

# **J. H. WHITNEY INVESTMENT MANAGEMENT, LLC**

## **Single-Manager Strategies**

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## **FORM ADV PART 2**

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**This brochure provides information about the qualifications and business practices of J. H. Whitney Investment Management, LLC. If you have any questions about the contents of this brochure, please contact us at [rmoser@jhwhitney.com](mailto:rmoser@jhwhitney.com). 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.**

**Additional information about J. H. Whitney Investment Management, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **Item 2. Material Changes**

This brochure represents the first time we have used the SEC's new Form ADV Part 2. Much of the information called for by the Form is new and many of our responses, therefore, differ from those in previous versions of our Form ADV. This brochure, because it is based on the new form, should be reviewed in its entirety.

The firm has decided to segregate the Form ADV Part 2 disclosures between its multi-manager (fund of funds) and single-manager businesses as these are two distinctively different investment strategies and businesses with different operations and structures. The firm believes that the segregation increases the clarity of the disclosures to investors in the respective areas.

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## **Item 4. Advisory Business**

### **Structure; History and Ownership**

J.H. Whitney Investment Management, LLC is an investment advisory firm with its principal place of business in New York, New York. J.H. Whitney Investment Management, LLC will be referred to in this brochure as “Whitney,” “we” or “the firm.” Where appropriate, these terms will also include our affiliated entities, which are described below under “Types of Advisory Services” and in Item 10 in this brochure (“Other Financial Industry Activities and Affiliations”). We also have offices in Stamford, Connecticut, and in Singapore.

J.H. Whitney Investment Management, LLC is organized as a Delaware limited liability company.

We commenced business in 2004 and we have been registered as an investment adviser with the Securities and Exchange Commission (“SEC”) since 2006. The firm was formed by Whitney Holdings, LLC in 2004 for the purpose of expanding the scope of its activities in the management of hedge fund investments. As a result of the continued growth of the hedge fund area, the firm separated from Whitney Holdings, LLC in December of 2006 and registered as an investment adviser with the SEC. These two businesses are now controlled and operated independently of one another.

The firm has 24 employees, of whom 7 are responsible for research and portfolio management functions.

The principal direct or indirect owners of the firm are John M. B. O’Connor, William Ng, Michael R. Stone and Peter M. Castleman.

We have two main investment advisory strategies: a single-manager strategy, which is described in this brochure, and a multi-manager (fund of funds) strategy, which is described in a separate brochure.

### **Types of Advisory Services**

We provide investment advisory services to a number of private investment funds, as general partner, managing member or investment adviser, and also provide investment advisory services to separately managed accounts, each of which is invested in a manner comparable to one of the funds. The funds and the separate accounts to which we provide investment advisory services are sometimes referred to together in this brochure as the “accounts.”

We provide our investment advisory services both directly and through subsidiaries and entities controlled by the firm and the firm’s employees (such subsidiaries and entities, our “affiliates”). The general partners of the funds are also affiliates of the firm.

The funds to which we currently provide investment advisory services are as follows:

- Whitney Japan Fund, a class of the Whitney Japan Trust, a Cayman Islands unit trust;
- Whitney Japan Investors, also a class of the Whitney Japan Trust;
- Whitney Japan Yen Investors, also a class of the Whitney Japan Trust;
- Whitney Japan Partners, L.P., a Delaware limited partnership;

Note: Whitney Japan Investors, Whitney Japan Yen Investors and Whitney Japan Partners, L.P. each operate as feeder funds to Whitney Japan Fund, which is a master fund. These funds are referred to in this brochure as the “Whitney Japan funds.”

- Whitney Select Japan Fund, a class of the Whitney Select Japan Trust, a Cayman Islands unit trust;
- Whitney Select Japan Investors, also a class of the Whitney Select Japan Trust;
- Whitney Select Japan Yen Investors, also a class of the Whitney Select Japan Trust;
- Whitney Select Japan Partners, L.P., a Delaware limited partnership;

Note: Whitney Select Japan Investors, Whitney Select Japan Yen Investors and Whitney Select Japan Partners, L.P. each operate as feeder funds to Whitney Select Japan Fund, which is a master fund. These funds are referred to in this brochure as the “Whitney Select Japan funds.”

- Whitney Japan Tactical Fund, a class of the Whitney Japan Tactical Trust, a Cayman Islands unit trust;
- Whitney Japan Tactical Investors, also a class of the Whitney Japan Tactical Trust;
- Whitney Japan Tactical Partners, L.P., a Delaware limited partnership;

Note: Whitney Japan Tactical Investors and Whitney Japan Tactical Partners, L.P. each operate as feeder funds to Whitney Japan Tactical Fund, which is a master fund. These funds are referred to in this brochure as the “Whitney Japan Tactical Funds,” and all of the funds that have a Japan-focused strategy are referred to together as the “Japan funds.”

- J.H. Whitney Pan Asia Master Fund, a class of the J.H. Whitney Pan Asia Master Series Trust, a Cayman Islands unit trust;
- J.H. Whitney Pan Asia Fund (International), also a class of the J.H. Whitney Pan Asia Master Series Trust;
- J.H. Whitney Pan Asia Fund, LLC, a Delaware limited liability company;
- J.H. Whitney China Fund, LLC, a Delaware limited liability company;

Note: J.H. Whitney Pan Asia Fund (International) and J.H. Whitney Pan Asia Fund, LLC each operate as feeder funds to J.H. Whitney Pan Asia Master Fund, which is a master fund. J.H. Whitney China Fund, LLC operates a feeder fund to an investing sub-class J.H. Whitney Pan Asia Master Series Trust through which J.H. Whitney Pan Asia Master Fund makes China-related investments. These funds are referred to in this brochure as the “Whitney Pan Asia funds.”

- JHW Pan Asia Strategies Master Fund, LLC, a Delaware limited liability company;
- JHW Pan Asia Strategies Fund, LLC, a Delaware limited liability company;
- JHW Pan Asia Strategies TE Fund, LLC, a Delaware limited liability company;
- JHW Pan Asia Strategies Cayman Fund, LDC, a Cayman Islands exempted limited duration company;
- BBH Asian Opportunity Fund, Ltd., a Cayman Islands exempted company;

The funds do not offer their interests to the public. Fund interests are offered only in private placements to qualified investors. The terms applicable to investors in each fund are described in detail in the funds’ organizational documents and described in each fund’s offering memorandum.

In addition to the funds, we also offer our investment advisory services to certain institutional investors on a separately managed account basis, generally by way of special purpose entities formed by the

separate account investors – which entities may also be considered to be private investment funds but are referred to in this brochure as separate accounts. Such arrangements are governed by the investment advisory agreement between us and each separate account client.

J.H. Whitney Investment Management, LLC is affiliated with two limited liability companies that serve as the direct investment advisors and general partners of the Japan funds. Those companies are **JHWIM Fund Management Company, LLC**, which serves as the investment adviser to the Japan funds, and **JHWIM GP, LLC**, which serves as the general partner to the U.S. domiciled Japan funds and which holds special units of the offshore Japan funds that entitle it to certain incentive compensation described elsewhere in this brochure.

**Asian Management (Singapore) Pte. Ltd.** acts as sub-advisor to JHWIM Fund Management Company, LLC with respect to the Japan master funds pursuant to a sub-advisory agreement. Asian Management (Singapore) Pte. Ltd. is a Singapore corporation exempt from having to hold a capital markets services license pursuant to Singapore's Securities and Futures (Licensing and Conduct of Business) Regulations. Asian Management (Singapore) Pte. Ltd. is wholly owned by J.H. Whitney Investment Management, LLC. Asian Management (Singapore) Pte. Ltd. provides advisory services and makes investment decisions with respect to the Japan master funds.

We also have an important relationship with Japan Advisory LLC, an unaffiliated Japanese limited liability company. Japan Advisory LLC provides us with sub-advisory services in the form of investment recommendations for our Japan-focused single-manager strategies. This arrangement is described further under Item 10 of this brochure ("Other Financial Industry Activities and Affiliations.")

J.H. Whitney Investment Management, LLC is also the sole member of **J.H. Whitney Pan Asia Advisor, LLC**, a limited liability company which serves as the managing member and/or investment advisor of the multi-manager funds.

**J.H. Whitney Investment Management Asia Pte. Ltd.** acts as sub-manager to J.H. Whitney Pan Asia Advisor, LLC with respect to the Pan Asia funds. J.H. Whitney Investment Management Asia Pte. Ltd. is a Singapore corporation exempt from having to hold a capital markets services license pursuant to Singapore's Securities and Futures (Licensing and Conduct of Business) Regulations. J.H. Whitney Investment Management Asia Pte. Ltd. is wholly owned by J.H. Whitney Investment Management, LLC. J.H. Whitney Investment Management Asia Pte. Ltd. provides advisory services and makes investment decisions with respect to the Pan Asia funds.

An outline of the strategies we use can be found in Item 8. Our services are provided on a discretionary basis and, with respect to our multi-manager strategy, we also provide our services on a non-discretionary sub-advisory basis.

In general, we do not tailor our strategy to the needs of individual fund investors or separate account clients. However, in certain limited circumstances, we may agree with particular fund investors or separate account clients that they will not participate in certain investments made by the fund in which they are invested or that would otherwise be purchased for their account pursuant to the strategy.

## **Assets Under Management**

As of January 1, 2011 we managed \$745,362,280 of client assets on a discretionary basis and \$282,537,579 of client assets on a non-discretionary basis.

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

### **Fees**

#### **Single-Manager Strategies**

We are generally entitled to two types of fees from each of the Japan funds and separate accounts: (i) an asset-based management fee; and (ii) an incentive allocation or incentive fee based upon the performance of the fund or separate account.

