduction in the spread between the acquisition price and the anticipated price to be received to make the investment so unattractive based upon a return on capital/risk-reward analysis that the Adviser may determine not to take a portfolio position. Since options expire on defined dates, in the event consummation of a transaction is delayed beyond the expiration of a put option held by the Fund, they may lose the anticipated benefit of the option. In the event of the expiration of a call option held by the Fund, the Fund will lose its entire investment in the call option.

Often a tender or exchange offer will be made for less than all of the outstanding securities of an issuer or a higher price will be offered for a limited amount of the securities, with the provision that, if a greater number is tendered, securities will be accepted pro rata. Thus, the Fund may have returned to it a portion of the securities it tendered. Since, after completion of the tender offer, the market price of the securities may have declined below its cost, a sale of any returned securities may result in a loss.

The Fund may also purchase securities that are the subject of a takeover bid for a price above the price offered by the bidder if the Adviser determines that the offer price is likely to be increased either by the original bidder or by another party. However, if ultimately the target company is not acquired or if the offer price is not increased, it is likely that a loss will be incurred.

Risks of Arbitrage Investing. There are significant business risks associated with merger arbitrage investing. Such strategies may involve investments in securities that are difficult to analyze, have limited trading histories and have limited in-depth research coverage. Because of the inherently speculative nature of this activity, the results of the Fund's operations may be expected to fluctuate from month to month and from period to period. Accordingly, investors should understand that the results of a particular period will not necessarily be indicative of results that may be expected in future periods.

Consummation of Arbitrage Transactions. Arbitrage strategies generally incur significant losses when proposed transactions are not consummated. The consummation of mergers, tender offers, and exchange offers and other significant corporate events can be prevented or delayed by a variety of factors, including: (i) regulatory intervention; (ii) efforts by the target company to pursue a defensive strategy, including a merger with, or a friendly tender offer by, a company other than the offer or; (iii) failure to obtain the necessary shareholder approvals; (iv) adverse market or business conditions resulting in material change or termination of the pending transaction; (v) additional requirements imposed by law; and (vi) inability to obtain adequate financing. There is no assurance that any proposed transaction invested in by the Fund will be consummated or that the anticipated profit will be realized. The Fund may sell the securities of a target company short if the Adviser determines that it is probable that a proposed transaction will not be consummated. If the transaction is consummated and as a result of such transactions the price of the target company's securities increases, the Fund may be forced to cover its short sale, resulting in a loss.

The Fund may take tax considerations into account in determining when the Fund's securities positions should be sold or otherwise disposed of, and may assume certain market risk and incur certain expenses in this regard in order to achieve favorable tax treatment of a transaction.

Investing in Arbitrage Transactions is Extremely Competitive. The Fund competes with firms, including many of the larger investment banking firms, which have substantially greater financial resources, larger research staffs and more securities traders than will be available to the Fund. In any given transaction, arbitrage activity by other firms will tend to narrow the spread between the price at which a security may be purchased by the Fund and the price it expects to receive upon consummation of the transaction thereby reducing the Fund's opportunity for profit.

Business Dependent Upon Adviser. Investors shall have no authority to make day-to-day decisions or to exercise business discretion on behalf of the Fund. The authority for all investment decisions is delegated to the Adviser. The success of the Fund depends upon the ability of the Adviser to develop and implement investment strategies that achieve the Fund's investment objectives. Subjective decisions made by the Adviser may cause the Fund to incur losses or to miss profit opportunities on which it would otherwise have capitalized. If the Adviser were to become unable to participate in the management of the Fund's assets, the consequences to the Fund could be material and adverse.

Limited Liquidity; Liquidity and Information Rights; In-Kind Distributions. An investment in the Fund provides limited liquidity since the interests are not freely transferable, and since any portion of any capital that any investor contributes to the Fund (and any appreciation on such capital) may only be withdrawn by such investor on a Withdrawal Date with respect to such capital, upon no less than 60 days' irrevocable prior written notice to the Fund, or at such other times or on such shorter notice as may be permitted by the Adviser. In addition, the Adviser may limit or suspend withdrawal rights for any and all investors for any period during which, in the opinion of the Adviser, disposition of investments by the Fund would not be reasonable or practicable or would be prejudicial to the non-withdrawing investors. In addition, certain investors may invest on terms with respect to liquidity rights that differ from the terms generally applicable to other investors and may be able to request withdrawals at a time when other investors cannot. Also, certain investors may invest on terms that provide access to information that is not generally available to other investors and, as a result, may be able to act on such additional information (i.e., request withdrawals) that other investors do not receive. In addition, while the Fund expects to distribute cash to investors upon a withdrawal from the Fund, there can be no assurance that the Fund will have sufficient cash to satisfy withdrawal requests, or that it will be able to liquidate investments at favorable prices at the time of such withdrawal request. Under the foregoing circumstances, and under other circumstances deemed appropriate by the Adviser, an investor may receive in-kind distributions from the Fund's portfolio. Such investments so distributed may not be readily marketable or salable and may have to be held by such investor for an indefinite period of time. As a result, an investment in the Fund is suitable only for sophisticated investors that do not require immediate liquidity for their investment and are able to bear the financial risks of this investment for an indefinite period of time.

Investment and Trading Risks. All investments in securities and other financial instruments, including an investment in the Fund, risk the loss of invested capital. An investor should be aware that it may lose all or part of its investment in the Fund. The Fund's investment program will utilize certain investment techniques such as forward contracts, options, swaps, short sales and leverage which can, in certain circumstances, increase the adverse impact to which the Fund may be subject. No guarantee or representation is made that the Fund's program will be successful, and investment results may vary substantially over time.

Inside Information. From time to time the Adviser or its affiliates, or members of a group of investors or Advisers with whom the Adviser is acting, may work with the management team of a company in which the Fund have invested, or proposes to invest, in order to design an alternate strategic plan and assist them in its execution, and may secure the appointment of persons selected by the Adviser or other members of the group to the company's management team or board of directors. In the course of such activities, the Adviser may come into possession of material, non-public information concerning such company, and the possession of such information may limit the ability of the Adviser to cause the Fund to buy or sell the securities issued by such company. Therefore, the Fund may be required to refrain from buying or selling such securities at times when the Adviser might otherwise wish to cause the Fund to buy or sell such securities.

