

## **ADV - PART 2A**

### Item 1: Cover Page

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**This brochure provides information about the qualifications and business practices of Kynikos Associates LP. If you have any questions about the contents of this brochure, please contact us at (212) 649-0200. 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.**

**Kynikos Associates LP is registered as an investment adviser under the U.S. Investment Advisers Act of 1940, as amended. Such registration does not imply that the Securities Exchange Commission has endorsed or approved the qualifications of Kynikos Associates LP to provide the advisory and management services as described herein nor does it imply a certain level of skill or training.**

**Additional information about Kynikos Associates LP is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## Item 2: Material Changes

This is the Adviser's first brochure produced pursuant to the Securities and Exchange Commission's amendments to Part 2 of Form ADV. As such, many of the sections and responses are new and different from previous versions of Part 2 of the Adviser's ADV. Part 2 of the Adviser's last ADV was released on March 30, 2010. This document should be reviewed in its entirety.

### Item 3: Table of Contents

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#### Item 4: Advisory Business

Kynikos Associates LP, or the Adviser, is a limited partnership formed in the State of Delaware on December 15, 2003. The Adviser's principal owner is James S. Chanos.

The Adviser provides discretionary investment advisory services to certain affiliated private funds and four managed accounts. Additional funds and accounts may be added in the future. The Adviser generally pursues a fundamental, short investment strategy on behalf of the funds and accounts other than Kynikos Opportunity Fund, L.P., Kynikos Opportunity Fund II, L.P., Kynikos Alpha Tactical Fund, L.P., Kynikos Opportunity Fund Institutional Limited and Kynikos Opportunity Fund International Limited. The Adviser generally pursues a fundamental investment strategy of identifying and trading in undervalued or overvalued securities on behalf of these funds. The Adviser does not tailor its advisory services to the individual needs of clients, and clients may not impose restrictions on investing in certain securities or type of securities.

As of February 28, 2011, the Adviser had \$5,624,550,516.00 in assets under management, all on a discretionary basis.

#### Item 5: Fees and Compensation

See Item 6 below. All fees are deducted from clients' assets.

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

#### **U.S. Funds**

The Adviser is the investment manager for Ursus Partners, L.P. and Kriticos Partners, L.P., both Delaware limited partnerships and domestic private funds, and through Kynikos Opportunity Management International LLC, which is the Adviser's wholly owned limited liability company, provides discretionary investment advisory services to Kynikos Opportunity Fund, L.P., Kynikos Opportunity Fund II, L.P. and Kynikos Alpha Tactical Fund, L.P., each of which is a Delaware limited partnership and domestic private fund.

Ursus Capital Management I LLC, a limited liability company affiliated with the Adviser and controlled by James S. Chanos, serves as the general partner of Ursus Partners, L.P. and Kriticos Partners, L.P. Kynikos Opportunity Management LLC, a limited liability company wholly owned by Ursus Capital Management I LLC, serves as the general partner of Kynikos Opportunity Fund, L.P., Kynikos Opportunity Fund II, L.P. and Kynikos Alpha Tactical Fund, L.P.

#### Ursus Partners, L.P. and Kriticos Partners, L.P.

On the first day of each fiscal quarter, the Adviser receives, from Ursus Partners, L.P. and Kriticos Partners, L.P., a non-refundable quarterly management fee, paid in advance, equal to 0.25% (1.0% annualized) of the asset value of Ursus Partners, L.P. and Kriticos Partners, L.P. as of such date. As the general partner of Ursus Partners, L.P. and Kriticos Partners, L.P., Ursus Capital Management I LLC receives an annual incentive allocation, paid in arrears, equal to 20%

of the net capital appreciation, realized and unrealized, allocated to each limited partner in each non-refundable fund for each fiscal year; provided, however, that an incentive allocation will only be made with respect to the excess of the net capital appreciation after recovery of any prior years' losses attributable to such investor.

Kynikos Opportunity Fund, L.P., Kynikos Opportunity Fund II, L.P. and Kynikos Alpha Tactical Fund, L.P.

On the first day of each fiscal quarter, Kynikos Opportunity Management International LLC receives, from each of these funds, a non-refundable quarterly management fee, payable in advance, equal to 0.25% (1.0% annualized) of the asset value of the applicable fund as of such date. As the general partner of each of these funds, Kynikos Opportunity Management LLC receives an annual incentive allocation, payable in arrears, equal to 20% of the net capital appreciation, realized and unrealized, allocated to each limited partner in the applicable fund for a fiscal year; provided, however, that an incentive allocation will only be made with respect to the excess of the net capital appreciation after recovery of any prior years' losses attributable to such investor.

**Offshore Funds**

The Adviser also serves as the discretionary investment adviser of Ursus International Limited, Ursus Institutional Limited, Kynikos Opportunity Fund Institutional Limited and Kriticos International Limited, each of which is a Cayman Islands exempted company and an offshore private fund, and through Kynikos Opportunity Management International LLC, provides discretionary investment advisory services to Kynikos Opportunity Fund International Limited, a Cayman Islands exempted company and an offshore private fund.

Ursus International Limited, Ursus Institutional Limited, Kynikos Opportunity Fund Institutional Limited and Kriticos International Limited

The Adviser receives, from each of Ursus International Limited and Kriticos International Limited, a non-refundable quarterly management fee, payable in advance, equal to 0.25% (1.0% annualized) of the net asset value of the Class B shares of the applicable offshore fund at the beginning of each calendar quarter. The Adviser also receives a quarterly incentive fee, payable in arrears, of 20% of the net realized and unrealized appreciation in the net asset value of the Class B shares of the applicable offshore fund during the prior calendar quarter, determined net of accrued expenses chargeable to such class, but without deduction for any accrued quarterly incentive fees during the period; provided, however, that an incentive fee will only be paid with respect to the net appreciation in the net asset value of such class after recovery of any prior quarters' losses attributable to such Class B shares.