The management fee is typically 1% to 2% per year of the fund or separate account's net assets. For the funds, the management fee is typically determined and payable quarterly in advance. For separate accounts, the management fee is typically paid monthly or quarterly in arrears.

The incentive allocation or fee is typically 20% to 25% of the net profits of the fund or separate account for the relevant period attributable to each investor's limited partnership interest or units in the fund. The incentive allocation or fee is typically determined and allocated/paid on an annual basis, but will be determined and allocated/paid for shorter periods under certain circumstances (such as with respect to amounts withdrawn/redeemed from a fund). The incentive allocation or fee is subject to a loss carry forward or high water mark provision that generally requires that any losses suffered by the fund or separate account (adjusted to reflect withdrawals/redemptions) be offset by subsequent net profits before we are entitled to subsequent incentive allocations or incentive fees from the fund or separate account.

#### **Multi-Manager Strategies**

We are generally entitled to two types of fees from each of the multi-manager funds and separate accounts: (i) an asset-based management fee; and (ii) an incentive allocation or incentive fee based upon the performance of the fund or separate account. Certain accounts are not subject to an incentive allocation or incentive fee.

The management fee is typically 1% to 2% per year of the fund or separate account's net assets, and is typically determined and payable monthly in advance.

For accounts with an incentive allocation or fee, the incentive allocation or fee is typically 10% of the net profits of the fund or separate account for the relevant period attributable to each investor's limited liability company interest or units in the fund. The incentive allocation or fee is typically determined and allocated/paid on an annual basis, but will be determined and allocated/paid for shorter periods under certain circumstances (such as with respect to amounts withdrawn/redeemed from a fund). The incentive allocation or fee is subject to a loss carry forward or high water mark provision that generally requires that any losses suffered by the fund or separate account (adjusted to reflect withdrawals/redemptions) be offset by subsequent net profits before we are entitled to subsequent incentive allocations or incentive fees from the fund or separate account.

#### **General**

The details of how the fees are calculated for the funds can be found in the organizational and offering documents of the funds, which are provided to potential investors. The details of how the fees are calculated for the separate accounts are included in the investment advisory agreement for each such separate account.

The fees described above are our typical fee rates, however management fees and incentive allocations/fees may be negotiable. Each fund has the right to enter into agreements with one or more of



its investors providing for the waiver or modification of certain terms of the offering of fund interests, or certain rights and obligations of fund investors, including fees, otherwise applicable to such interest(s), in each case without notice to the other fund investors. Under certain circumstances we may agree to different fee terms from those described above for particular separate account clients.

The fees payable by the fund are deducted from the assets of the funds and paid to us or, in the case of investment allocations, are reallocated from the capital accounts of investors and into our capital account. Our fees from the separate accounts are typically paid directly from the assets of the account.

As noted above, management fees payable by the funds and separate accounts are payable quarterly or monthly in advance, as described in the relevant fund's offering documents. Fund investors will be subject to a *pro rated* management fee with respect to any subscription to a fund made other than at the beginning of a quarter or withdrawal/redemption made from a fund other than at the end of a quarter based upon the portion of the month for which the assets were invested. Separate account clients, by whom management fees are payable monthly or quarterly in arrears, will typically also be subject to a *pro rated* management fee with respect to partial-period investments based upon the portion of the relevant period for which the assets were invested.

## Expenses

Each fund pays, or reimburses us or the fund's administrator for, all operating expenses and other costs of the fund that we are not required to bear. Categories of expenses to which the funds may be subject include:

- organizational expenses of the funds;
- accounting and auditing fees, including
  - tax return preparation costs, relating to the fund's accountants,
  - fees of bookkeepers and
  - related services;
- legal fees and expenses;
- insurance and bonding costs;
- fees (including legal fees) or assessments in connection with any regulatory registrations, qualifications or approvals of the fund or us that we deem appropriate in connection with the activities of the fund;
- the cost of preparation and distribution of reports, notices, statements and other communications to investors as well as the expenses for accounting software;
- all trading expenses and transaction costs, including brokerage commissions and expenses relating to short sales, clearing and settlement charges, interest on loans and debit balances, margin interest, broker service fees and other clearing and custodial expenses;
- trustee fees;
- fees and expenses in connection with the offering and issuance of fund interests;
- fees and expenses in connection enforcing the funds' rights in respect of investments;
- fees and expenses of any custodian, subcustodian, transfer agent, and registrar, and any other agent of a fund;

- costs and charges for equipment or services used in communicating information regarding the funds' transactions with any custodian or other agent engaged by a fund;
- bank services fees;
- costs and expenses relating to amendments of organizational documents;
- expenses of preparing, amending, printing, and distributing offering documents and any supplements or amendments to offering documents;
- expenses of investor meetings, including, if applicable, the solicitation of proxies in connection therewith;
- expenses of corporate data processing and related services;
- investor recordkeeping and account services, fees, and disbursements;
- expenses relating to investor and public relations;
- fees and expenses of the members of boards of directors of funds who are not employees of the firm or its affiliates;
- insurance premiums;
- expenses incurred outside of the ordinary course of business, including, without limitation:
  - costs and expenses incurred in connection with any claim, litigation, arbitration, mediation, government investigation or dispute;
  - the amount of any judgment or settlement paid in connection therewith;
  - costs and expenses incurred in connection with the enforcement of rights against any person or entity;
  - costs and expenses for indemnification or contribution payable to any person or entity including, without limitation, pursuant to indemnification obligations owed to the firm or its affiliates;
  - expenses of a reorganization, restructuring or merger, as applicable;
  - expenses of holding, or soliciting proxies for, a meeting of members (except to the extent relating to items customarily addressed at an annual meeting of a registered closed-end management investment company); and
- the expenses of engaging a new administrator, custodian, transfer agent or escrow agent.
- for multi-manager funds and separate accounts, the account's *pro rata* share of fees payable to advisers of the underlying funds, which will typically consist of a management (asset-based) fee and an incentive fee – management fees typically range between 1% and 2% per annum of an underlying fund's net asset value and incentive fees typically range between 15% and 20% of the underlying fund's net new profits (subject to high water marks);
- such research and portfolio management expenses as we deem appropriate, which may include, but are not limited to, costs of software programs related to investment modeling and screening, and monitoring, expenses incurred in traveling to and attending research conferences and otherwise conducting research activities, costs of research reports, data feeds

and databases, news wires and quotation and/or valuation services, periodical subscription fees, and fees of outside consultants and experts, due diligence expenses, and

- the management fee.

A fund investor may also be subject to a withdrawal/redemption fee for withdrawals or redemptions within a specified period after an investment is made into a fund.

More information regarding the fees and expenses to which a particular fund may be subject can be found on the offering documents for the fund.

Separate account clients will generally be responsible for all custodial fees, brokerage commissions, clearing fees, interest and withholding or transfer taxes incurred in connection with trading for the account of the separate account, and our fees as described above.

As we consider appropriate, we may invest a portion of a fund or separate account's assets in one or more money market funds, mutual funds or exchange-traded funds. When any such investments are made, the fund or separate account client will be paying, in addition to the compensation payable to us, the fund or separate account's proportionate share of any management fees charged by the manager of such money market fund or mutual fund.

The brokerage and other transaction costs that will be borne by the funds and separate accounts are described in more detail in Item 12 (Brokerage Practices) in this brochure.

Neither the firm nor any of its supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

As described in Item 5 above, we receive part of our compensation from the funds in the form of performance-based allocations and fees

We also serve as the investment adviser to certain accounts that pay us an asset-based fee and not a performance-based fee. As a result we have a conflict of interest, because we can potentially receive greater fees from accounts having a performance fee structure than from those accounts we charge asset-based fees only. We have an incentive to:

- direct the best investment ideas to, or allocate or sequence trades in favor of, the accounts that pay performance-based fees;
- use trades by an account that does not pay performance-based fees to benefit accounts that do pay performance-based fees, such as where the performance-based fee paying account sells short before a sale by the account that does not pay performance-based fees, or the performance-based fee paying account sells a security only after an account that does not pay performance-based fees has made a large purchase of the security; and
- benefit an account that pays performance-based fees over an account that does not pay performance-based fees and which has a different and potentially conflicting investment strategy.

We owe a fiduciary to our clients not to favor the account of one client over that of another, without regard to the types and amounts of fees paid by those accounts. In light of the conflicts of interest

described above, we have allocation policies and procedures in place to ensure that accounts are treated fairly. Generally allocations are made among accounts with a similar strategy on a *pro rata* basis based on the size of the account. Explanations for variations from this approach are required to be documented and are subject to the periodic review of our Chief Compliance Officer to ensure that all accounts are being treated fairly.

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

We generally provide investment advice to private investment funds and institutional separate accounts. The types of investors in the funds we advise include pension and profit sharing plans; trusts, estates and charitable organizations; funds of hedge funds (whether organized as partnerships, corporations or other entity types, high net worth individuals and family offices. Our separate account clients are typically funds of funds, pension and profit sharing plans, or other institutional investors.

The funds have minimum initial investment amounts of \$1 million to \$2 million, and minimum increments for additional investments to any of the funds may apply. These minimums may be reduced or waived by the funds, subject in certain cases to applicable statutory minimums.

Separate accounts are generally subject to a minimum account size of \$25 million, subject to the discretion of the firm to accept smaller accounts.

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

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

#### **Investment Strategy**

Our single-manager Japan-focused investment strategies are outlined below. Each strategy has the intention of achieving capital appreciation in a broad range of market environments.