Short-Swing Liability. From time to time, the Fund, acting alone or as part of a group, may acquire beneficial ownership of more than 10% of certain classes of securities of a public company, or may place a director on the board of directors of such a company. As a result,



under Section 16 of the Exchange Act, the Fund may be subject to certain additional reporting requirements and may be required to disgorge certain short-swing profits arising from purchases and sales of such securities.

Control Position. As noted above, the Fund, acting either alone or as part of a group, may acquire a "control" position in an issuer's securities. This may subject the Fund to additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability in which the limited liability generally characteristic of business operations may be ignored.

Risks Associated with Investments in Restructured Companies. The Fund may invest in securities of companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Although such investments may result in significant returns to the Fund, they involve a substantial degree of risk. Any one or all of the issuers of the securities in which the Fund invests may not show any return for a considerable period of time, if ever. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the Adviser will correctly evaluate the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which the Fund invests, the Fund may lose its entire investment or may be required to accept cash or securities with a value less than the original investment.

Credit Risk; Lower Credit Quality Securities. The Fund is exposed to the risk that one or more of the issuers of debt securities in the Fund's portfolio may default in paying principal or interest. Such companies' securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to the Fund's investment in any instrument, and a significant portion of the obligations and preferred stock in which the Fund invests may be less than investment grade. As a result, the Fund may lose all or substantially all of its investment in any particular instance.

There are no restrictions on the credit quality of the investments of the Fund. Securities in which the Fund may invest may be deemed by rating companies to have substantial vulnerability to default in payment of interest and/or principal. Other securities may have the lowest quality ratings or may be unrated. Lower rated and unrated securities in which the Fund may invest have large uncertainties or major risk exposures to adverse conditions, and are considered to be predominantly speculative. Generally, such securities offer a higher return potential than higher rated securities, but involve greater volatility of price and greater risk of loss of income and principal.

The market values of certain of these securities (such as subordinated securities) also tend to be more sensitive to changes in economic conditions than higher rated securities. Such securities tend to reflect individual corporate developments to a greater extent than do higher rated securities, which react primarily to fluctuations in the general level of interest rates. Companies that issue such securities often are highly leveraged and may not have available to them more traditional methods of financing. Any economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

In general, the ratings of nationally recognized rating organizations represent the opinions of these agencies as to the quality of securities that they rate. These ratings may be used by the Adviser as initial criteria for the selection of portfolio securities. Such ratings, however, are relative and subjective; they are not absolute standards of quality and do not evaluate the market

value risk of the securities. It is also possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events.

Securities in which the Fund may invest may rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of whose debt securities may be secured by substantially all of the issuer's assets. Moreover, the Fund may invest in securities that are not protected by financial covenants or limitations on additional indebtedness.

Valuation. Securities that the Adviser believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the time frame the Adviser anticipates. In particular, purchasing securities at prices that the Adviser believes to be distressed or below fair value is no guarantee that the price of such securities will not decline even further.

Interest Rate Risk. The Fund is subject to the risk of a change in interest rates. A decline in interest rates could reduce the amount of current income the Fund is able to achieve from interest on convertible debt and the proceeds of short sales. An increase in interest rates could reduce the value of convertible securities owned by the Fund. To the extent that the cash flow from a fixed income security is known in advance, the present value (i.e., discounted value) of that cash flow decreases as interest rates increase; to the extent that the cash flow is contingent, the dollar value of the payment may be linked to then prevailing interest rates. Moreover, the value of many fixed income securities depends on the shape of the yield curve, not just on a single interest rate. Thus, for example, a callable cash flow, the coupons of which depend on a short rate such as three-month LIBOR, may shorten (i.e., be called away) if the long rate decreases. In this way, such securities are exposed to the difference between long rates and short rates. The Fund may also invest in floating rate securities. The value of these investments is closely tied to the absolute levels of such rates, or the market's perception of anticipated changes in those rates. This introduces additional risk factors related to the movements in specific interest rates that may be difficult or impossible to hedge, and that also interact in a complex fashion with prepayment risks.

Small- and Medium-Capitalization Companies. The Fund may invest a portion of its assets in the securities of companies with small- to medium-sized market capitalizations. While the Adviser believes they often provide significant potential for appreciation, such securities, particularly of companies having small capitalization, involve higher risks in some respects than do investments in securities of larger companies. For example, prices of securities of small-capitalization and even medium-capitalization companies are often more volatile than prices of securities of large-capitalization companies and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) is higher than for larger, "blue-chip" companies. In addition, due to thin trading in the securities of some small-capitalization companies, an investment in those companies may be illiquid.

Illiquidity of Investments; Unregulated Transactions. The Fund may invest in securities that are subject to legal or other restrictions on transfer or for which no liquid market exists. The market prices, if any, for such securities tend to be volatile and may not readily be ascertainable, and the Fund may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. The Fund may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. In addition, in certain circumstances governmental or regulatory approvals may be required for the Fund to dispose of an investment. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale.

Companies whose securities are not publicly traded are not subject to the same disclosure and reporting requirements that are generally applicable to companies with publicly traded securities, nor is the trading of such non-publicly traded securities regulated by any government agency. Accordingly, the protections accorded by such regulation will not be available in making such investments. When the Adviser deems it appropriate, such investments may constitute a material portion of the Fund's assets.

Investing in Distressed Securities. The Fund may invest in "below investment grade" securities and obligations of domestic and non-U.S. issuers in weak financial condition, including those experiencing poor operating results, having substantial capital needs or negative net worth, and/or facing special competitive or product obsolescence problems, and including companies involved in bankruptcy or other reorganization and liquidation proceedings. These securities are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments also may be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies' securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to the Fund's investment in any instrument, and a significant portion of the obligations and preferred stock in which the Fund invests may be less than investment grade. Any one or all of the issuers of the securities in which the Fund may invest may be unsuccessful or not show any return for a considerable period of time. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the Adviser will correctly evaluate the value of the assets collateralizing the Fund's loans or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which the Fund invests, the Fund may lose its entire investment, may be required to accept cash or securities with a value less than the Fund's original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Fund's investments may not compensate the Partners adequately for the risks assumed.

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the Fund of the security in respect to which such distribution was made.