The Adviser receives, from Ursus Institutional Limited, a quarterly management fee at an annualized rate of 1.50% of the net asset value of each series of Class A shares, 2.00% of the net asset value of each series of Class B shares and 2.50% of the net asset value of each series of Class C shares at the beginning of each calendar quarter. The management fees accrue monthly and, for each calendar quarter, are paid on the first business day of the next calendar quarter. The Adviser also receives a quarterly incentive fee, payable in arrears, with respect to each series

of Class A, Class B and Class C shares equal to 20% of the net realized and unrealized appreciation in the net asset value of such series during the prior calendar quarter in excess of the target return, if any, achieved by such series. The target return for each series of Class A, Class B and Class C shares equals the following increase in the net asset value of such series, calculated as a percentage of the net asset value of such series as of the first business day following the date on which the last incentive fee for such series was determined: (i) for Class A shares, 5% per annum; (ii) for Class B shares, 10% per annum; and (iii) for Class C shares, 15% per annum. An incentive fee will only be paid with respect to the net appreciation in the net asset value of such series after recovery of any prior quarters' losses attributable to such series.

The Adviser receives, from Kynikos Opportunity Fund Institutional Limited, a non-refundable quarterly management fee, payable in advance, equal to 0.25% (1.0% annualized) of the net asset value of each series of shares at the beginning of each calendar quarter. The Adviser also receives a quarterly incentive fee, payable in arrears, of 20% of the net realized and unrealized appreciation in each series of shares during the prior calendar quarter, determined net of accrued expenses chargeable to such class, but without deduction for any accrued quarterly incentive fees during the period; provided, however, that an incentive fee will only be paid with respect to the net appreciation in the net asset value of such class after recovery of any prior quarters' losses attributable to such series of shares.

#### Kynikos Opportunity Fund International Limited

Kynikos Opportunity Management International LLC receives, with respect to Kynikos Opportunity Fund International Limited, a quarterly management fee, payable in advance, equal to 0.25% (1.0% annualized) of the net asset value of the Class B shares and the Class C shares at the beginning of each calendar quarter. Kynikos Opportunity Management International LLC also receives a quarterly incentive fee, payable in arrears, of 20% of the net realized and unrealized appreciation in the net asset value of the Class B and the Class C shares during the prior calendar quarter, determined net of accrued expenses chargeable to any class, but without deduction for accrued incentive fees during the period; provided, however, that an incentive fee will only be paid with respect to the net appreciation in the net asset value of a class after recovery of any prior quarters' losses attributable to such class.

#### Managed Accounts

The Adviser receives, with respect to the managed accounts, a quarterly management fee, payable in advance, equal to 0.25% (1.0% annualized) of each managed account's beginning capital account for each fiscal quarter or the average beginning capital account for the three previous months (depending on the managed account). The management fee is prorated in the event that subscriptions are accepted in the middle of a quarter, and in the event that the advisory agreement between the Adviser and a managed account is terminated pursuant to the terms of such agreement prior to quarter-end, such managed account receives a refund of a pro rata portion of the management fee paid thereby for such quarter. The Adviser receives an annual incentive allocation of from 10% to 20% (depending on the managed account) of the net capital appreciation, realized and unrealized, in the managed account for a fiscal year; provided, however, that an incentive allocation will only be made with respect to the excess of the net

capital appreciation after recovery of any prior years' losses attributable to such managed account.

### **Other**

Where required, all performance-based compensation is calculated in accordance with Rule 205-3 under the Investment Advisers Act of 1940, as amended. Such compensation is not negotiable, but under special circumstances other rates may be charged. The Adviser, in its sole and absolute discretion, may waive, reduce or grant rebates of the management fees or performance fees charged with respect to certain clients.

Client assets may be invested in money market funds for the purposes of cash management. When a client's assets are invested in money market funds, this client may bear two management fees, one to the Adviser and the other to the manager of the money market fund.

Investors in the domestic and offshore funds may redeem or withdraw their investment in accordance with the procedures, and subject to the restrictions, described in the applicable offering documents. In general, an investor is not permitted to redeem or withdraw his, her or its investment until the expiration of a specified holding period, unless an early redemption or withdrawal fee is paid. Typically, the specified holding period is one year, but the holding periods applicable to the investors in one of the offshore funds range from one to three years, depending on the class of the fund shares purchased by such investors. The amount of the early redemption or withdrawal fee is specified in the applicable offering documents and ranges from 3% to 5% of the investor's capital account or the asset value of all the investor's shares, as the case may be. The Adviser, in its sole and absolute discretion, may waive payment of this fee.

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

The Adviser provides discretionary investment advisory services to domestic and offshore private funds and managed accounts. Investors in the private funds and managed account clients include individuals, pension and profit-sharing plans, trusts, charitable organizations, corporations, business entities, endowments and foreign sovereign wealth funds.

Each of the private investment funds has a minimum initial subscription requirement of \$1 million (or \$2 million in the case of one of the offshore funds), subject to the discretion of the Adviser, or its affiliate, as the case may be, to accept lesser amounts. The Adviser does not require a minimum dollar value of assets for starting or maintaining a managed account. The Adviser reserves the right to impose in the future a minimum dollar value of assets or other conditions for starting and maintaining managed accounts.

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

The Adviser's investment philosophy is based on extensive fundamental research of both companies and industries. Through this research the Adviser seeks (i) with respect to the managed accounts, Ursus Partners, L.P, Ursus International Limited, Ursus Institutional Limited, Kriticos Partners, L.P. and Kriticos International Limited, to identify and sell short equities which will be revalued downward from then-current prices due to deteriorating profit outlook, unsustainable growth, increased industry competition or lack of a viable long-term business

model; and (ii) with respect to Kynikos Opportunity Fund, L.P., Kynikos Opportunity Fund II, L.P., Kynikos Opportunity Fund International Limited and Kynikos Opportunity Fund Institutional Limited, to identify mispriced securities, those undervalued as well as those overvalued, in which the Adviser thinks it can trade profitably.