#### **Japan and Select Japan Strategies**

The Japan and Select Japan strategies are Japan long/short strategies that seek to take advantage of inefficiencies and opportunities that exist in a liquid/developed equity market. The approach is fundamentally driven stock selection with net investment flows taken into consideration. Technical and quantitative tools are utilized as an overlay. The portfolios are focused on risk/return, with an emphasis on liquidity and diversification. The strategies seek to generate consistent, non-correlated and risk-adjusted returns. The strategies include a varying amount of investment in securities with limited liquidity.

#### **Japan Tactical Strategy**

The Japan Tactical strategy is a Japan long/short strategy that primarily takes a technical and quantitative approach to individual stock selection. In addition to technical and quantitative analysis, the strategy also examines monetary flows in the equity capital markets, including primary, secondary and merger and acquisition flows, as well as net equity investment by investor type, including Japanese cross-shareholders and Japanese banks, based on the belief that liquidity and monetary flows have a major influence on equity share prices and the monitoring of such flows helps forecast price movements. When evaluating investment opportunities, focus is primarily on price movements, correlation, volatility, and volume distribution. Investments are

made on the basis of categorizing liquid stocks into mean reversion, momentum, and event strategies. In addition, the strategy includes a focus on distinct flows of funds, changes in large shareholder ownership and large short interest.

All of the accounts make equity and equity-linked investments, principally in Japan, through a hedged approach by taking long as well as short positions. Short positions are taken in an attempt to both mitigate against general market risk and enhance performance. We may also seek to preserve capital and mitigate market risk to the accounts through the selective use of futures, options and synthetic instruments. The accounts typically hedge most of their Yen exposure back into U.S. dollars. As a result, the accounts may from time to time purchase and sell spot and forward contracts, currency options, and currency futures contracts to hedge against risk for the portfolios. The accounts may also use derivatives in an attempt to enhance portfolio returns.

The accounts invest the majority of their portfolios in public companies whose securities are traded on a Japanese exchange. We may also cause the accounts to invest a portion of their portfolios in opportunities in Asia ex-Japan and in non-Japanese public companies with revenues and earnings which are largely influenced and derived from Japan. In addition, each account may also invest up to 5% of its total assets (calculated at the time a position is acquired) in private companies primarily located in Japan or Asia ex-Japan. Under normal conditions, in an attempt to enhance performance and mitigate overall market risk, the accounts invest in a portfolio of long and short positions in publicly traded Japanese companies, including participation in IPOs.

Our investment strategies inherently involve certain significant risks. There can be no assurance that our investment objective will be realized or that any account will be profitable in the future. See the section titled “Risks Associated with Our Investment Strategy” below. Prospective investors in any fund(s) are advised to review the respective funds’ private placement memorandum, explanatory memorandum, or confidential offering circular for a more in-depth description of that fund’s investment strategy and objectives and related risk factors.

### **Risks Associated with the Investment Strategies**

Our Japan-focused single-manager strategies are highly speculative and entail a high degree of risk and are suitable only for sophisticated investors for whom an investment in a fund or separate account does not represent a complete investment program and who fully understand and are capable of bearing the risks of such an investment. Prospective investors should carefully consider the following factors, which do not purport to be a complete list of all risks and potential conflicts of interest involved in an investment in an account that we advise using our strategies. There can be no assurance that an account (fund or separate account) will be able to achieve its investment objective or that investors will receive a return of their capital, and investment results may vary substantially on a monthly, quarterly or annual basis. Prospective investors in any fund(s) are advised to review the respective funds’ private placement memorandum, explanatory memorandum, or confidential offering circular for a more in-depth description of that fund’s investment strategy and objectives and related risk factors.

### **Risk Factors Relating to Investments in the Pan-Asian Region**

**Diversification Risk/Asian Investments.** The strategies involve investments that are primarily concentrated in Asian securities of Asian companies and/or securities denominated in Asian currencies. We describe some of the more significant risks generally associated with investing in securities of Asian companies below.

**Characteristics of Asian Securities Markets.** In implementing the strategies on behalf of the accounts, we will generally buy and sell securities on the principal stock exchange or over-the-counter market of the

country in which the principal offices of the issuer of the security are located. Many Asian and other non-Anglosphere stock markets are not as developed or efficient as those in the Anglosphere and may be more volatile than the Anglosphere markets (*i.e.*, Australia, Canada, New Zealand, the U.K., and the U.S.). There is generally less government supervision and regulation of Asian exchanges, brokers, and listed companies than in the Anglosphere. Further, trading volumes in Asian markets are usually lower than in Anglosphere markets, resulting in reduced liquidity and potentially rapid and erratic price fluctuations. Commissions for trades on Asian stock exchanges are generally higher than negotiated commissions on Anglosphere exchanges and custody expenses are generally higher as well. Settlement practices for transactions in Asian markets may involve delays beyond periods customary in the Anglosphere, possibly requiring us to borrow funds or securities on behalf of the accounts to satisfy obligations arising out of other transactions.

**Less Company Information and Regulation.** Generally, there is less publicly available information about Asian and other non-Anglosphere companies than about Anglosphere companies. This may make it more difficult for us to stay informed of corporate action that may affect the price of a particular security. Further, many countries lack uniform accounting, auditing, and financial reporting standards, practices, and requirements. These factors can make it difficult to analyze and compare the performance of certain Asian companies.

**Restrictions on Investment and Repatriation.** Some countries impose restrictions and controls regarding investment by foreigners. Among other things, they may require prior governmental approvals, impose limits on the amount or types of securities that may be held by foreigners or impose limits on the types of companies in which foreigners may invest. These restrictions may at times limit or preclude the accounts' investment in certain countries and may increase the accounts' costs and expenses. Indirect foreign investment may, in some cases, be permitted through investment funds that have been specifically authorized for that purpose. Because of the limited number of authorizations granted in such countries, however, units or shares in most of the investment funds authorized in those countries may at times trade at a substantial premium over the value of their underlying assets. There can be no certainty that these premiums will be maintained, and if the restrictions on direct foreign investment in the relevant country were significantly liberalized, premiums might be reduced, eliminated altogether, or turned into a discount. In addition, certain countries may impose restrictions and controls on repatriation of investment income and capital. As a result the accounts' assets may be restricted from being repatriated indefinitely.

**Political and Economic Instability.** The economies of many countries are less stable than the Anglosphere economies, due to, among other things, volatile internal political environments, less stable monetary systems and/or external political risks. The governments of such countries may participate in their economies through ownership or regulation in ways that can have a significant effect on securities prices. The economies of certain countries depend heavily on international trade and can be adversely affected by the enactment of trade barriers or changes in the economic conditions of their trading partners. In some countries, especially developing or emerging countries, political or diplomatic developments could lead to programs that would adversely affect investments, such as confiscatory taxation or expropriation.

**Foreign Withholding Taxes.** Dividend and interest payments on some securities the accounts may own may be subject to withholding taxes, which would reduce net proceeds.

### **Risk Factors Relating to Japan**

**Economic Considerations.** The accounts are fully exposed to Japan's economic cycles, stock market valuations, and currency exchange rates, which could increase their risks compared with a more diversified strategy. Japan is the second-largest economy in the world, but it has been in a recession in recent years.

Since the speculative "bubble" in Japanese stocks burst in the early 1990's, Japan's economy has exhibited low or negative rates of growth and continuing asset deflation, notwithstanding the Bank of Japan's move to its effective 0% interest rate policy and the Japanese government's repeated attempts at stimulating the economy through increased spending. Increased government spending also has had limited effect and in fact, for the fiscal year of 2009, the debt-to-GDP ratio was approximately 170%, one of the highest in the OECD. This high ratio has seriously impaired the banking system and left it open to significant risk of financial shocks caused by such "internal" events as large-scale corporate bankruptcies, as well as events external to Japan. Through early 2010, Japan's domestic economy was relatively weak in terms of consumption, which has rendered the economy highly dependent on the external sector for growth and investment.

Japan's serious recession has also been prolonged by a crisis in management and consumer confidence. Business investment has recently shown signs of recovery, but how long this trend will last is unknown. Domestic consumption is still weak and many Japanese consumers are still anxious about their futures.

In addition, investors should be aware of specific related problems, including tax laws that discourage consumer spending and dampen growth, deflation, a banking system long burdened with bad loans, the government's unsatisfactory progress on effecting credible solutions to these problems, and the inability of the government to implement reform programs that match the current pace of change in Japan.

**Exit Strategies.** The investments of the accounts in public companies will fluctuate in price. Investments in stocks of any type, particularly public stocks, involve risk because stock prices have no guaranteed value. Stock prices may fluctuate, at times dramatically, in response to various factors, including market conditions, political and other events, and developments affecting the particular issuer or its industry or geographic segment. There can be no assurance that the accounts will be able to dispose of their stock in public companies at a desired time or at an attractive price that will yield a positive return for the accounts.

**Economic and Political Dislocations.** Due to its strong trade and investment ties, Japan has the potential to be severely affected by economic dislocation among its trading partners, which include the United States and the nations of East Asia.

**Japanese Accounting Standards.** Japanese financial statements are prepared in accordance with Japanese GAAP, which differs in certain respects from U.S. GAAP. In addition, the Financial Instruments and Exchange Law ("FIEL"), which governs public companies, imposes disclosure requirements that are more limited than those in the United States in certain important respects. As a result, Japanese financial statements and reported earnings generally differ from those that would be reported based on U.S. accounting and reporting standards.

**Japanese Legal System.** Although Japan has a well-developed legal system, which is patterned in many respects upon the German and French systems and, in some areas, U.S. laws, the Japanese system suffers from a lack of complete transparency, an over-reliance on "administrative guidance" and, in certain areas such as bankruptcy and the enforcement of creditors' rights, significant procedural inefficiencies.