In certain transactions, the Fund may not be "hedged" against market fluctuations, or, in liquidation situations, may not accurately value the assets of the company being liquidated. This can result in losses, even if the proposed transaction is consummated.

Derivatives Generally. Derivative instruments, or "derivatives", include options, swaps, structured securities and other instruments and contracts that are derived from, or the value of which is related to, one or more underlying securities, financial benchmarks, currencies or indices. Derivatives typically allow an investor to hedge or speculate on the price movements of a particular security, financial benchmark currency, index or commodity at a fraction of the cost of investing in the underlying asset. There is no assurance that derivatives that the Fund wishes to acquire will be available at any particular time, on satisfactory terms or at all.

The value of a derivative depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives of such asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives are "leveraged", and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement cannot only result in the loss of the entire investment, but may also expose the Fund to the possibility of a loss exceeding the original amount invested.

In addition, derivative contracts may expose the Fund to the credit risk of the parties with which the Fund deals. Non-performance of such contracts by counterparties, for financial or other reasons, could expose the Fund to losses, whether or not the transaction itself was profitable. Derivatives may also expose investors to liquidity risk, as there may not be a liquid market within which to close or dispose of outstanding derivatives contracts.

Call Options. There are risks associated with the sale and purchase of call options. The seller (writer) of a call option that is covered (e.g., the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security offset by the premium received if the option expires out of the money, and gives up the opportunity for gain on the underlying security above the exercise price of the option. If the seller of the call option owns a call option covering an equivalent number of shares with an exercise price equal to or less than the exercise price of the call written, the position is "fully hedged" if the option owned expires at the same time or later than the option written. The seller of an uncovered, unhedged call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The buyer of a call option assumes the risk of losing its entire investment in the call option. If the buyer of the call sells short the underlying security, the loss on the call will be offset, in whole or in part, by any gain on the short sale of the underlying security (if the market price of the underlying security declines).

Put Options. There are risks associated with the sale and purchase of put options. The seller (writer) of a put option that is covered (e.g., the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sale price of the short position of the underlying security offset by the premium if the option expires out of the money, and thus the gain in the premium, and the option seller gives up the opportunity for gain on the underlying security below the exercise price of the option. If the seller of the put option owns a put option covering an equivalent number of shares with an exercise price equal to or greater than the exercise price of the put written, the position is "fully hedged" if the option owned expires at the same time or later than the option written. The seller of an uncovered, unhedged put option assumes the risk of a decline in the market price of the underlying security to zero. The buyer of a put option assumes the risk of losing his entire investment in the put option. If the buyer of the put holds the underlying security, the loss on the put will be offset, in whole or in part, by any gain on the underlying security.

Stock Index Options. The Fund may also purchase and sell call and put options on stock indices listed on securities exchanges or traded in the over-the-counter market for the purpose of realizing its investment objectives or for the purpose of hedging its portfolio. A stock index fluctuates with changes in the market values of the stocks included in the index. The effectiveness of purchasing or writing stock index options for hedging purposes will depend upon the extent to which price movements in the Fund's portfolio correlate with price movements of the stock indices selected. Because the value of an index option depends upon movements in the level of the index rather than the price of a particular stock, whether the Fund realizes gains or losses from the purchase or writing of options on indices depends upon movements in the level of stock prices in the stock market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular stocks. Accordingly, successful use by the Fund of options on stock indices will be subject to the Adviser's ability to correctly predict movements in the direction of the stock market generally or of particular industries or

market segments. This requires different skills and techniques than predicting changes in the price of individual stocks.

Margin on Options. The Adviser may, on behalf of the Fund, purchase and sell ("write") options on equities on U.S. and non-U.S. commodities and securities exchanges and in the U.S. and non-U.S. over-the-counter ("OTC") market. When the Fund purchases an option in the United States, there is no margin requirement because the option premium is paid for in full. The premiums for certain options traded on non-U.S. exchanges may be paid for on margin. Whether any margin deposit will be required for OTC options and other OTC instruments, such as currency forwards, will depend on the credit determinations and specific agreements of the parties to the transaction, which are individually negotiated.

Options may be cash settled, settled by physical delivery or settled by entering into a closing purchase transaction. In entering into a closing purchase transaction, the Fund may be subject to the risk of loss to the extent that the premium paid for entering into such closing purchase transaction exceeds the premium received when the option was written.

Swap Agreements. The Fund may enter into swap agreements. Swap agreements can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease the Fund's exposure to long-term or short-term interest rates (in the United States or abroad), non-U.S. currency values, corporate borrowing rates or other factors such as security prices, baskets of equity securities or inflation rates. Swap agreements can take many different forms and are known by a variety of names. The Fund are not limited to any particular form of swap agreement if consistent with the Fund's investment objective and policies.

Swap agreements tend to shift the Fund's investment exposure from one type of investment to another. For example, if the Fund agree to exchange payments in dollars for payments in non-U.S. currency, the swap agreement would tend to decrease the Fund's exposure to U.S. interest rates and increase its exposure to non-U.S. currency and interest rates. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the Fund's portfolio. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency, individual equity values or other factors that determine the amounts of payments due to and from the Fund. If a swap agreement calls for payments by the Fund, the Fund must be prepared to make such payments when due. In addition, if a counterparty's creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses to the Fund.

Forward Trading. The Fund may invest in forward contracts and options thereon, which, unlike futures contracts, are not traded on exchanges, and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. For example, there are no requirements with respect to record-keeping, financial responsibility or segregation of customer funds or positions. In contrast to exchange-traded futures contracts, interbank traded instruments rely on the fulfillment by the dealer or counterparty of its contract. As a result, trading in interbank non-U.S. exchange contracts may be subject to more risks than futures or options trading on regulated exchanges, including, but not limited to, the risk of default due to the failure of a counterparty with which the Fund has forward contracts. Although the Adviser seeks to trade with responsible counterparties, failure by a counterparty to fulfill its contractual obligation could expose the Fund to unanticipated losses. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell.

Disruptions can occur in any market traded by the Fund due to unusually high or low trading volume, political intervention or other factors. The imposition of credit controls by government authorities might also limit such forward trading to less than that which the Adviser would otherwise recommend, to the possible detriment of the Fund. Neither the Commodity Futures Trading Commission nor banking authorities regulate forward currency trading through banks. In respect of such trading, the Fund would be subject to the risk of counterparty failure or the inability or refusal by a counterparty to perform with respect to such contracts. Market illiquidity or disruption could result in major losses to the Fund.