The Adviser employs many analytical techniques: balance sheet analysis, income statement analysis, flow of funds statement analysis and the important interactions between the three. Other important measures that the Adviser watches closely are the quality of corporate earnings and a company's return on invested capital.

Industry analysis can either complement company specific analysis or itself be a source of short-sale candidates. Increasing competition, pending overcapacity, changing industry risk profiles and the miscalculation of market size for a company's product can all lead to the downward revaluation of equity securities. The Adviser does not employ such methodologies as technical analysis, market timing or asset allocation models as part of its research or investment process.

The Adviser performs its own investment research, which is compiled from publicly available filings, industry publications, discussions with company management, discussions with competitors, industry consultants, and direct product research. This process is aided, however, by the many years the Adviser has spent analyzing companies from a short seller's perspective, which allows it to identify investment ideas.

The investment strategies used by the Adviser on behalf of its clients include buying and selling, including selling short, securities (including securities not listed on a national securities exchange or for which quotations are not available on the FINRA pink sheets or which are restricted as to the disposition thereof), and interests in domestic and foreign securities including convertible securities, options and puts and calls on stocks and warrants. The Adviser, on behalf of its clients, may also buy and sell, including selling short, money market and other financial instruments, including U.S. Treasury bills, notes and bonds, corporate and municipal bonds, certificates of deposit, GNMA securities, money market funds and repurchase and reverse repurchase agreements, currencies, and futures or forward contracts, and any other interests in any of the foregoing.

### Risk of Loss

The investment strategies employed by the Adviser, on behalf of its clients, create a risk of the loss of capital and should be made only by sophisticated persons who are able to bear such a risk. The Adviser believes that its investment programs and research techniques moderate this risk to some degree, but can make no warranty or representation in this regard.

The transactions in which the Adviser, on behalf of its clients, will generally engage involve significant risks. Growing competition may limit the ability of the Adviser or its affiliate(s) to take advantage of trading opportunities in rapidly changing markets. No assurance can be given that clients will realize a profit on their investment. Moreover, clients may lose some or all of their investment. Because of the nature of the Adviser's investment activities, the results of operations may fluctuate from month to month and from period to period. Accordingly, clients



should understand that the results of a particular period will not necessarily be indicative of results in future periods.

### Turnover

The trading decisions of the Adviser or its affiliate(s) may be made on the basis of short-term market considerations. The portfolio turnover rate may be significant from time to time, potentially involving substantial brokerage commissions, related transaction fees and expenses and financing charges.

### Concentration of Positions

Diversification of investments is not required. Therefore, the Adviser or its applicable affiliate(s) may invest a client's investment in a limited number of securities or other financial instruments. Diversifying an investment portfolio can reduce, to some extent, the risks involved in making investments. To the extent that the Adviser, on behalf of its clients, invests a significant portion of its assets in a few issuers' securities or in a limited number of assets, the performance of such investment could be significantly affected by the performance of those issuers or assets.

### Interest Rate Fluctuations

The prices of securities tend to be sensitive to interest rate fluctuations and unexpected fluctuations in interest rates could cause the corresponding prices of the long and short portions of a position to move in directions which were not initially anticipated. In addition, interest rate increases generally will increase the interest carrying costs to the client of borrowed securities and leveraged investments. To the extent that interest rate assumptions underlie the hedge ratios implemented in hedging a particular position, fluctuations in interest rates could invalidate those underlying assumptions and expose the client to losses.

### Equity Securities Generally

The Adviser, on behalf of its clients, will engage in trading equity securities. Market prices of equity securities generally, and of certain companies' equity securities more particularly, frequently are subject to greater volatility than prices of fixed-income securities. Market prices of equity securities as a group have dropped dramatically in a short period of time on several occasions in the past, and they may do so again in the future. In addition, actual and perceived accounting irregularities may cause dramatic price declines in the equity securities of companies reporting such irregularities or that are the subject of rumors of accounting irregularities.

### Common Stock

Common stock and similar equity securities generally represent the most junior position in an issuer's capital structure and, as such, generally entitle holders to an interest in the assets of the issuer, if any, remaining after all more senior claims to such assets have been satisfied. Holders of common stock generally are entitled to dividends only if and to the extent declared by the governing body of the issuer out of income or other assets available after making interest, dividend and any other required payments on more senior securities of the issuer.

## Short Selling

The Adviser, on behalf of its clients, will sell securities of an issuer short with the expectation of “covering” the short sale with securities purchased in the open market at a price lower than that received in the short sale. The Adviser covers these short positions with securities purchased in the market. Therefore, if the price of the issuer’s securities declines from the time of the short sale, the profit realized on the short sale will be the difference between the price received in the sale and the cost of the securities purchased to cover the sale.

The possible losses to a client from selling securities short differ from the losses that could be incurred from a cash investment in the securities; the former may be unlimited, whereas the latter can only equal the total amount of the cash investment. Short selling activities are also subject to restrictions and other requirements imposed by United States securities laws and the various United States securities exchanges, which restrictions and requirements could affect the investment activities of the Adviser. The number and types of restrictions and other requirements imposed by United States securities laws and United States securities exchanges could increase or change to the detriment of the client. If short sales are effected on an exchange or over-the-counter market outside the United States or with respect to securities listed on an exchange or over-the-counter market outside the United States, such transactions may be subject to applicable local law, which may be more or less restrictive than U.S. law.

## Securities of Issuers in Certain Countries

The Adviser, on behalf of its clients, may invest in equity and fixed-income securities (denominated in either U.S. Dollars or another currency) of issuers in various countries. Securities of issuers in certain countries involve certain unique risks, some of which are discussed below.

The economies of many of the countries in which the Adviser may invest may not be as developed as the economies of the countries in which the Adviser’s clients reside and may be subject to significantly different forces. Political or social instability, expropriation or confiscatory taxation, and limitations on the removal of funds or other assets could also adversely affect the value of investments.