In addition, delays in obtaining licenses, approvals and authorizations are not uncommon and may adversely affect the operations of the accounts' portfolio companies.

**Japanese Tax System.** Japanese tax practices applied by the tax authorities may from time to time be subject to unexpected change without a public announcement separately from a periodic formal update of tax laws and regulations whereby an unfavorable tax position could arise. Even if there is no change in tax laws, regulations or tax practices, the Japanese tax authorities sometimes apply a method called

“substance over form” which disregards some factual matters based on a legal structure and re-characterizes a transaction from an economic or other point of view.

**Securities Market, Corporate Governance.** The laws in Japan regulating ownership, control and corporate governance of companies are still evolving. Although procedural and other changes have been made that are intended to facilitate the increased exercise of legal rights by minority investors, there can be no assurance that these changes will be sufficient to afford minority investors effective means for preventing or seeking compensation for transactions or conduct that is injurious to the interests of shareholders.

Extensive cross-shareholding among companies in Japan has significant effects on the securities markets. Typically, ten to twenty (or even more) companies will each have small holdings in each other. Each of these holdings alone is too small to be significant in the governance of the issuing corporation, but taken together, the group corporations' holdings often provide a significant amount of control. At the time each of the holdings is acquired, it is understood that they will not be sold but maintained and voted in support of management. The ties produce a bonding effect as well as security against takeovers. There is, however, a recent trend emerging for some companies to begin to liquidate some cross-shareholdings. Cross-shareholding often results in the exclusion of large quantities of listed stock from trading, which means the float that is actually traded is very thin and thus there is potentially higher volatility. Another effect of significant cross-shareholding is that it deprives ordinary individual investors of meaningful opportunities to influence corporate governance because the outcome of board elections, accounting approvals, and other shareholder actions to monitor management are often largely predetermined by the cross-shareholding covenants.

**Political Risks.** Recent and future political developments in Japan and neighboring Asian countries may lead to policy changes in those countries that may adversely affect the accounts.

**Japanese Currency Factors.** Securities in Japan are denominated and quoted in Yen. Yen are fully convertible and transferable based on floating exchange rates into all freely convertible currencies, without administrative or legal restrictions for both non-residents and residents of Japan. In determining the value of the accounts' net assets, assets or liabilities initially expressed in terms of Yen will be translated into U.S. dollars at the then current selling rate of Yen against dollars. As a result, the value of the accounts' assets as measured in U.S. dollars may be affected favorably or unfavorably by fluctuations in the value of the Yen relative to the dollar. Although the accounts' Yen exposure may be hedged, there can be no guaranty that any such hedges will be successful.

**International Trade.** Japan is largely dependent on foreign economies for raw materials. International trade is important to Japan's economy, as exports provide the means to pay for many of the raw materials it must import. Because of the concentration of Japanese exports in highly visible products such as automobiles, machine tools and semi-conductors, and the large trade surpluses ensuing from Japan's export-oriented economy, Japan has entered into a difficult phase in its relations with its trading partners, particularly with respect to the United States and China, with whom its trade imbalances are the greatest. There is no assurance that foreign governments will not adopt trade restrictions that could significantly harm Japan's economy.

**Natural Disasters.** Japan has experienced earthquakes and tidal waves varying in degrees of severity, and the risks of such phenomena, and damage resulting therefrom, continue to exist.

**Limited Availability of Information; Due Diligence.** The availability of information on companies is more limited in Japan than in the United States. Generally, companies' public filings contain less information than their counterparts in the United States. Accounting, auditing and financial reporting standards and practices in Japan differ in certain respects from those employed in the United States. The



financial information generally available with respect to Japanese companies may not be as extensive as the financial information available to companies operating in the United States. Moreover, in Japan there is less experience with the kind of extensive legal and business due diligence that is typically conducted in the United States, and as a result, it may be difficult to conduct the level of due diligence customarily found in transactions in the United States. The lack of availability of information may affect the due diligence investigations we undertake prior to the making an investment.

## **Business Risks**

**Investment and Trading Risks in General.** All securities investments risk the loss of capital. No guarantee or representation is made that our investment program will be successful, and investment results may vary substantially over time. Our investment program may utilize such investment techniques as margin transactions, short sales, futures, options, synthetic instruments and derivative instruments, which practices can, in certain circumstances, substantially increase the adverse impact to which accounts may be subject.

**Securities Issued Outside the United States.** The accounts will trade and invest in securities issued in the United States and in non-U.S. countries. Investing in non-U.S. country securities involves considerations and possible risks not typically involved in investing in securities of companies domiciled and operating in the United States, including instability of some governments, the possibility of expropriation, limitations on the use or removal of funds or other assets, changes in governmental administration or economic or monetary policy (in the United States or abroad) or changed circumstances in dealings between nations. The accounts may incur higher expenses from investments outside the United States than the accounts would investing in U.S. securities because of the costs incurred in connection with conversions between various currencies and the fact that brokerage commissions outside the United States may be higher than commissions in the United States. Non-U.S. markets also may be less liquid, more volatile and less subject to governmental supervision than in the United States. The accounts' investments (which will be made almost exclusively outside the United States) could be adversely affected by other factors not present in the United States, including lack of uniform accounting, auditing and financial reporting standards and potential difficulties in enforcing contractual obligations.

**Model Risk.** Our strategies are exposed to model risk, which is the risk that our financial models may be applied to tasks for which they are inappropriate or otherwise implemented incorrectly. Model risk is generally characterized as a form of operational risk. Set forth below are examples of model risk:

- |                             |   |
|-----------------------------|---|
| Inapplicability of modeling | <ul style="list-style-type: none"><li>• Our model may simply be inapplicable.</li></ul>   |
| Incorrect model             | <ul style="list-style-type: none"><li>• We may not have taken into account all the factors that affect valuation.</li><li>• We may have incorrectly assumed certain random variables can be approximated as non-random.</li><li>• We may have assumed incorrect dynamics for a factor.</li><li>• We may have made incorrect assumptions about relationships between factors.</li><li>• Our models may be inappropriate under current market conditions, or some of their assumptions may have become invalid.</li><li>• Our models may be correct in an idealized world (with no trading costs, say), but incorrect or approximate when realities (like market frictions) are taken into account.</li></ul> |

	<ul style="list-style-type: none"> <li>• Our models may be “correct in principle” but the market may disagree in the short run. This is really another way of saying that one or more of our models may be limited, in the sense that it or they didn’t take other short-term factors into account (including market sentiment) that can influence price.</li> <li>• Our models may be correct, but the data driving a particular model (rates, volatilities, correlations, spreads, and so on) may be badly estimated.</li> <li>• Our models may be reasonable, but the world itself may be unstable. A good model today may be inappropriate tomorrow. For example, the sentiment about interest rates may be linked to gold prices one year, and to oil prices the next.</li> </ul>
Correct model, incorrect solution	<ul style="list-style-type: none"> <li>• Through subtlety or carelessness, we may make a mistake in finding the analytic solution to a model. This happens in complex derivatives, leading, for example, to so-called model arbitrage.</li> </ul>
Correct model, inappropriate use	<ul style="list-style-type: none"> <li>• Our models may be used in ways never intended to be used. This is especially true in trading environments, where not enough time can be spent on making interfaces fail-safe, but this is true also as a matter of principle – not everything can be foreseen. Therefore, even a “correct” model, “correctly” solved, can lead to problems. The more complex the model, the greater this possibility.</li> </ul>
Badly approximated solution	<ul style="list-style-type: none"> <li>• There may be errors in the numerical solution to a correctly formulated problem, or there may simply be natural limits to the accuracy of some approximation scheme. Finite difference solution methods can be unstable, inaccurate, or converge slowly.</li> </ul>
Software and hardware bugs	<ul style="list-style-type: none"> <li>• Models may be sophisticated programs, thousands of lines long, with rich data structures used to perform detailed computations. Models often undergo revisions by people who were not the original authors. Equally important in making them useful, models need user interfaces, position databases, trade entry screens, and electronic price feeds. Programming mistakes in any of these areas can lead to wide-spread and hard-to-detect errors. Errors can be made in logic, rounding, counting the days between dates or the coupons to maturity, for example. In addition, there are occasional hardware flaws.</li> </ul>
Unstable data	<ul style="list-style-type: none"> <li>• Our models may need the future value of a volatility or correlation. The value is often based on historical data. But history may not provide a good estimate of future value, and historical values may themselves be unstable and vary strongly with the sampling period.</li> </ul>

**Illiquid Investments of the Accounts.** The accounts typically may invest in securities for which there is no public market or for which there is limited liquidity in the public market. These investments may be difficult to value and to sell or otherwise liquidate, and the risk of investing in such securities is generally much greater than the risk of investing in publicly traded securities. 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.

**Special Situation Investing.** Special situation investing 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. This strategy involves taking long and short positions in securities which have either an economic or mathematical relationship to each other and where a distortion exists between either the historical price or the fair value

of that relationship. Although there is an economic or mathematical relationship between such long and short positions, there is no guarantee that our assessment of that relationship will be correct.

The accounts may invest in securities of companies which we believe will engage in a corporate restructuring, merger, recapitalization, spin-off or split-up. Such securities may have significant exposure to overall market movements. We 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 accounts 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 accounts may purchase securities which are the subject of a takeover bid for a price above the price offered by the bidder if we determine 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.

We may also cause the accounts to invest and trade in securities of companies which we believe are undervalued in the sense that, although they are not the subject of an announced tender offer, merger or acquisition transaction, in our view the companies are potential candidates for such a transaction. In such cases, if the anticipated transaction does not in fact occur, the accounts may sell the securities at a loss.