Repurchase and Reverse Repurchase Agreements. The Fund may enter into repurchase and reverse repurchase agreements. When the Fund enters into a repurchase agreement, it "sells" securities to a broker-dealer or financial institution, and agrees to repurchase such securities on a mutually agreed date for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. In a reverse repurchase transaction, the Fund "buys" securities issued from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid by the Fund, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by the Fund involves certain risks. For example, if the seller of securities to the Fund under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, the Fund will seek to dispose of such securities, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, the Fund's ability to dispose of the underlying securities may be restricted. It is possible, in a bankruptcy or liquidation scenario, that the Fund may not be able to substantiate its interest in the underlying securities. Finally, if a seller defaults on its obligation to repurchase securities under a reverse repurchase agreement, the Fund may suffer a loss to the extent that it is forced to liquidate its position in the market, and proceeds from the sale of the underlying securities are less than the repurchase price agreed to by the defaulting seller. Similar elements of risk arise in the event of the bankruptcy or insolvency of the buyer.

Contracts for Differences. The Fund may enter into contracts for differences. In these transactions, the Fund and another party assume price positions in reference to an underlying security or other financial instrument. The "difference" is determined by comparing each party's original position with the market price of such securities or financial instruments at a pre-determined closing date. Each party will then either receive or pay the difference, depending on the success of its investment.

Financial markets for the securities or instruments that form the subject of a contract for differences can fluctuate significantly. Parties to a contract for differences assume the risk that the markets for the underlying securities will move in a direction unfavorable to their original positions. In addition, these contracts often involve considerable economic leverage. As a result, such contracts can lead to disproportionately large losses as well as gains and relatively small market movements can have large impacts on the value of the investment.

Other Derivative Instruments. The Fund may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of the Fund and legally permissible. Special risks may apply to instruments that are invested in by the Fund in the future that cannot be determined at this time or until such instruments are developed or invested in by the Fund. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

Currency Risk. The Fund may invest a portion of its assets in the securities of non-U.S. issuers and other instruments denominated in non-U.S. currencies, the prices of which are determined

with reference to currencies other than the U.S. dollar. The Fund, however, values its securities and other assets in U.S. dollars. The Fund seeks to hedge its non-U.S. currency exposure, but it may not always be practicable to do so. To the extent unhedged, the value of the Fund's positions in non-U.S. investments will fluctuate with U.S. dollar exchange rates as well as the price changes of the investments in the various local markets and currencies. In such cases, an increase in the value of the U.S. dollar compared to the other currencies in which the Fund makes its investments will reduce the effect of any increases and magnify the effect of any decreases in the prices of the Fund's securities in their local markets and may result in a loss to the Fund. Conversely, a decrease in the value of the U.S. dollar will have the opposite effect on the Fund's non-U.S. dollar investments.

Furthermore, the Fund may incur costs in connection with conversions between various currencies. Non-U.S. currency exchange dealers realize a profit based on the difference between the prices at which they are buying and selling various currencies. Thus, a dealer normally will offer to sell currency to the Fund at one rate, while offering a lesser rate of exchange should the Fund desire immediately to resell that currency to the dealer. The Fund conducts its currency exchange transactions either on a spot (i.e., cash) basis at the spot rate prevailing in the currency exchange market, or through entering into forward contracts to purchase or sell non-U.S. currencies. Most of the Fund's currency exchange transactions occur at the time securities are purchased and are executed through the local broker or custodian acting for the Fund.

Currency Hedging. The Fund may seek to protect the value of some portion or all of its portfolio holdings against currency fluctuations by engaging in hedging transactions, but there can be no assurance that such hedging transactions will be effective. The Fund may enter into forward contracts on currencies, as well as purchase put or call options on currencies, in U.S. or non-U.S. markets. In order to hedge against adverse market shifts, the Fund may purchase put and call options on stocks, and write covered call options on stocks. There can be no guarantee that instruments suitable for hedging currency or market shifts will be available at the time the Fund wishes to use them or will be able to be liquidated when the Fund wishes to do so. In addition, the Fund may choose not to enter into hedging transactions with respect to some or all of its positions.

Counterparty Credit Risk. Some of the markets in which the Fund may effect transactions are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to the same credit evaluation and regulatory oversight as are members of "exchange-based" markets. In addition, many of the protections afforded to participants on some organized exchanges, such as the performance guarantee of an exchange clearinghouse, might not be available in connection with such "over-the-counter" transactions. This exposes the Fund to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Fund to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Fund has concentrated its transactions with a single or small group of counterparties. The Fund is not restricted from dealing with any particular counterparty or from concentrating any or all of the Fund's transactions with one counterparty. Moreover, the Fund does not have any formal credit function that evaluates the creditworthiness of the counterparties. The ability of the Fund to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Fund.

Leverage. The Fund may borrow substantial amounts of money in the course of their investment operations, using as collateral the securities that they own from time to time. Thus, the Fund may be in a leveraged position and the amount of borrowing that such entities may have outstanding at any one time may be large in relation to their capital. Consequently, the interest rates at which the

Fund is able to borrow may affect the Fund's operating results. As in the case of other leveraged investments, significant losses may result.

In general, the anticipated use of short-term margin borrowings by the Fund results in certain additional risks to the Fund. For example, should the securities pledged to brokers to secure the margin accounts of the Fund decline in value or should brokers from which the Fund have borrowed increase their maintenance margin requirements (i.e., reduce the percentage of a position that can be financed), the Fund could be subject to a "margin call" pursuant to which the Fund would be required either to deposit additional funds with the broker or to suffer mandatory liquidation of all or a portion of the pledged securities to compensate for the decline in value. In the event of a precipitous drop in the value of the assets managed by the Fund, such entity might not be able to liquidate assets quickly enough to pay off the margin debt and might suffer mandatory liquidation of positions in a declining market at relatively low prices, incurring substantial losses.