Certain markets may also have different clearance and settlement procedures, and in certain markets there have been times when settlements have been unable to keep pace with the volume of securities transactions, making it difficult to complete such transactions. Delays in settlement could result in temporary periods when a portion of a client’s investment is invested and no return is earned thereon. The inability of the Adviser or its applicable affiliate(s) to make intended purchases due to settlement problems could cause the Adviser or its applicable affiliate(s) to miss attractive investment opportunities. Inability to dispose of portfolio securities due to settlement problems could result either in losses to the client due to subsequent declines in value of the portfolio security or, if the Adviser or its applicable affiliate(s) have entered into a contract to sell the security, in possible liability of the client to the purchaser. Costs associated with transactions in such countries’ securities are generally higher than costs associated with transactions in United States securities.

In certain countries, there may be little publicly available information about certain companies because of different regulatory controls, and the information that is available may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements. Income from certain securities owned by the client may also be reduced by taxes, including withholding taxes, that may be imposed at the source.

Brokerage commission rates in certain countries, which are generally fixed rather than subject to negotiation, may be higher than those in an investor's country of residence, and the client will bear the expense of maintaining securities with custodians in such countries. The securities markets in many of the countries in which the Adviser, on behalf of its clients, may invest may have limited trading volume. As a result, the securities of some companies in these countries may be less liquid and more volatile than comparable securities in an investor's country of residence. There may be little government regulation and supervision of the stock exchanges, brokers and issuers of certain countries, which may make it difficult to enforce contractual obligations.

#### Currency Exchange Rate Risk

The Adviser, on behalf of its clients, may invest in securities denominated in currencies other than the U.S. Dollar. Returns on securities denominated in currencies other than the U.S. Dollar may change in value in relation to the U.S. Dollar, possibly for protracted periods of time. Because asset valuations will be calculated in U.S. Dollars, when any non-U.S. currency rises against the U.S. Dollar, the returns on securities denominated in that currency will also rise; and when that currency declines in value in relation to the U.S. Dollar, the returns on securities denominated in that currency will also decline. In addition, the value of an investment may be affected by losses and other expenses incurred in converting between various currencies in order to purchase and sell certain securities and by currency restrictions and exchange control regulation.

#### Absence of Regulation in Over-the-Counter Transactions

The Adviser or its applicable affiliate(s) may engage in over-the-counter transactions. In general, there is less governmental regulation and supervision in the over-the-counter markets than of transactions entered into on an organized exchange. In addition, many of the protections afforded to participants on some organized exchanges, such as the performance guarantee of an exchange clearinghouse, will not be available in connection with over-the-counter transactions. Clients will therefore be exposed to greater risk of loss through default than if trading of their portfolios were confined to regulated exchanges.

#### Leverage; Borrowing

Leverage may be used in the operation of the portfolio. Such leverage may be obtained through various means. The anticipated use of short-term margin borrowings may result in certain additional risks to the client. For example, should the securities pledged to a broker to secure a margin account decline in value, the broker may issue a "margin call" pursuant to which additional funds would have to be deposited with the broker or the pledged securities would be subject to mandatory liquidation to compensate for the decline in value. In the event of a sudden

precipitous drop in the value of the assets pledged to a broker as margin, the Adviser might not be able to liquidate assets quickly enough to pay off the margin debt, and the client might therefore suffer additional significant losses as a result of such a default. In addition, to the extent that the margin rules become more restrictive or banks or other lenders become less willing to lend on securities positions, the potential profit (and loss) to the client may be affected. The application of margin regulations may require the Adviser to liquidate positions to satisfy margin requirements at a time that is undesirable for investment or tax reasons. Margin transactions on exchanges or over-the-counter markets outside the United States will be governed by local law, which may be more or less restrictive than U.S. law.

Borrowing money to purchase a security may provide the Adviser with the opportunity for greater capital appreciation but at the same time will increase the risk of loss with respect to the security. Although borrowing money increases returns if returns on the incremental investments purchased with the borrowed funds exceed the borrowing costs for such funds, the use of leverage decreases returns if returns earned on such incremental investments are less than the costs of such borrowings. The amount of borrowings which may be outstanding at any time may be large in relation to a client's capital. In addition, the level of interest rates generally, and the rates at which funds can be borrowed in particular, will affect the operating results of a particular investment.

#### Volatility Relating to Stock Loan Conditions

Individual and entire portfolios of short positions in equity securities, including those of the client, can be influenced by the ability to borrow and maintain borrowings of securities from the Adviser's prime brokers. Supply and demand dynamics in the stock loan market can result in price movements, either in individual securities or in a client's portfolio as a whole, which are outside the control of the Adviser and its affiliates.

#### Lack of Liquidity of Certain Investments

The Adviser, on behalf of its clients, may invest in securities that are illiquid for a variety of reasons. In the case of U.S. securities, one possible reason for that illiquidity is that such securities are subject to restrictions on resale because they were acquired from the issuer in "private placement" transactions. The Adviser will not be able to sell these securities publicly unless their sale is registered under the Securities Act of 1933, as amended, and applicable state securities laws, or unless an exemption from those registration requirements is available. The Adviser may be able to sell such securities publicly under Rule 144 under the Securities Act, which permits limited sales under specified conditions. When restricted securities are sold to the public, the Adviser could be deemed an "underwriter" or a controlling person with respect to the issuer for purposes of the Securities Act and could be subject to liability under the Securities Act. Sales of certain securities outside the United States will be governed by local law, which may be more or less restrictive than U.S. law.

#### Increased Regulation of Financial Markets

Substantial additional regulation may be imposed on the financial markets. Although it is not possible to predict what, if any, regulatory changes will in fact be imposed on the markets, any

such regulations could significantly restrict access to such markets. Any such regulations might also impair the liquidity of the markets.

### Risk of Options and Financial Futures Contracts

The Adviser, on behalf of its clients, may purchase and sell options on certain securities and currencies, and neither the Adviser nor any of its affiliates is limited in the amount of the assets of the client that may be committed to these investments. The Adviser also may purchase and sell commodities futures contracts, including financial securities indices, and currency futures contracts and related options. Although these kinds of investments may be used as a hedge against changes in market conditions, the purchase and sale of such investments may also be speculative.