**Hedging Transactions.** We are not required to attempt to hedge portfolio positions in the accounts and, for various reasons, may determine not to do so. Furthermore, we may not anticipate a particular risk so as to hedge against it. We may utilize financial instruments such as forward contracts, currency options, stock index futures and options, credit default swaps and interest rate swaps, caps and floors to seek to hedge against the negative movements in currency exchange rates and the Japanese securities markets, which will not always be successful. Hedging against a decline in the value of a particular issuer does not eliminate fluctuations in the values of the accounts' positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the value of an investment in an account. Such hedging transactions also limit the opportunity for gain if the value of the accounts' positions should increase. Moreover, it may not be possible for the accounts to hedge against an exchange rate or equity price fluctuation that is so generally anticipated that the accounts are not able to enter into hedging transactions at a price sufficient to protect the accounts from the decline in value of the equity position anticipated as a result of such a fluctuation. In addition, it may not be possible to hedge against certain fluctuations at all.

The success of the accounts' hedging transactions will be subject to our ability to correctly predict movements in the direction of currency exchange rates and equity prices. Therefore, while the accounts may enter into such transactions to seek to reduce currency exchange rate or equity value risks, unanticipated changes in currency exchange or interest rates may result in a poorer overall performance for the accounts than if we had not engaged in any such hedging transaction. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the equity position being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the account holdings being hedged. Such imperfect correlation may prevent the accounts from achieving the intended hedge or expose the accounts to risk of loss. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the accounts' equity holdings.

**Derivatives.** We may use a variety of exchange traded and "over-the-counter" derivative instruments in our investment program, including, without limitation, call options, put options, stock index options, credit default swaps, equity default swaps, total return swaps, asset swaps, interest rate swaps, forward contracts and future contracts. Each derivative product bears various risks, including counterparty credit

risk, liquidity risk, market risk, operations risk, structural risk and legal risk, which affect the price and liquidity of each derivative and may affect the volatility of the accounts' portfolios. Derivatives are designed to provide exposure to the credit risk of an entity or entities, equity securities, interest rates, foreign currency values, corporate borrowing rates, or other assets without owning such assets. Although elements of all derivatives are similar, individual derivatives can differ markedly. Certain derivative instruments may be more or less sensitive to various types of risks. Important determinants of the value associated with a derivative include the volatility of the referenced or underlying asset, interest rates, the market value of the underlying asset when the derivative is entered into, the duration of the derivative contract and the credit risk of the counterparty, among other factors. As such, there are many factors upon which market participants may have divergent views and there is a risk that we may incorrectly value the derivative. Derivatives can involve considerable economic leverage and may, in some cases, involve significant risk of loss. Therefore, if a derivative contract calls for payments by an account, the account must be prepared to make such payments when due. The accounts are not limited to any particular form of derivative if consistent with the accounts' investment objective and policies.

**Call Options.** There are risks associated with the sale and purchase of call options. The seller (writer) of a call option which 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 less the premium received, and gives up the opportunity for gain on the underlying security above the exercise price of the option. The seller of an uncovered 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.

**Put Options.** There are risks associated with the sale and purchase of put options. The seller (writer) of a put option which 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 sales price (in establishing the short position) of the underlying security plus the premium received, and gives up the opportunity for gain on the underlying security below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option.

**Stock Index Options.** We may also cause the accounts to purchase and sell call and put options on stock indices listed on securities exchanges or traded in the over-the-counter markets. A stock index fluctuates with changes in the market values of the stocks included in the index. 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 an account 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 accounts of options on stock indices is subject to our 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.

**Credit Default Swaps.** We may cause the accounts to enter into credit default swaps. A credit default swap is a contract between two parties which transfers the credit risk of an entity (the "Reference Entity") for a defined period whereby if there is a Credit Event then the seller of protection pays a predetermined amount to the buyer of protection. A "Credit Event" is commonly defined as the Reference Entity (a) failing to pay principal or interest on time, (b) restructuring its debt, (c) accelerating its debt, or (d) entering bankruptcy. The buyer of credit protection pays a premium to the seller of credit protection until the earlier of a Credit Event or the scheduled termination date of the credit default swap. Credit default swaps can be used to implement our view that a particular credit, or group of credits, will experience

credit improvement. In the case of expected credit improvement, we may sell credit default protection in which the accounts receive a premium to take on the risk. In such an instance, the obligation of the accounts to make payments upon the occurrence of a Credit Event creates leveraged exposure to the credit risk of the referenced entity. The accounts may also buy credit default protection with respect to a reference entity if, in our judgment, there is a high likelihood of credit deterioration. In such instance, the accounts will pay a premium regardless of whether there is a Credit Event. The credit default swap market in high yield securities is comparatively new and rapidly evolving compared to the credit default swap market for more seasoned and liquid investment-grade securities creating the risk that the newer markets will be less liquid and it may be difficult to exit or enter into a particular transaction.

**Equity Default Swaps.** The accounts may also enter into equity default swaps. Equity default swaps share some similarities with credit default swaps because they are derivatives in which one party is buying protection against the risk of an event occurring to one or more designated entities during a defined period. However, with respect to equity default swaps, the payment obligation for the seller of protection is triggered by the share price of an entity falling during the period of the transaction by more than a predetermined percentage. If the share price falls below this percentage, the seller of protection will have to pay a settlement amount to the buyer of protection. The settlement amount payable may be either a fixed amount or determined by reference to the final value of the share or by another method agreed upon between the parties. The buyer of protection pays the seller of protection a premium in exchange for the potential of receiving a settlement amount. As with credit default swaps, depending upon whether an account is buying or selling protection based upon our judgment with respect to an entity's credit, the account either (a) if it is selling protection, assumes the leveraged exposure to the credit risk of the referenced entity and (b) if it buying protection, assumes a loss of premium payments in the event that the share price does not fall below the predetermined percentage. Equity default swaps are very new to the derivatives market and there is currently no standardized documentation. This may mean that the terms of an equity default swap that an account has entered into are outdated quickly and are no longer market standard and it may be harder to liquidate a transaction.

**Total Return Swaps.** Total return swaps are another form of derivative that we may utilize to achieve our investment objective for the accounts. A total rate of return swap allows the total return receiver to receive the change in market value of an asset (whether a security, interest rate, form of debt, currency or other asset) from the total return payer in return for paying a floating or fixed interest-rate on a predetermined amount. The total return payer is synthetically short and the total return receiver is synthetically long. This may create a highly leveraged exposure to such underlying asset.

**Interest Rate Swaps and Asset Swaps.** The accounts may also enter into interest rate swaps and asset swaps. An interest rate swap is a derivative where the parties exchange interest payments on a specific principal amount per payment period, typically exchanging a fixed amount for a floating amount (an amount equal to a variable interest rate (such as LIBOR) multiplied by the principal amount). If an account enters into an interest rate swap and is paying a fixed amount, the account risks that the variable interest rate will decrease and therefore it is paying more than it is receiving. Alternatively, in the event that an account is paying a floating amount, it risks that the variable interest rate will increase and therefore it is paying more than it is receiving. An asset swap has similar risks. An asset swap is an exchange of two assets, such as one currency for another or an interest rate for another. In such a derivative, the account bears the risk that the asset or interest rate that it is paying will be greater than the asset or interest rate that it is receiving.

**Forward Contracts.** The accounts may enter into forward contracts which are not traded on exchanges and are generally not regulated. There are no limitations on daily price movements of forward contracts. Banks and other dealers with whom the accounts may maintain accounts may require the accounts to deposit margin with respect to such trading, although margin requirements are often minimal or non-

existent. The accounts' counterparties are not required to continue to make markets in such contracts. There have been periods during which certain counterparties have refused to continue to quote prices for forward contracts or have quoted prices with unusually wide spreads (the difference between the prices at which the counterparty is prepared to buy and at which it is prepared to sell). Arrangements to trade forward contracts may be made with only one or a few counterparties, and liquidity problems therefore might be greater than if such arrangements were made with numerous counterparties. The imposition of credit controls by governmental authorities might limit forward trading to less than that which would otherwise be optimal, to the possible detriment of the accounts.

**Short Selling.** Short selling involves selling securities which may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which the accounts engage in short sales will depend upon our perception of market direction. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to an account of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase and such risk may be exacerbated to the extent that such securities are thinly traded or illiquid. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

**Futures.** The accounts may trade in futures contracts and options on futures. Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain future contracts prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits". Under such daily limits, during a single day no trades may be executed at prices beyond daily limits. Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent an account from promptly liquidating unfavorable positions and subject the account to substantial losses. In addition, the accounts may not be able to execute futures contract trades at favorable prices if little trading in the contracts involved is taking place. It is possible that an exchange may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract, or order the trading in a particular contract be conducted for liquidation only.

**Other Derivatives.** The accounts may also 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 objectives of and are legally permissible for the accounts. Special risks may apply to instruments in which we cause the accounts to invest in the future that cannot be determined at this time or until such instruments are developed or invested in by the accounts.

**Common Stock.** The accounts may invest in common stock. Although common stock has historically generated higher average total returns than fixed-income securities over the long term, common stock also has experienced significantly more volatility in those returns. An adverse event, such as an unfavorable earnings report, may depress the value of a particular common stock held by an account. Also, the price of common stock is sensitive to general movements in the stock market and a drop in the stock market may depress the price of common stock in which an account invests. Common stock prices fluctuate for several reasons, including changes in investors' perceptions of the financial condition of an issuer or the general condition of the relevant stock market or when political or economic events affecting the issuers occur. In addition, common stock prices may be particularly sensitive to rising interest rates, as the cost of capital rises and borrowing costs increase. Interest rates are at historical lows and, accordingly, it is likely that they will rise.