Non-U.S. Investments. The Fund may invest in securities of non-U.S. corporations and non-U.S. countries. Investing in the securities of companies (and, from time to time, governments) of non-U.S. countries involves certain considerations not usually associated with investing in securities of U.S. companies or the U.S. Government, including possible adverse political and economic developments, possible seizure or nationalization of non-U.S. deposits and possible adoption of governmental restrictions that might adversely affect the payment of principal and interest to investors located outside the country of the issuer, whether from currency blockage or otherwise. In addition, there may be less publicly available information about issuers in non-U.S. countries, which are generally not subject to uniform accounting, auditing and financial reporting standards and other disclosure requirements comparable to those applicable to U.S. issuers. Furthermore, some of the securities may be subject to brokerage taxes levied by governments, which has the effect of increasing the cost of such investment and reducing the realized gain or increasing the realized loss on such securities at the time of sale. Income received by the Fund from sources within some countries may be reduced by withholding and other taxes imposed by such countries. Any such taxes paid by the Fund will reduce its net income or return from such investments. While the Adviser will take these factors into consideration in making investment decisions for the Fund, no assurance can be given that the Adviser will be able to fully avoid these risks.

Additional costs could be incurred in connection with the Fund's international investment activities. Non-U.S. brokerage commissions generally are higher than in the United States. Expenses also may be incurred on currency exchanges when the Adviser changes investments from one country to another. Increased custodian costs as well as administrative difficulties (such as the applicability of non-U.S. laws to non-U.S. custodians in various circumstances, including bankruptcy, ability to recover lost assets, expropriation, nationalization and record access) may be associated with the maintenance of assets in non-U.S. jurisdictions.

Investments in non-U.S. securities also involve risks relating to currency exchange matters.

Hedging Transactions. The Fund may utilize a variety of financial instruments, such as derivatives, options, interest rate swaps, caps and floors, futures and forward contracts, both for investment purposes and for risk management purposes in order to: (i) protect against possible changes in the market value of the Fund's investment portfolio resulting from fluctuations in the securities markets and changes in interest rates, (ii) protect the unrealized gains in the value of the Fund's investment portfolio, (iii) facilitate the sale of any such investments, (iv) enhance or preserve returns, spreads or gains on any investment in the Fund's portfolio, (v) hedge the interest rate or currency exchange rate on any of the Fund's liabilities or assets, (vi) protect against any increase in the price of any securities the Fund anticipates purchasing at a later date or (vii) for any other reason that the Adviser deems appropriate.

The Fund are not required to attempt to hedge portfolio positions in the Fund and, for various reasons, may determine not to do so. Furthermore, the Adviser may not anticipate a particular



risk so as to hedge against it. While the Fund may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Fund than if it had not engaged in any such hedging transaction. For a variety of reasons, the Adviser may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent the Fund from achieving the intended hedge or expose the Fund to risk of loss. The success of the Fund's hedging strategies is subject to the Adviser's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolios being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the Fund's hedging strategy is also subject to the Adviser's abilities to continually recalculate, readjust and execute hedges in an efficient and timely manner.

Convertible Securities Hedging Risks. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. A convertible security entitles the holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics in that they generally (i) have higher yields than common stocks, but lower yields than comparable non-convertible securities, (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases.

The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security's investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases as the convertible security approaches maturity.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by the Fund is called for redemption, the Fund will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third-party. Any of these actions could have an adverse effect on the Fund's ability to achieve its investment objective.

Short Sales. A short sale involves the sale of a security that the seller does not own in anticipation of purchasing the same security (or a security exchangeable therefore) at a later date at a lower price. To make delivery to the buyer, the seller must borrow the security, and is obligated to return the security to the lender, which is accomplished by a later purchase of the security. When a short sale is made, the seller must leave the proceeds thereof with the broker and deposit with the broker an amount of cash or U.S. Government securities sufficient under current margin regulations to collateralize its obligation to replace the borrowed securities that have been sold. If short sales are effected on a non-U.S. exchange, such transactions will be governed by local law. A short sale involves the risk of a theoretically unlimited increase in the

market price of the security. In addition, a short sale involves the risk that borrowed securities will have to be returned to the lender at a time when such securities cannot be borrowed from other sources, potentially requiring a short sale transaction to be closed at an inopportune time or under disadvantageous circumstances. The Fund has no policy limiting the amount of capital it may deposit to collateralize its obligation to replace borrowed securities sold short.

Portfolio Turnover. The Fund will not generally be restricted in effecting transactions by any limitation with regard to their respective portfolio turnover rates. In light of the Fund's investment objectives and policies, it is possible that the portfolio turnover rates of the Fund may exceed 100% per annum, which will result in significant transaction costs for the Fund.

Financial Failure of Intermediaries. There is always the possibility that the institutions, including brokerage firms and banks, with which the Fund do business, or to which securities have been entrusted for custodial purposes, will encounter financial difficulties that may impair their operational capabilities or result in losses to the Fund.

Suspensions of Trading. Each exchange typically has the right to suspend or limit trading in all securities that it lists. Such a suspension could render it impossible for the Fund to liquidate its positions and thereby expose it to losses. In addition, there is no guarantee that non-exchange markets will remain liquid enough for the Fund to close out positions.

Commercial Mortgage-Backed Securities. The Fund's portfolio may include commercial mortgage-backed securities, which are securities backed by obligations (including certificates of participation in obligations) that are principally secured by interests in real property having a multifamily or commercial use, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, nursing homes and senior living centers. Commercial mortgage-backed securities have been issued in public and private transactions by a variety of public and private issuers using a variety of structures, including senior and subordinated classes. Commercial mortgage loans generally lack standardized terms, tend to have shorter maturities than residential mortgage loans and may provide for the repayment of all or substantially all of the principal only at maturity. All of these factors increase the risk involved with commercial real estate lending. Commercial properties tend to be unique and are more difficult to value than single-family residential properties. Commercial lending is generally viewed as exposing a lender to a greater risk of loss than residential one-to-four family lending since it typically involves larger loans to a single borrower than residential one-to-four family lending.

Commercial mortgage lenders typically look to the debt service coverage ratio of a loan secured by income-producing property as an important measure of the risk of default on a loan. Commercial property values and net operating income are subject to volatility, and net operating income may be sufficient or insufficient to cover debt service on the related mortgage loan at any given time. The repayment of loans secured by income-producing properties is typically dependent upon the successful operation of the related real estate project as well as upon the liquidation value of the underlying real estate. The value of commercial real estate is also subject to a number of laws and regulations, such as regulations and laws regarding environmental clean-up and limitations on remedies imposed by bankruptcy laws and state laws regarding foreclosures and rights of redemption.