Participation in the options or futures markets involves investment risks and transaction costs to which the client would not be subject in the absence of using these strategies. If the Adviser's (or any applicable affiliate's) prediction of the direction of movements in the securities markets is inaccurate, the adverse consequences to the client may leave the client in a position worse than that in which it would have been if the strategies had not been used. These transactions are highly leveraged, and gains and losses are, therefore, magnified. To the extent that an option and futures contract is sold, the client's losses could be unlimited. Other risks inherent in the use of options and securities index futures include (i) the dependence on the Adviser's (or any applicable affiliate's) ability to predict correctly the direction of movements in specific securities being hedged or the direction of movement in the indices; (ii) the imperfect correlation between the price of options and futures and options thereon and movements in the prices of the assets being hedged; (iii) the fact that skills needed to use these strategies are different from those needed to select individual securities; and (iv) the possible absence of a liquid secondary market for any particular instrument at any time.

### Trading Is Speculative

The Adviser or its applicable affiliate(s) may engage in futures trading. A principal risk in trading futures is the traditional volatility and rapid fluctuation in the market prices. The profitability of such futures trading will depend primarily on the prediction of fluctuations in market prices. Price movements for futures are influenced by, among other things, government trade, fiscal, monetary and exchange control programs and policies; weather and climate conditions; changing supply and demand relationships; national and international political and economic events; changes in interest rates; and the emotions of the marketplace. In addition, governments from time to time intervene, directly and by regulation, in certain markets, often with the intent to influence prices directly. The effects of governmental intervention may be particularly significant at certain times in the financial instrument and currency markets, and such intervention (as well as other factors) may cause these markets to move rapidly.

### Futures Trading Is Highly Leveraged

The low margin deposits normally required in futures trading permit an extremely high degree of leverage. Accordingly, a relatively small price movement in a futures contract may result in immediate and substantial loss or gain to the investors. For example, if at the time of purchase

ten percent (10%) of the price of a futures contract is deposited as margin, a ten percent (10%) decrease in the price of the futures contract would, if the contract were then closed out, result in a total loss of the margin deposit before any deduction for brokerage commissions. Therefore, like other leveraged investments, any futures trade may result in losses in excess of the amount invested. Any increase in the amount of leverage applied in trading will increase the risk of loss by the amount of additional leverage applied.

### Forward Contract Trading

A portion of the client's investment may be traded in forward contracts. Such forward contracts are not traded on exchanges and are executed directly through forward contract dealers. There is no limitation on the daily price movement of forward contracts, and a dealer is not required to continue to make markets in such contracts. There have been periods during which forward contract dealers have refused to quote prices for forward contracts or have quoted prices with an unusually wide spread between the bid and asked price. Accordingly, arrangements to trade forward contracts may experience liquidity problems. The client therefore will be subject to the risk of credit failure or the inability of or refusal of a forward contract dealer to perform with respect to its forward contracts.

### Currency Contracts

The Adviser, on behalf of its clients, may purchase and sell spot and forward currency contracts, currency options and currency futures contracts to hedge positions in portfolio securities, as well as for speculative purposes. Currency contracts may be more volatile and carry more risks than investments in securities. The successful use of currency contracts depends upon the Adviser's (or any applicable affiliate's) ability to predict the direction of the market and political conditions, which requires different skills and techniques from those required to predict changes in the securities markets generally. If the Adviser or its applicable affiliate(s) are incorrect in their predictions of the direction of these factors, the investment performance will diminish compared to what it would have been if this investment strategy had not been used.

### Trading May Be Illiquid

It may not always be possible to execute a buy or sell order at the desired price or to liquidate an open position, either due to market conditions on exchanges or due to the operation of daily price fluctuation limits or "circuit breakers." During a single trading day, no trades may be executed at prices beyond the daily limit. Once the price of a particular futures contract has increased or decreased to the limit point, positions in the futures contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit, which would be unlikely if underlying market prices moved beyond the limit. Futures prices have occasionally moved the daily limit for several consecutive days with little or no trading. In addition, even if futures prices have not moved the daily limit, the Adviser or its applicable affiliate(s) may not be able to execute trades at favorable prices if little trading in the contracts it wishes to trade is taking place. It is also possible that an exchange or the Commodity Futures Trading Commission may suspend trading, order the immediate settlement of a particular contract or order that trading in a particular contract be conducted for liquidation purposes only. Options trading may be restricted in the event that trading in the underlying instrument becomes restricted, and options trading

may itself be illiquid at times, irrespective of the condition of the market of the underlying instrument, making it difficult to offset option positions in order to either realize gain thereon, limit losses or change positions in the market.

#### Possible Effects of Speculative Position Limits

The Commodity Futures Trading Commission and certain exchanges have established speculative position limits on the maximum net long or short futures and options positions which any person or group of persons acting in concert may hold or control in particular futures contracts. The Commodity Futures Trading Commission has adopted a rule requiring each U.S. exchange to set speculative position limits, subject to the Commodity Futures Trading Commission's approval, for all futures contracts and options traded on such exchange which are not already subject to speculative position limits established by the Commodity Futures Trading Commission or such exchange. The Commodity Futures Trading Commission has jurisdiction to establish speculative position limits with respect to all futures contracts and options traded on exchanges located in the United States, and any exchange may impose additional limits on positions on that exchange. Generally, no speculative position limits are in effect with respect to the trading of forward contracts or trading on non-U.S. exchanges. With respect to trading in futures subject to such limits, the Adviser or its applicable affiliate(s) may reduce the size of the positions which would otherwise be taken in such futures and not trade certain futures in order to avoid exceeding such limits. Such modification, if required, could adversely affect the operations and profitability of investments.