**Preferred Stock.** The accounts may invest in preferred stock. Preferred stock has a preference over common stock in liquidation (and generally dividends as well) but is subordinated to the liabilities of the issuers in all respects. As a general rule, the market value of preferred stock with a fixed dividend rate and no conversion element varies inversely with interest rates and perceived credit risk, while the market price of convertible preferred generally also reflects some element of conversion value. Because preferred stock is junior to debt securities and other obligations of the issuer, deterioration in the credit quality of the issuer will cause greater changes in the value of a preferred stock than in a more senior debt security with similar stated yield characteristics. Unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer's board of directors. Preferred stock also may be subject to optional or mandatory redemption provisions.

**Small Companies.** The accounts may invest in small and/or less well-established companies. While smaller companies generally have potential for rapid growth, they often involve higher risk because they lack the management experience, financial resources, product diversification and/or competitive strength of larger corporations. In addition, in many instances, the frequency and volume of their trading is substantially less than is typical of larger companies. As a result, the securities or loans of smaller companies may be subject to wider price fluctuations. In addition, due to thin trading in some of those stocks, bonds or loans, an investment in those stocks, bonds or loans may be considered less liquid than an investment in many large-capitalization stocks, bonds or loans. When making large sales, the accounts may have to sell portfolio holdings at discounts from quoted prices or may have to make a series of small sales over an extended period of time due to the trading volume of smaller company securities.

**Private Placements.** In addition to the risks that exist with respect to privately-placed securities due to the nature of such securities (i.e., risks associated with common stock), privately-placed securities are often illiquid. Illiquid securities include most securities the disposition of which is subject to substantial legal or contractual restrictions and are generally viewed as securities that cannot be disposed of within seven business days at approximately the amount at which we have valued the securities. We may experience significant delays in disposing of illiquid securities and may not be able to sell them for the price the account paid or the price at which we have valued them. Transactions in illiquid securities may entail registration expenses and other transaction costs that are higher than those for transactions in liquid securities.

**Portfolio Turnover.** The accounts may engage in frequent trading and thus, the accounts' brokerage commission to assets ratio may significantly exceed those of other investment entities.

**Volatile Markets.** The prices of financial instruments in which we may cause the accounts to invest can be volatile. Price movements of forward and other derivative contracts in which the accounts' assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The accounts are subject to the risk of failure of any of the exchanges on which their positions trade or of their clearinghouses.

**Convertible Securities.** Convertible securities are securities that may be exchanged or converted into a predetermined number of the issuer's underlying common shares, or the common shares of another company that are indexed to an unmanaged market index at the option of the holder during a specified time period. Convertible securities may take the form of convertible preferred stock, convertible bonds or debentures, stock purchase warrants, zero-coupon bonds or liquid-yield option notes, stock index notes, or a combination of the features of these securities. Prior to conversion, convertible securities may have the same general characteristics as non-convertible debt securities and therefore, the market value of convertible securities would decline as interest rates increase, and conversely, increase as interest rates

decline. Convertible securities, however, also appreciate when the underlying common stock appreciates, and conversely, depreciate when the underlying common stock depreciates.

**Counterparty Risk.** Many of the markets in which the accounts will effect their transactions will be “over-the-counter” or “interdealer” markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of “exchange based” markets. This exposes the accounts 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 relevant account to suffer a loss. In addition, an account may be exposed at any one time to one or more counterparties in respect of all or a large portion of the account’s assets, and any default on the part of a counterparty could result in some or all of the assets being available to the creditors of such counterparty. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where an account has concentrated its transactions with a single or small group of counterparties. The accounts are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. Moreover, we have no internal credit function which evaluates the creditworthiness of the accounts’ counterparties. The ability of the accounts 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 accounts.

**Possible Lack of Diversification.** There are generally no absolute diversification or concentration constraints on our strategies. If the portfolio of an account becomes relatively concentrated, the value of an investment in the account may be subject to greater volatility and may be more susceptible to any single economic, political, or regulatory occurrence or the fortunes of a single company or industry than would be the case if the account’s investments were more diversified.

**Leverage.** The accounts may borrow funds from brokerage firms and banks in order to enhance returns and satisfy redemption requests which would otherwise result in the premature liquidation of investments. While leverage presents opportunities for increasing the total return of the accounts, it has the effect of potentially increasing losses as well. Accordingly, any event which adversely affects the value of an investment by an account would be magnified to the extent that leverage is employed by the account. The cumulative effect of the use of leverage by an account in a market that moves adversely to the account’s investments could result in a loss to the account which would be greater than if leverage were not employed.

**Structuring and Tax Risks.** The accounts will make investments in a number of different countries and may structure their investments in a variety of ways and through a variety of entities for legal, tax, regulatory or other purposes. The accounts may make investments via other entities and in partnerships, joint ventures, or co-investment arrangements with other parties. Such arrangements may involve additional risks (such as the risk of failure to structure and operate such entities in accordance with the laws and regulations of the applicable jurisdictions, as well as the higher costs associated with their formation, structuring or operation), and an account’s investment via such entities may be impacted by other parties if made on a joint venture, co-investment or partnership basis (e.g., where a third party defaults on its funding obligations or is in a position to take action contrary to an account’s objectives, or where the account is liable for actions of such third party). The accounts may also make investments through entities in which they will only have a minority interest and as such the accounts will not control such entities or their assets.

Certain of the investments that the accounts will make may be in countries that may be or may prove to be politically or economically unstable. With any investment, there exists the risk of adverse political



developments, including nationalization, confiscation without fair compensation or war. In addition, instances may occur where domestic and foreign investment entities may be restricted from withdrawing a country's domestic capital out of the country for a period of time. This may limit our ability to dispose of certain investments. Moreover, laws and regulations of various countries may impose restrictions such as on the percentage of non-local ownership allowed or approval requirements that do not exist in other countries, and may require the use of financing and structuring alternatives that differ significantly from those that we customarily use. While we will seek to limit the extent to which such factors can affect the accounts, such actions may not be sufficient to protect the accounts from loss.

The accounts will be subject to various non U.S. taxes including potential income, withholding, transfer and other taxes. All taxes imposed on an account or on any other entity that an account may establish to facilitate investment in a particular jurisdiction will reduce the account's net asset value.

We will consider investments and holding structures for funds on their merits without regard to the taxation, legal or other circumstances of fund investors.

**Currency Trading is Highly Leveraged.** The general absence of high margins on currency contracts and the low cost of carrying cash positions can result in an extremely high degree of leverage. A relatively small price movement, therefore, in a currency contract could result in immediate and substantial losses to the accounts. Like other leveraged investments, any purchase or sale of currency contracts may result in losses in excess of the amount invested in those contracts. An account may lose more than its initial margin deposit on a trade.

**Taxation Matters.** Because our strategy will cause the accounts to invest substantially all of their capital in the Japanese and other regional Asian equity markets, and not in U.S. markets, investors risk the possibility of expropriation or confiscatory taxation and the possible imposition of non-U.S. taxes and U.S. taxes with respect to such investments. Prospective investors are urged to consult their own tax advisors with respect to their own tax situation and the effects of our strategy.

**Potential Loss of Investment.** As noted above, no guarantee or representation is made that the our investment program will be successful. In particular, the past results of accounts we have managed are not necessarily indicative of the future performance of any account. As is true of any investment, there is a risk that an investment using our strategy will be lost entirely or in part. Our strategy is not a complete investment program and should represent only a portion of an investor's portfolio management strategy.

## **Item 9. Disciplinary Information**

There are no legal or disciplinary events that would require to be disclosed.

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

### **Material Financial Industry Affiliations of the Firm**

The firm currently has direct relationships with the following private investment funds:

- Whitney Japan funds;
- Whitney Select Japan funds;
- Whitney Japan Tactical funds;

- Whitney Pan Asia funds;
- JHW Pan Asia Strategies Cayman Fund, LDC, a Cayman Islands exempted limited duration company.

The firm currently has direct relationships with the following registered investment funds:

- JHW Pan Asia Strategies Master Fund, LLC, a Delaware limited liability company;
- JHW Pan Asia Strategies Fund, LLC, a Delaware limited liability company;
- JHW Pan Asia Strategies TE Fund, LLC, a Delaware limited liability company;

The firm is the sole member of JHWIM Fund Management Company, LLC, which serves as investment advisor to the Japan funds and as investment advisor to certain separate accounts.

The firm is also the sole owner of Asian Management (Singapore) Pte., Ltd., a subsidiary which acts as sub-investment manager to certain of the Japan funds and separate accounts.

The firm is the sole member of J.H. Whitney Pan Asia Advisor, LLC, which serves as the managing member and/or investment advisor of the multi-manager funds.

The firm is the sole member of J.H. Whitney Pan Asia Advisor II, LLC, which serves as the investment sub-advisor of the BBH Asian Opportunity Fund, Ltd.

The firm is also the sole owner of J.H. Whitney Investment Management Asia Pte. Ltd., a subsidiary which acts as sub-manager to J.H. Whitney Pan Asia Advisor, LLC with respect to the Pan Asia funds.

The investment managers receive management fees from the funds and the managed accounts, and the general partners or the investment managers receive performance allocations or performance fees based on net gains earned by the funds and managed accounts.

The firm may be deemed to be a related person of JHWIM GP, LLC, which serves as general partner for the Japan funds.

We also have an important relationship with Japan Advisory LLC, an unaffiliated Japanese limited liability company. As a sub-advisor to Asian Management (Singapore) Pte. Ltd. and, for certain accounts, J.H. Whitney Investment Management, LLC, Japan Advisory LLC provides us with strategic and specific investment recommendations which serve as the basis for our Japan-focused investment strategies.