Most commercial mortgage loans underlying mortgage-backed securities are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related mortgage-backed securities are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of mortgage-backed securities may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed in lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by

litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks and governmental disclosure requirements with respect to the condition of the property may make a third-party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related mortgage-backed securities. Revenues from the assets underlying such mortgage-backed securities may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court-appointed receiver to control collateral cash flow.

Commercial mortgage-backed securities may pay fixed or floating rates of interest. Fixed-rate commercial mortgage-backed securities, like all fixed income securities, generally decline in value as rates rise. Moreover, although generally the value of fixed income securities increases during periods of falling interest rates, the inverse relationship may not be as marked in the case of commercial mortgage-backed securities due to the increased likelihood of prepayments during periods of falling interest rates. This effect is mitigated to some degree for mortgage loans providing for a period during which no prepayments may be made. Certain commercial mortgage-backed securities lack regular amortization of principal, resulting in a single "balloon" payment due at maturity. If the underlying mortgage borrower experiences business problems, or other factors limit refinancing alternatives, such balloon payment mortgages are likely to experience payment delays or even default.

Prepayment Risk. The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to defaults and foreclosures) occur on loans underlying mortgage-backed securities will be affected by a variety of factors including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. Generally, mortgage obligors tend to prepay their mortgages when prevailing mortgage rates fall below the interest rates on their mortgage loans.

In general, "premium" securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since many mortgage-backed securities and asset-backed securities will be discount securities when interest rates are high, and will be premium securities when interest rates are low, these mortgage-backed securities and asset-backed securities may be adversely affected by changes in prepayments in any interest rate environment.

The adverse effects of prepayments may impact the Fund's portfolios in two ways. First, particular investments may experience outright losses, as in the case of an interest-only security in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that the Adviser may have constructed for these investments, resulting in a loss to the Fund's overall portfolio. In particular, prepayments (at par) may limit the potential upside of many mortgage-backed securities and asset-backed securities to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

General Real Estate Risks. Real estate investments generally will be subject to the risks incident to the ownership and operation of commercial real estate and/or risks incident to the making of nonrecourse mortgage loans secured by real estate, including (i) risks associated with both the domestic and international general economic climate; (ii) local real estate conditions; (iii) risks due to dependence on cash flow; (iv) risks and operating problems arising out of the absence of certain construction materials; (v) changes in supply of, or demand for, competing properties in an area (as a result, for instance, of over-building); (vi) the financial condition of tenants, buyers and sellers of properties; (vii) changes in availability of debt financing; (viii) energy and supply shortages; (ix) changes in the tax, real estate, environmental and zoning laws and regulations; (x) various uninsured or uninsurable risks; (xi) natural disasters; and (xii) the ability of the Fund or third-party borrowers to manage the real properties. With respect to investments in the form of

real property owned by the Fund, the Fund will incur the burdens of ownership of real property, which include the paying of expenses and taxes, maintaining such property and any improvements thereon, and ultimately disposing of such property. With respect to investments in equity or debt securities, the Fund will in large part be dependent on the ability of third-parties to successfully operate the underlying real estate assets. In addition, the Fund may invest in mortgage loans that are structured so that all or a substantial portion of the principal will not be paid until maturity, which increases the risk of default at that time. The Fund's investment strategy, which may frequently involve the acquisition of distressed or underperforming assets in a leveraged capital structure, will involve a high degree of legal and financial risk, and there can be no assurance that the Fund's rate of return objectives will be realized or that there will be any return of capital. There is no assurance that there will be a ready market for resale of investments because investments in real estate generally are not liquid.

Possible Adverse Effects of Substantial Withdrawals. In the event that there are substantial withdrawals of capital from the Fund within a limited period of time, the Adviser may find it difficult to adjust its asset allocation and trading strategies to the suddenly reduced amount of assets under management. Under such circumstances, in order to provide funds to pay withdrawals or redemptions, the Adviser may be required to liquidate positions at an inappropriate time or on unfavorable terms, resulting in a lower Fund net asset value for the remaining Limited Partners and less capital for the withdrawing Limited Partners. On an ongoing basis, irrespective of the period over which substantial withdrawals or redemptions occur, it may be more difficult for the Fund to generate additional profits operating on a smaller asset base and, as a result of liquidating assets to fund withdrawals or redemptions, the Fund may be left with a much less liquid portfolio. The Adviser may elect to cause the withdrawal of all capital and liquidate the Fund at any time.

Conflicts of Interest. The Adviser will be subject to a variety of conflicts of interests in making investments on behalf of the Fund.

Absence of Regulatory Oversight. While the Fund may be considered similar to an investment company, it is not required and does not intend to register as such under the Company Act (in reliance upon an exemption available to privately offered investment companies). The Fund relies on the exemptions provided in Sections 3(c)(1) and 3(c)(7). Accordingly, the provisions of the Company Act (which may provide certain regulatory safeguards to investors) will not be applicable. For example, the Fund is not required to maintain custody of its own securities or place its securities in the custody of a bank or a member of a U.S. securities exchange, as required of registered investment companies under rules promulgated by the SEC. A registered investment company that places its securities in the custody of a member of a U.S. securities exchange is required to have a written custodian agreement, which provides that securities held in custody will be at all times individually segregated from the securities of any other person and marked to clearly identify such securities as the property of such investment company and which contains other provisions complying with SEC regulations. The Adviser generally maintains such accounts at brokerage firms that do not separately segregate such assets as would be required in the case of registered investment companies. Under the provisions of the Securities Investor Protection Act, the bankruptcy of any such brokerage firms might have a greater adverse effect on the Fund than would be the case if the Adviser maintained its accounts to meet the requirements applicable to registered investment companies. In addition, the Interests are not required to be, and have not been, registered under the Securities Act or the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Business and Regulatory Risks of Hedge Funds. Legal, tax and regulatory changes could occur during the term of the Fund that may adversely affect the Fund. The regulatory environment for hedge funds is evolving, and changes in the regulation of hedge funds may adversely affect the value of investments held by the Fund and the ability of the Fund to obtain the leverage it might otherwise obtain or to pursue its trading strategies. In addition, the securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The SEC, other

regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial action. The effect of any future regulatory change on the Fund could be substantial and adverse.