#### Bankruptcy Rules

Bankruptcy law applicable to all U.S. futures commission merchants requires that, in the event of the bankruptcy of a futures commission merchant, all property held by this futures commission merchant, including certain property specifically traceable to a customer, will be returned, transferred or distributed to its customers only to the extent of each customer's *pro rata* share of all property available for distribution to customers. If any futures commission merchant holding a client's investment were to become bankrupt, it is possible that this client would be able to recover none or only a portion of its assets held by such futures commission merchant.

#### Counterparty Risk

The client will be subject to the risk of the inability of counterparties to perform with respect to transactions, whether due to insolvency, bankruptcy or other causes, which could subject the client to substantial losses. In an effort to mitigate such risks, the Adviser and its affiliates will attempt to limit transactions to counterparties which it believes are established, well-capitalized and creditworthy.

#### Item 9: Disciplinary Information

In June 2007, Fairfax Financial Holdings Limited and Crum & Forster Holdings Corp. amended a complaint in an action that they had commenced in 2006 in the Superior Court of New Jersey for Morris County to add the Adviser and James S. Chanos as defendants (the funds advised by the Adviser are not defendants). That action is entitled *Fairfax Financial Holdings Limited et ano. v. S.A.C. Capital Management, LLC et al.*, Docket No. MRS-L-2032-06. In the amended

complaint, the plaintiffs assert numerous claims against the Adviser and Mr. Chanos, as well as a number of other funds and individuals, alleging that the defendants conspired to engage in a pattern of disseminating false information about the plaintiffs in order to cause the share price for each of plaintiffs' securities to go down and in order to earn profits on the short-sale positions that various defendants were taking for their own account. The plaintiffs assert claims against the Adviser and Mr. Chanos under the New Jersey RICO statute, as well as claims for tortious interference and commercial disparagement. In July 2007, the Adviser and Mr. Chanos joined in the motion filed by the other defendants to dismiss the action. On September 5, 2007, the Superior Court denied that motion. Thereafter, in November 2007, the Adviser and Mr. Chanos filed an answer denying the allegations and asserting numerous affirmative defenses. The Adviser and Mr. Chanos believe that they have meritorious defenses to the action, and intend to defend against the plaintiffs' claims vigorously. Since the end of 2007, the parties have been mutually engaged in substantial document production. Depositions started in the second half of 2010. The Superior Court has set July 31, 2011 as the date by which discovery must be completed, but it has not set a date for trial.

The Adviser and its employees do not have any disciplinary events or other legal events to disclose.

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

The Adviser is affiliated with the entities listed below and where indicated, acts as the managing member or investment adviser. The Adviser also shares personnel, office space, facilities and systems with these entities.

##### **General Partner/Investment Adviser of Funds**

Kynikos Opportunity Management LLC  
Kynikos Opportunity Management International LLC  
Ursus Capital Management I LLC

##### **Managing Member of General Partner/Investment Adviser of Funds**

Ursus Capital Management I LLC  
Kynikos Associates LP  
James S. Chanos

##### **U.S. Funds**

Kynikos Opportunity Fund, L.P.  
Kynikos Opportunity Fund II, L.P.  
Kynikos Alpha Tactical Fund, L.P.  
Kriticos Partners, L.P.  
Ursus Partners, L.P.

##### **General Partner of U.S. Fund**

Kynikos Opportunity Management LLC  
Kynikos Opportunity Management LLC  
Kynikos Opportunity Management LLC  
Ursus Capital Management I LLC  
Ursus Capital Management I LLC

##### **Offshore Funds**

Kynikos Opportunity Fund International Limited  
  
Kynikos Opportunity Fund Institutional Limited  
Ursus International Limited  
Ursus Institutional Limited  
Kriticos International Limited

##### **Investment Adviser of Offshore Fund**

Kynikos Opportunity Management International LLC  
Kynikos Associates LP  
Kynikos Associates LP  
Kynikos Associates LP  
Kynikos Associates LP



The Adviser performs similar advisory services for the entities that are clients and may sponsor or establish other investment funds and separately managed accounts during the same period in which it provides services to these clients.

Affiliates of the Adviser may invest in certain of the funds listed above. Minimum investments may be waived for such persons; provided, however, that in no circumstance will the minimum investment be reduced below U.S.\$100,000, and the management and/or performance fees charged to such persons may, in the sole and absolute discretion of the Adviser, be waived, reduced or rebated.

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

Subject to internal compliance policies and approval procedures, limited partners and employees of the Adviser may engage, from time to time, in personal trading of securities and other instruments, including securities and instruments in which the funds and managed accounts managed by the Adviser and its affiliates may invest.

To better prevent insider trading and front-running, and to ensure the satisfaction of the Adviser's fiduciary obligations to its advisory clients, the Adviser has adopted a Code of Ethics. A copy of the Code of Ethics is available to any client or investor or prospective client or investor upon request.

The Code of Ethics is predicated on the principle that the Adviser and its employees owe a fiduciary duty to their clients. Pursuant to the Code of Ethics, the Adviser requires employees to report their personal securities transactions and holdings periodically and to, among other things:

- Act with integrity, competence, diligence, respect and in an ethical manner with the public, clients, prospective clients, employees, colleagues in the investment profession and other participants in the global capital markets;
- Bring forward any conflict of interests that may arise with providing investment advice to clients;
- Adhere to the fundamental standard that employees should not take inappropriate advantage of their position;
- Conduct all personal securities transactions in a manner consistent with the Code of Ethics;
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions and engaging in other professional activities;
- Comply with applicable provisions of the federal securities laws; and
- Report violations of the Code of Ethics promptly to the Adviser's Chief Compliance Officer.

In addition, the Code of Ethics requires the Adviser to provide a copy of the Code of Ethics and any amendment to each employee and each employee to provide the Adviser with a written acknowledgment of his or her receipt of a copy of the Code of Ethics and any amendment.

Employees of the Adviser may not trade in securities (other than mutual funds, money market funds, unit trusts, U.S. Government and agency securities or municipal securities for investment purposes) for a proprietary account or for the account of any person (other than a client), unless such trade has been specifically approved in writing in advance by the Adviser's Chief Compliance Officer. Any such transaction consummated without prior written approval will be canceled by the end of the business day.