Ultimate investment discretion for the Japan-focused funds and separate accounts, however, rests with Asian Management (Singapore) Pte. Ltd., with oversight and management by JHWIM Fund Management Company, LLC, or directly with J.H. Whitney Investment Management, LLC.

## **Conflicts of Interest**

In addition to the funds and our current separate account clients, we may in the future participate in or sponsor other investment vehicles, and possibly have additional advisory accounts or clients. We may also determine to engage in other businesses. The existence of such present and future multiple investment vehicles and accounts, or other businesses, may create the material conflicts of interest described below.

**Time Commitments.** The existence of multiple investment vehicles, accounts and/or clients may create conflicts as to time and resource commitments on the part of our personnel. We may retain additional personnel as the firm deems necessary.

**New Investment Strategies and Related Products.** From time to time, we may determine to develop new investment strategies, with a view toward offering new managed account or investment fund products to investors. Such new investment strategies may be similar in certain or many respects to the investment strategies we employ for existing clients, and may involve the purchase and sale of some or all of the securities and investments which comprise the portfolios of the funds and the separate accounts. Such new investment strategies may be “tested” by means of one or more newly established accounts or investment funds that are initially funded by our own or our personnel’s capital. To the extent that the assets of any such new account or investment fund remain solely attributable to us and our personnel, the account or investment fund will be treated as a personal account of our firm and will be required to comply with our personal account trading policy, subject to exceptions as we may determine from time to time. Such accounts or investment funds may be expected at times to engage in purchases and sales of securities contemporaneously with purchases and sales of the same securities by one or more of the funds and separate accounts. In such event, it is anticipated that allocations of securities among such new accounts or investment funds, the funds and the separate accounts will generally be made as described below, but may, due to strategy related or other reasons, vary in our discretion. At all times, we intend to monitor the investment activities and allocations with respect to any new accounts or investment funds, the funds and the separate accounts and intends to operate such new accounts or investment funds in a manner that will not negatively impact the funds and the separate accounts. At any time, we may determine to offer interests in a new investment fund to outside investors; and, at such point in time as investors have invested capital in a new investment fund and thereafter, such new investment fund will be treated as our client and will generally be subject to the allocations provisions set forth below.

**Allocation Issues.** The existence of multiple funds and separate accounts that generally all invest in the same securities can create a material conflict of interest with respect to the allocation of investment opportunities among accounts. We allocate investment opportunities among the accounts by applying such considerations as we deem appropriate, including relative size of such investment vehicles, accounts and clients, amount of available capital, size of existing positions in the same or similar securities, impact of leverage, investment objective and strategy considerations, including, without limitation, concentration parameters and tax considerations and other factors. As a result of such considerations, allocations among the accounts will not necessarily be pro rata. In cases where a limited amount of a security or other instrument is available for purchase, the allocation of such security among the accounts may necessarily reduce the amount thereof available for purchase by the other accounts.

Although the funds and the separate accounts generally invest in the same securities, the net performance of one account may vary materially from that of other accounts as a result of the allocation policies described above, as well as differing expenses, tax considerations, the impact of leverage and other factors.

**Balancing Transactions.** Notwithstanding that the funds and the separate accounts currently all employ a similar or substantially similar investment strategy and will generally invest and trade on a *pari passu* basis, certain differences in the specific investment strategies employed (including, applicable investment parameters, eligibility criteria with respect to various clients or investors, applicable expenses, available capital, the relative use of leverage and other factors) may result in non-*pari passu* treatment of specific accounts with respect to some or all of their investment and trading activities.

From time to time, in our discretion, we adjust (or “rebalance”) the portfolio holdings of one or more of the accounts so as to eliminate or minimize variations among the portfolio holdings of the accounts that employ the same or similar investment strategies or otherwise to maintain what we believe to be a desirable portfolio composition for each of the accounts, subject to the applicable account differences described above. With respect to any rebalancing transactions, the firm may effect cross trades between client accounts in which one client purchases securities held by another client. In these transactions, the

firm will determine that the transaction is in the best interest of both accounts. The firm will also establish the price for the security based on objective criteria such as the average range of independent quotes at the time of the transaction and effect the transaction at such independently determined price. If there is no independently determined price, then the firm will use the same method to determine the cross trade price as it uses to value the securities for purposes of determining the value of interests in a fund. The firm may receive a commission or compensation with respect to the transaction that will be no more than the usual and customary commission or compensation for such a transaction.

Although the firm believes this procedure will benefit clients and minimize conflicts, such transactions may present the firm with potentially conflicting incentives.

**Conflicts Regarding Valuations and Other Matters.** We are responsible for a variety of important matters affecting the funds and separate accounts, particularly those funds for which we serve as the general partner. Among other matters, in certain cases we determine the value of the securities held by the accounts. Such valuation affects both reported account performance as well as the calculation of both the incentive allocations/fees and the management fees payable to use by the accounts. Although the governing documents, offering documents and investment advisory agreements of the accounts prescribe the method of valuing different types of investments, which generally involve current market price information, there may be investments as to which current or reliable market price information is unavailable, in which event we may have discretion in determining the appropriate means of valuation. Furthermore, in the event we are provided with, or otherwise come into possession of, information which leads us to determine that one or more valuations of account assets for a prior period are inaccurate, where we are responsible for valuation we may adjust or amend such prior valuations as we deem appropriate, and adjust or amend any reports or statements of the account (whether or not previously issued) with respect to such prior periods.

**New Issues.** The manager of a fund or separate account eligible to purchase securities in an initial public offering (“IPO”) will decide if the IPO securities are appropriate for the account, taking into account factors such as each account’s investment guidelines and restrictions, the market capitalization of the security, and the account’s sector diversification. If two or more accounts are eligible, the IPO would be a suitable investment for the accounts, and the amount of stock available to the accounts is less than the total amount desired, the available stock generally will be allocated among the accounts pro rata based upon their relative capital. If the accounts for which the IPO securities are suitable are of disparate size, the firm may instead use a rotational allocation of securities received in an IPO, so that a small client is not effectively shut out of IPO allocations.

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

### **Code of Ethics**

We have established a Code of Ethics (“Code”) pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, as amended. The purpose of the Code is to identify the ethical and legal framework in which we and our personnel are required to operate and to highlight some of the guiding principles and mechanisms for upholding our standard of business conduct. The Code is designed to ensure that all applicable personnel are aware of and adhere to our policies and procedures. The description below is summary only. A complete copy of the Code will be provided to clients and prospective clients upon request.

**Standard of Business Conduct.** As a fiduciary, we owe our clients the highest duty of loyalty and we rely on each of our personnel to avoid conduct that is or may be inconsistent with that duty. We also seek to provide investment services that (a) ensure that each client receives advice based on his or her individual needs, objectives, and financial situation; (b) are consistent with applicable laws, rules, regulations, and industry standards; and (c) are offered in a manner that ensures that each client understands the objectives and structure of the investment products or services selected.

**Conflicts of Interest.** As a fiduciary, we have an affirmative duty of care, loyalty, honesty and good faith to act in the best interests of our clients. We make every effort to avoid conflicts of interest and fully disclose all material facts concerning any conflict of interest that may arise with respect to any client. We take a conservative approach and impose a high standard on our personnel by stressing that individuals subject to this Code must try to avoid situations that have even the appearance of conflict or impropriety. The Code includes provisions regarding employee's outside activities and gifts and gratuities.

**Protection of Material Non-Public Information.** Our Code includes our policies regarding situations where we or our employees may come into possession of confidential information in the course of our business. We are strongly committed to protecting confidential information. We are also strongly committed to avoiding the misuse, or the appearance of misuse, of such information, whether in connection with the trading of securities or otherwise.

**Personal Securities Transactions.** All personnel must comply with our Personal Securities Trading policy. Except with respect to certain securities (including, indices, mutual funds, exchange-traded funds and certain government securities) and with respect to certain accounts for which a person does not exercise investment discretion, personal securities transactions by our personnel must be pre-approved by our Chief Compliance Officer ("CCO"). The policy also requires periodic reporting of personal securities transactions and holdings.

**Reporting of Violations.** Our personnel are required to report any violation, apparent violation or potential violation of the Code to the CCO.

**Review and Enforcement.** The CCO is responsible for ensuring adequate supervision over the activities of all persons who act on our behalf in order to prevent and detect violations of the Code by such persons.

## **Interested Transactions**

We may, from time to time, recommend a security in which our firm or one of our related persons, directly or indirectly, has an interest. For instance, it may be expected that separate account assets will be invested in securities of issuers in which one or more other separate accounts or funds hold positions. In addition, fund assets may be invested in securities of issuers in which one or more other funds or separate accounts hold positions. Given the likely frequency of such occurrence, clients will not be provided with notification of such occurrences. This may represent a conflict of interest for us, and this conflict, and our procedures for addressing such conflict, are described in detail in Item 10 of this brochure.

As described above, all personal securities transactions by the firm's personnel are subject to pre-approval by CCO before the supervised person may proceed with the transaction, except for transactions in certain categories of securities such as mutual funds, money market funds and U.S. government securities.

We may permit a supervised person to invest in securities or related securities that a fund is also investing in, but subject to the requirement that such a transaction will not disadvantage any client account. In addition, all supervised persons are required to submit personal trading information to the firm for review by the CCO. Our pre-approval procedure and the submission of supervised persons' personal trading

information assist us towards our goal of ensuring that no personal trading of any supervised person will disadvantage any client account.