**The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in the Fund. Prospective investors should read the entire Offering Memorandum and consult with their own legal, financial, tax and other advisers before deciding to make an investment.**

#### **Item 9. Disciplinary Information**

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

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

The Adviser is affiliated with Cowen and Company, LLC, Cowen Capital LLC, Cowen Equity Finance LLC, and Cowen Securities LLC, all registered broker-dealers. The Adviser is affiliated with Cowen International Limited, a broker dealer and Ramius UK Limited, an entity that primarily provides placement services in the European Union for Ramius LLC and its affiliated investment advisers. Both Cowen International Limited and Ramius UK Limited are registered with the FSA. The Adviser and the above referenced entities are all wholly owned subsidiaries of Cowen Group, Inc., a publicly traded company (Nasdaq: COWN).

Certain management persons of the Adviser maintain registrations with Cowen and Company, LLC, however, none of these individuals' functions as a registered representative of the broker-dealer. The businesses are operated separately and the Adviser does not direct any business to its broker-dealer affiliate. To the extent that any conflict may arise, the potential conflict is addressed by Cowen Group, Inc.'s Conflicts Committee which is headed by Cowen Group, Inc.'s General Counsel. As a result of this, we do not believe there are any material conflicts related to this relationship.

The Adviser is also affiliated with the following registered investment advisors which also manage funds: Ramius LLC, Ramius Alternative Solutions LLC, Ramius Trading Strategies LLC, Ramius Asia LLC, Ramius Advisors LLC, Starboard Value LP, Orchard Square Partners LLC, RCG Longview Equity Management, LLC, RCG Longview Management, LLC, RCG Longview Debt Fund IV Management, LLC and RCG Longview Partners II, LLC. There are no material conflicts related to these affiliations. For a complete description of these advisors and the funds they manage, please refer to their Form ADV Part I's.

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

The Adviser has adopted a Code of Ethics that is applicable to all of its access persons and virtually all of its employees. The Code reflects the Adviser's belief in the absolute necessity to conduct all business, make all decisions and carry on all personal activities at the highest ethical and professional levels. Adviser's senior management heartily endorses the ethical imperative implicit in the Code, and, as has been the practice since Adviser's founding, relies on its employees' personal behavior to embrace those same standards.

All persons that are covered by the Code must avoid activities, interests and relationships that may interfere or appear to interfere with making decisions in the best interests of clients. More

specifically, the Code seeks to place the interests of clients over the interests of any employee; imposes standards of business conduct for all Adviser's employees; requires employees to comply with the federal securities laws; regulates employee personal securities transactions, including requiring all covered persons to obtain pre-approval before investing in hedge fund or private placement investments; and requires reporting and review of personal securities transactions.

Adviser will provide a copy of the Code of Ethics to any client or prospective client upon request.

The Adviser may cause the Client to purchase securities and other instruments that are also being purchased by the Adviser, its affiliates or their respective employees for their own accounts or for the accounts of other funds or accounts managed by them. The Adviser in all cases purchases securities and other instruments for the Client's accounts on terms at least as favorable to the Client as the terms on which the same securities or instruments are purchased for the account of the Adviser, its affiliates or proprietary accounts of their respective members to the extent that such securities or instruments are purchased at approximately the same time. If this procedure results in the employees of the Adviser or its affiliates acquiring securities or other instruments on more favorable terms than the Client, such employees will reimburse the Client, respectively, so that such inequity is corrected. The Adviser reserves the right, in its sole discretion, to determine to not require such reimbursement if the benefit to the Client would be outweighed by the administrative costs associated with processing the reimbursement.

When it is determined that it would be appropriate for the Client and one or more other funds or investment accounts managed by the Adviser or its affiliates to participate in an investment opportunity, the Adviser will seek to execute orders for all of the participating investment accounts, including the Client, respectively, on an equitable basis, taking into account such factors as the investment objectives of the participating investment accounts, the availability of leverage, the relative amounts of capital available for new investments, relative exposure to market trends, transaction costs, the portfolio positions of the participating investment accounts, the eligibility of the Client, respectively, and the other investment accounts under applicable law to make the investment in question and the manner in which the investment is likely to affect the amount of available capital after the investment is made.

Notwithstanding the foregoing, the Adviser is not obligated to allocate to the Client all potential transactions for which it might be eligible pursuant to its investment guidelines and procedures. Depending on the circumstances, the Adviser and its affiliates may allocate certain transactions on a disproportionate basis among their other respective funds or clients and/or may allocate all of certain other transactions to other funds or clients, including funds in which one or more of the principals or employees of the Adviser or its affiliates may have an interest. In addition, varying compensation arrangements among the Client, on the one hand, and such other funds or clients, on the other, could incentivize the Adviser or its affiliates to allocate investments opportunities to such other funds or clients, or to otherwise manage the Client and such other funds or clients differently.

#### **Item 12. Brokerage Practices**

The Adviser will be responsible for, among other things, the placement of any securities transactions entered into by the Client, and for the negotiation of any commissions paid on such transactions. Such securities may be purchased over the counter, through brokers on securities exchanges or directly from the issuer or from an underwriter or market maker for the securities. Purchases of portfolio securities through brokers involve a commission to the broker, and purchases from dealers serving as market makers include the spread between the bid and the ask price. The Adviser will seek to obtain the best execution for the Client, taking into account such factors as price (including the applicable dealer spread or commission, if any), size of order,

difficulty of execution, operational facilities of the firm involved and the firm's risk in positioning a block of securities.

The Adviser may execute a portion of the securities trades entered into by the Client through one or more customer brokerage accounts maintained by the Client with certain clearing brokers (the "Clearing Brokers") pursuant to the terms of one or more clearing agreements with the Adviser under which the Adviser allocate to the Clearing Brokers a portion of the brokerage commissions it charges the Client. Floor brokers selected by the Adviser that will execute transactions in listed securities will receive a portion of the brokerage commissions that the floor brokers charge the Client at rates negotiated by the Adviser and each floor broker.