When any security is recommended to be bought or sold for a client, and a position in that security or any other security of the same issuer has been held in a proprietary account of an employee since the commencement of such employee's association with the Adviser or, to such employee's reasonable knowledge, in the personal account of an immediate family member of such employee, including any relative, spouse, or relative of the spouse of an employee, and any other adult living in the same household as the employee at such time, such employee must affirmatively disclose such information to James S. Chanos, the Principal of the Adviser, and the Chief Compliance Officer prior to making such recommendation or executing such transaction, as the case may be. The Principal and the Chief Compliance Officer may restrict such employee from buying or selling the security for his or her proprietary account.

Affiliates of the Adviser may invest in the domestic and offshore funds. Accordingly, affiliates of the Adviser may have a financial interest in some, but not all, of the funds. The Adviser may make the same investment decision and pursue similar investment strategies for its clients, including funds in which the Adviser's affiliates may have invested. In the event that the Adviser purchases or sells the same securities for more than one client, such purchases or sales will be allocated on a systematic or equitable basis.

The Adviser or its applicable affiliate(s) may also acquire certain assets from other accounts that they manage by means of a crossing of securities. The Adviser and its applicable affiliate(s), however, will not engage in cross trades except in compliance with applicable law and the Adviser's compliance policies and procedures.

#### Item 12: Brokerage Practices

The Adviser is authorized to designate the brokers, dealers, banks, clearing associations, depositaries and other counterparties and financial institutions, all of which are collectively referred to as "brokers," to be used to effect and clear securities transactions for the funds and managed accounts. Accordingly, the Adviser will designate brokers from time to time. The Adviser does not presently use one particular broker.

The policy of the Adviser is to select brokers that will enable the Adviser to obtain "best execution" of its clients' transactions under the circumstances of the particular transaction. In selecting brokers to effect portfolio transactions, the Adviser will consider factors such as, among other things, execution price, the ability of the brokers to effect the transactions, the brokers' facilities, reliability and financial responsibility, and any research or investment

management-related services provided by such brokers. The Adviser does not have an obligation to seek the lowest bid or solicit competitive bids. Accordingly, if the Adviser determines in good faith that the commissions charged by a broker are reasonable in relation to the value of the brokerage and research services provided by that broker, the clients may pay commissions to that broker that are greater than the commissions another broker might charge.

Certain brokers used by the Adviser to effect transactions for clients may provide certain brokerage and research services and products in exchange for commissions or “soft dollars.” To the extent that the Adviser uses soft dollars generated by the execution of securities transactions to obtain services and products that would otherwise be an expense of the Adviser or its affiliates, this use of soft dollars could be viewed as additional compensation to the Adviser or its affiliates creating a potential conflict of interest between the fiduciary duty to manage the clients’ portfolios in the respective best interests of the clients and the Adviser’s desire to receive or direct these soft dollar benefits. However, only soft dollar arrangements that fall within the safe harbor created by Section 28(e) of the Securities Exchange Act of 1934, as amended.

Services and products obtained with soft dollars generated by some clients may be used by the Adviser to service accounts of other clients. Nonetheless, the Adviser believes that such brokerage and research services and products provide all of its clients with benefits by supplementing the research otherwise available for advising them.

Brokerage services that fall within the Section 28(e) safe harbor are those products and services that relate to the execution of securities transactions from the point at which the Adviser communicates with the broker for the purpose of transmitting an order for execution through the point at which funds or securities are credited to the applicable account. Such brokerage services may include, among other things, communication services related to the execution, clearing and settlement of securities transactions and other functions incidental to effecting securities transactions, i.e., connectivity service between the Adviser and the broker and other relevant parties such as custodians (including dedicated lines between the broker and the Adviser’s order management system, lines between the broker and order management systems operated by a third-party vendor, dedicated lines providing direct dial-up service between the Adviser and the trading desk at the broker, and message services used to transmit orders to brokers for execution), trading software used to route orders to market centers, software that provides algorithmic trading strategies and software used to transmit orders to direct market access systems.

Research services that fall within the Section 28(e) safe harbor include investment advice, analyses and reports and may include, among other things, research reports on particular industries and companies, economic surveys and analyses, recommendations as to specific securities, software that provides analyses of securities portfolios, pre-trade and post-trade analytics, software and other products that depend on market information to generate market research (including research on optimal execution venues and trading strategies) and market data.

To fall within the Section 28(e) safe harbor, eligible brokerage and research services and products must provide lawful and appropriate assistance to the Adviser in the performance of its investment decision-making responsibilities on behalf of its clients, and the Adviser must make a

good faith determination that the commissions paid for such services and products are reasonable in relation to the value of the brokerage and research services and products received.

Where a product or a service obtained with soft dollars provides both research and non-research assistance, the Adviser will make a reasonable allocation of the cost of such product or service according to its use, with the portion allocable to research eligible under the Section 28(e) safe harbor being paid with soft dollars, and the ineligible portion being paid by the Adviser using its own funds.

Typically, purchase and sale orders placed during a trading day on behalf of the funds and the managed accounts are combined, and securities bought and sold pursuant to such orders are allocated among such clients on an average price basis.

#### Item 13: Review of Accounts

The Controller with respect to the applicable fund or managed account reviews daily the transactions entered for such client and determines that correct entries have been made for all such client records. The Chief Financial Officer of the Adviser also reviews daily the transactions and entries as well as client accounts and portfolios.

Investors in the funds receive audited financial statements prepared by an independent auditor within 90 days of the end of the fiscal year, or as soon as reasonably practicable thereafter. Investors in the funds receive periodic written unaudited performance information no less frequently than quarterly. The funds also provide their respective investors with monthly written performance updates.

The managed account clients receive directly from their respective custodians written transaction confirmation notices and account statements at least quarterly on the investment performance and value of the assets under management, as well as quarterly written statements from the Adviser.