## **Item 12. Brokerage Practices**

The following description of our brokerage practices primarily relates to our single-manager strategies. Most investments made with respect to the multi-manager strategies are made in private transactions not involving brokers.

### **Selection of Brokers**

We have full authority to select broker dealers to execute the accounts' investment transactions. With respect to transactions involving the purchase and sale of public securities, we have no limit on our discretionary authority to determine the type, amount and price of securities or investments to be bought and sold on behalf of each account, including the selection of, and commissions paid to, brokers, subject to each account's investment policies and goals.

We may utilize a number of broker-dealers to effect transactions for clients. Such broker-dealers will be selected based on

- quality of execution,
- expertise in particular markets,
- reputation, experience and financial stability,
- quality of service,
- familiarity with the investment practices and techniques we employ on behalf of the accounts,
- commission rates, and
- research and analytic services,

subject at all times to principles of best execution. In such allocation of brokerage business, the commissions clients will pay to such brokers may not necessarily represent the lowest commission rate available, but may reflect our evaluation of the research and other brokerage-related services furnished by such broker-dealers) and which benefit the account(s) individually or together with our other accounts.

### **Soft Dollars**

In seeking to obtain the best execution of portfolio transactions, in addition to the quality and reliability of brokerage services, we may take into consideration research services provided either by brokers and dealers themselves or by third parties that are paid for such services by brokers and dealers. These other services may be used for all of our accounts and we may not attempt to allocate the relative costs or benefits thereof.

In any such case, we will make a determination that the amount of any increased commission costs on account of such research or other services is reasonable relative to the value of services so provided, in accordance with Section 28(e) of the Securities Exchange Act of 1934, as amended ("Section 28(e)"). Section 28(e) provides a "safe harbor" to investment managers who use commission dollars of their advisory accounts (so-called "soft-dollar" arrangements) to obtain investment research, brokerage and other services that provide lawful and appropriate assistance to the manager in performing investment decision-making responsibilities, provided that the amount of any increased commission costs on account

of such research or other services is reasonable relative to the value of the services so provided. Except as otherwise specifically disclosed to a separate account client or the investors in a fund, we will use allocations of commission dollars, if any, solely to pay for products or services that qualify as “research and brokerage services,” within the meaning of Section 28(e), pursuant to arrangements that meet the other requirements of Section 28(e).

Such arrangements may include so-called “commission sharing arrangements,” pursuant to which a portion of the amounts paid to a broker are made available by the broker as credits that we may use for payment to third parties for services that qualify as “research and brokerage services” within the meaning of Section 28(e). Such third parties are paid by the broker at our direction. Such services may be provided to subadvisors in connection with the subadvisors’ provision of advisory services to accounts we advise.

As a result of the foregoing, and as noted above, the commission rates paid by the accounts may not be the lowest commission rates available for the relevant transactions.

Certain services that we obtain using soft dollars we would otherwise have to pay for ourselves. As a result, the use of soft dollars creates an incentive for us to select a broker-dealer based on our interest in receiving research and other services, rather than our clients’ interest in receiving most favorable execution.

We do not have an internal trading desk to effect transactions for the accounts that trade in public securities. Instead, we contract with third parties who receive additional commissions from the accounts to provide these services. While these arrangements may result in an account paying higher execution costs than it would if we provided such services directly to the client, we believe that using these third parties is a more efficient way of trading securities for the account.

Within our last fiscal year, we used soft dollars to obtain the following the types of products and services:

- financial information systems such as Bloomberg and Thomson Reuters that provide us with access to real-time market data, research reports, news, and company information (including corporate actions) that are vital in managing the strategies;
- independent research reports from various reputable sources and covering a broad range of areas such as macro-economical topics, fundamental research, and technical research;
- tailored research inputs in the form of tailored reports and analyses specifically requested by us;
- access to and consultations with industry experts and independent consultants; and
- execution services.

### **Aggregation of Orders**

We may aggregate sale and purchase orders of securities for more than one account. We will do so only if we believe that aggregation is likely to produce an overall economic benefit to the accounts, in the aggregate, as a result of relatively better purchase or sale prices, lower transaction expenses or beneficial timing of transactions, or a combination of these and other factors. Aggregated transactions may be made at slightly different prices, due to the volume of securities purchased or sold. If that occurs, the average price of all securities purchased or sold in these transactions will be determined and accounts will be charged or credited, as the case may be, with the average transaction price. Averaging could result in an account paying a higher (or lower) price for securities purchased, or receiving a lower (or higher) price

for securities sold, than would be the case if other accounts were not concurrently purchasing or selling the same securities.

### **Allocation**

We have adopted policies and procedures to ensure that purchases and sales of portfolio investments are allocated fairly and equitably among all accounts in accordance with their respective investment objectives, guidelines and restrictions and that orders for these investments are fairly aggregated. We will cause each account for which we determine the transaction is appropriate to participate in the transaction in an amount we deem appropriate. When more than one account is participating in the same transaction at the same time, the transaction normally will be entered into on the same economic terms (*e.g.*, same purchase price or same exit terms).

If an order is only partially filled as of the end of the trading day, then the securities allocated to each participating account will be allocated on a *pro rata* basis, based on the size of the original allocation to the account, subject to minor adjustments for rounding and odd lots. Orders will generally be rounded in lots of 100 shares. However, in certain circumstances, we may allocate based on a “rule of reason.” For example, if the original order was for 500,000 shares of a security for five accounts but we receive only 50,000 shares, we may allocate those 50,000 shares to only one account.

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

The portfolios for the single-manager accounts are reviewed on a continuous basis by the Investment Committee of Asian Management (Singapore) Pte. Ltd. The portfolios for the multi-manager accounts are reviewed on a continuous basis by the firm’s Chief Investment Officer.

**Funds.** We provide the funds’ audited financial statements on an annual basis and, in addition, provide unaudited monthly performance data on the fund to investors in the fund.

**Other Accounts.** Brokerage statements are generated no less than quarterly. These statements are sent directly to the client by the account custodian. These reports list the account positions, activity in the account over the covered period, and other related information. Clients are also sent confirmations following each brokerage account transaction unless receipt of confirmations has been waived by the client. We will not issue separate reports with respect to such clients.

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

The firm and/or its related parties may pay to persons who refer investors to a fund a portion of the management fees and/or performance allocations received with respect to such investors.

Currently J.H. Whitney Pan Asia Advisor, LLC (“Pan Asia Advisor”) has an agreement with Jefferies and Company, Inc. (“Jefferies”), pursuant to which Jefferies acts as a non-exclusive placement agent with respect to the sale of non-voting interests of J.H. Whitney Pan Asia Fund, LLC and non-voting units of J.H. Whitney Pan Asia Fund (International). As compensation for acting as placement agent, Jefferies will be paid a percentage of the management fees payable to Pan Asia Advisor by the funds with respect to investors introduced by Jefferies.

Pan Asia Advisor also has an agreement with Credit Suisse First Boston, LLC (“Credit Suisse”), pursuant to which Credit Suisse acts as a non-exclusive placement agent with respect to the sale of non-voting



interests of J.H. Whitney Pan Asia Fund, LLC and non-voting units of J.H. Whitney Pan Asia Fund (International). As compensation for acting as placement agent, Credit Suisse will be paid a percentage of the management fees payable to Pan Asia Advisor by the funds with respect to investors introduced by Credit Suisse.

We have also entered into arrangements with a placement agent for the units of JHW Pan Asia Strategies Master Fund, LLC, JHW Pan Asia Strategies Fund, LLC and JHW Pan Asia Strategies TE Fund, LLC, pursuant to which the placement agent is entitled to monthly compensation equal to a percentage of the total assets of those funds.

JHW Pan Asia Strategies Fund, LLC and JHW Pan Asia Strategies TE Fund, LLC will also be included in the alternative investments platform of a broker-dealer, for which we will pay the broker-dealer both an establishment fee and periodic service fees.

## **Item 15. Custody**

This item is not applicable to us.

## **Item 16. Investment Discretion**

Item 4 includes a description of the investment discretion that we exercise with respect to the accounts. Investors do not have any ability to restrict the investment of their account. We generally exercise investment discretion with respect to accounts pursuant to a power of attorney that is granted by each fund or separate account client as part of the investment advisory agreement relating to each such account.

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

We have the authority to vote proxies relating to securities owned by the accounts we advise. We have adopted policies and procedures governing our voting of proxies that include the following elements:

- All proxies in respect to client securities are voted for the exclusive benefit of and in the best economic interests of the clients. We seek to do this in the manner that, in our judgment, is most likely to maximize total return to the clients as investors in the securities being voted.
- In certain cases, JHWIM may determine that the costs associated with certain proxies outweigh any benefits to its clients and may refrain from voting in these cases.
- Conflicts of Interest
- Procedures for Proxies
- Recordkeeping

Account holders do not have any authority to direct our vote in a particular solicitation.

If we determine that the firm has, or may be perceived to have, a conflict of interest when voting a proxy, we may, in our discretion, take one of the following actions in voting such proxy:

- delegate the voting decision for such proxy proposal to an independent third party;
- delegate the voting decision to an independent committee of partners, members, directors or other representatives of the funds, as applicable;
- inform the investors in the accounts of the conflict of interest and obtain consent to (majority consent in the case of a fund) vote the proxy as we recommend; or
- obtain approval of the decision from our Chief Compliance Officer and outside counsel.

Investors may obtain a copy of our Proxy Voting Policies and Procedures, and information regarding how we voted particular proxies on behalf of the accounts, on request.

## **Item 18. Financial Information**

We do not require or solicit prepayment of more than \$1,200 in fees from the funds, six months or more in advance, and therefore are not required to include a balance sheet for our most recent fiscal year.