Brokerage transactions will be executed by brokers and dealers selected by the Adviser on the basis of a variety of factors, including, without limitation, some or all of the following: net price; settlement capabilities and error resolution; electronic reconciliation capability; special execution capabilities; ability to execute large orders, to commit capital, and to minimize trading costs associated with implementing investment decisions; commission rates; reputation, including regulatory issues; financial strength and stability; efficiency of execution of small lots; offering on-line access to computerized data regarding open orders; the ability or inability of electronic trading networks to handle trades instead of other broker-dealers; value of research; and other matters involved in the receipt of brokerage services generally. Research services furnished by brokers may include written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; statistics and pricing or appraisal services, as well as discussion with research personnel. The Adviser may, in the future, pay higher prices for the purchase of securities from, or accept lower prices for the sale of securities to, brokerage firms that provide it with such investment and research information or to pay higher commissions to such firms if the Adviser determines such prices or commissions are reasonable in relation to the overall services provided. Any research services provided by broker-dealers used by the Client may be utilized by the Adviser or its affiliates in connection with their respective investment services for other accounts and, likewise, any research services provided by broker-dealers used for transactions of other accounts may be utilized by the Adviser in performing its services for the Client.

The Client's use of "soft dollars" falls within the safe harbor created by Section 28(e) of the Exchange Act. Under Section 28(e), research obtained with soft dollars generated by the Client may be used by the Adviser to service accounts other than the Client. The Adviser

The Client's securities transactions can be expected to generate a substantial amount of brokerage commissions and other compensation, all of which the Client, not the Adviser, will be obligated to pay. The Adviser will have complete discretion in deciding what brokers and dealers the Client will use and in negotiating the rates of compensation the Client will pay. In addition to using brokers as "agents" and paying commissions, the Client may buy or sell securities directly from or to dealers acting as principals at prices that include markups or markdowns, and may buy securities from underwriters or dealers in public offerings at prices that include compensation to the underwriters and dealers.

Brokers sometimes suggest a level of business they would like to receive in return for the various services they provide. Actual brokerage business received by any broker may be less than the suggested allocations, but can (and often does) exceed the suggestions, because total brokerage is allocated on the basis of all of the considerations described above. A broker is not excluded from receiving business because it has not been identified as providing research services. The investment information received from the Client's brokers may be used by the Adviser in servicing all of its accounts, and not all such information need be used by the Adviser in connection with the Client. Nonetheless, the Adviser believes that such investment information provides the Client with benefits by supplementing the research otherwise available to the Client.

### **Item 13. Review of Accounts**

The Adviser performs various daily, weekly, monthly, quarterly and periodic reviews of each client's portfolio (as needed). Such reviews are conducted by the Adviser's portfolio managers and research associates. Each Client's portfolio is reviewed to ensure: (1) suitable investments are maintained in each client's portfolio; (2) securities are within appropriate risk levels for the client; (3) an appropriate asset allocation is maintained; and (4) any additional requirements communicated by the client to the Adviser in writing are met. A review of a client account may be triggered by any unusual activity or special circumstances.

Investors in the Funds generally receive a monthly letter from the Adviser documenting the performance of their Fund, along with a commentary by the Adviser, although the Adviser may provide certain investors with information on a more frequent and detailed basis if agreed to by the Adviser. In addition, the Adviser issues investors tax reports (if applicable) and audited financial statements concerning their respective Funds within 120 days of the end of such client's fiscal year.

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

The Adviser does not receive economic benefits from non-clients for providing investment advice and other advisory services. Neither the Adviser nor any related person directly or indirectly compensates any person who is not a supervised person, including placement agents, for client referrals. However, the Adviser or its affiliates have entered into placement agreements with certain placement agents ("Placement Agents"), pursuant to which the Placement Agents have agreed to introduce potential investors to the Funds. The Placement Agents may receive compensation for such services from the Adviser or its affiliates.

#### **Item 15. Custody**

The Adviser is deemed to have custody of client funds and securities because it has the authority to obtain client funds or securities, for example, by deducting advisory fees from a client's account or otherwise withdrawing funds from a client's account. Actual custody of Funds and other client assets, however, is at a broker-dealer, bank or trust company, not at the Adviser. Account statements related to the Funds are sent by qualified custodians to the Adviser, which provides certain administrative services to the Adviser and its clients.

The Adviser is subject to Rule 206(4)-2 under the Advisers Act (the "Custody Rule") for the Funds it advises and is deemed to have complied with the annual surprise examination requirement because it requires the Funds to be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that each Fund distribute its audited financial statements to all investors within 120 days of the end of its fiscal year.

#### **Item 16. Investment Discretion**

The Adviser has discretionary trading authority with respect to each Fund. The Adviser's investment decisions and advice with respect to each Fund are subject to each Fund's investment objectives and guidelines, as set forth in its offering documents. The Adviser or an affiliate of the Adviser entered into an investment management agreement, or similar agreement, with each Fund, pursuant to which the Adviser or an affiliate of the Adviser was granted discretionary trading authority.

#### **Item 17. Voting Client Securities**



In compliance with Advisers Act Rule 206(4)-6, the Adviser has adopted proxy voting policies and procedures. All decisions about how to vote a proxy will be made in accordance with the Adviser's proxy voting policies and procedures, which are designed to take into account the best interests of the client, as determined by the Adviser in its discretion. The Adviser may take into account all relevant factors when making such determination.

The Adviser uses Institutional Shareholder Services, Inc., an independent proxy voting service ("ISS"), to provide proxy analysis, voting recommendation and voting services. ISS will vote all proxies, unless the Adviser determines to vote the proxy itself in accordance with its proxy policies and procedures in a different manner than ISS recommended.

In limited circumstances, the Adviser may refrain from voting proxies where the Adviser determines that not voting is in the best interests of the client. Generally, clients may not direct the Adviser's vote in a particular solicitation. Conflicts of interest may arise between the interests of the clients on the one hand and the Adviser or its affiliates on the other hand. If the Adviser determines that it may have, or is perceived to have, a conflict of interest when voting proxies, the Adviser will vote in accordance with its proxy voting policies and procedures. Clients may obtain a copy of the Adviser's proxy voting policies and its proxy voting record upon request.

#### **Item 18. Financial Information**

The Adviser is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonable likely to impair its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.