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

Neither the Adviser nor any of its affiliates (i) is paid cash or receives an economic benefit from a third party in connection with giving advice to clients or (ii) directly or indirectly compensates any person for client referrals.

#### Item 15: Custody

The Adviser may be deemed to have constructive custody of certain client assets as a result of fee payments or the service of its affiliates as general partners of private investment partnerships. Actual custody of the funds' and other clients' assets, however, is with broker-dealers, banks or trust companies, not with the Adviser.

The managed account clients receive directly from the accounts' respective custodians transaction confirmation notices and account statements at least quarterly on the investment performance and value of the assets under management. In order to ensure that all account transactions, holdings and values are correct and current, the Adviser urges clients to compare

the account statements that they receive from their respective custodians with the statements received from the Adviser.

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

The Adviser exercises investment discretion over all of the accounts it manages. This authority is established through the subscription documents completed and signed by each investor in the funds and the managed account agreement signed by each holder of a managed account.

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

The Adviser has adopted proxy voting policies and procedures to guide the Adviser's exercise of this responsibility on behalf of the funds and other clients. Voting is subject to the advisory agreements of the respective funds and managed accounts. When the Adviser has discretion to vote the proxies of its clients, in the absence of specific guidelines in these agreements, the Adviser will vote the proxies in the best interest of each particular fund or managed account, which may result in different results for proxies for the same issuer.

#### **General Policy**

The Adviser believes that voting proxies in accordance with the following general policy is in the best interest of each fund or account that it advises:

For routine corporate housekeeping proposals that implicate corporate governance changes, non-routine proposals where no specific policy applies or a proposals for which material conflicts of interest exist (see "Conflicts of Interest" below), then the Adviser may engage an independent third party to determine how the proxies should be voted.

In voting on each and every issue, the Adviser shall vote in a prudent and timely fashion and only after a careful evaluation of the issue(s) presented on the ballot. The Adviser will determine whether a proposal is in the best interests of the applicable fund or account and may take into account the following factors, among others:

- whether the proposal was recommended by management and the Adviser's opinion of management;
- whether the proposal acts to entrench existing management; and
- whether the proposal fairly compensates management for past and future performance.

#### **ERISA Accounts Policy**

Some funds and managed accounts may be subject to the Employee Retirement Income Security Act of 1974, as amended, or ERISA. Solely with respect to these ERISA accounts, the Adviser will act in a manner consistent with Department of Labor Interpretive Bulletin 08-2. In particular, where the named fiduciary of the applicable ERISA plan has reserved to itself (or to another fiduciary in accordance with the applicable ERISA plan document) the right to direct the voting of some or all proxies, the Adviser will deliver to such fiduciary all such proxy materials

for exercise by that ERISA plan fiduciary. Where the named fiduciary has not reserved such voting right but has expressly conditioned the Adviser's engagement as investment manager upon compliance with a statement of investment policy that includes policies on proxy voting, the Adviser will vote the proxies for shares in the applicable ERISA accounts managed by the Adviser in a manner consistent with such policies except to the extent that the Firm determines that adherence to such policies would violate its fiduciary duties under ERISA.

In all other cases where the Adviser has been appointed as an investment manager for an ERISA account, the Adviser will vote the proxies for shares of stock under the Adviser's control that are held for the applicable ERISA plan in a manner consistent with its fiduciary duties under ERISA and with a view to enhancing the value of the shares of stock, taking into account the period over which the Adviser expects to hold such shares for the applicable ERISA plan. The Adviser will maintain accurate records of its voting of shares of stock held for its ERISA accounts, including, where appropriate, cost-benefit analyses, and will make such records or extracts thereof available to plan administrators and fiduciaries upon request.

The above policies regarding proxy voting for ERISA accounts will take precedence over the general proxy voting guidelines set forth above in the event of any conflict between them. The proxy voting policies and procedures set forth in the immediate preceding two paragraphs are not applicable to the voting by the Adviser of proxies on behalf of non-ERISA accounts.

### **General Proxy Voting Procedures**

All proxies received by the Adviser will be sent to the Chief Compliance Officer, who will:

- keep a record of each proxy received;
- determine which funds and accounts managed by the Adviser hold the security to which the proxy relates; and
- absent material conflicts (see "Conflicts of Interest" below), consult with the portfolio managers for the applicable funds and accounts to determine how the Adviser should vote the proxy.

The portfolio managers for the applicable funds and accounts will send their respective decisions on how the Adviser will vote a proxy to the Chief Compliance Officer. The Chief Compliance Officer is responsible for completing the proxy and mailing the proxy in a timely and appropriate manner.

The Adviser may retain a third party to assist it in coordinating and voting proxies with respect to client securities. If so, the Chief Compliance Officer will monitor the third party to assure that all proxies are being properly voted and appropriate records are being retained.

### **Conflicts of Interests**

The Chief Compliance Officer, in consultation with the President, will seek to identify conflicts that the Adviser may have in voting proxies. The Chief Compliance Officer will review the relationship between the Adviser and its affiliates with the issuer of each security and any of the

issuer's affiliates to determine if the issuer is a client of the Adviser or an affiliate of the Adviser or has some other relationship with the Adviser or a client of the Adviser.

In the event of a material conflict, the Adviser will:

- disclose such conflict to the affected clients and either (i) obtain written directions from such affected clients as to how to vote their proxies or (ii) request that such affected clients vote their proxies themselves;
- engage a disinterested third party to determine how to vote the proxies; or
- abstain from voting if such action is determined by the Adviser to be in the best interest of the affected clients under the circumstances.

### **Disclosure**

If a client or investor requests information on how the Adviser voted such client's or investor's fund's proxies, the Chief Compliance Officer shall prepare a written response that lists, with respect to each voted proxy about which the client or investor has inquired, (i) the name of the issuer; (ii) the proposal voted upon; and (iii) how the Adviser voted the proxy. In addition, a copy of the Adviser's proxy voting policies and procedures shall be furnished upon request to any client of the Adviser or fund investor.

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

This Item is not applicable to the Adviser.