

[COVER PAGE]

DIAMONDBACK CAPITAL MANAGEMENT, LLC

One Landmark Square

15th Floor

Stamford, Connecticut 06901

SEC Registration Number: 801-65260

Telephone: 203 399 1600

Facsimile: 203 399 1782

E-mail: compliance@diamondbackcap.com

Effective Date: July 27, 2011

This brochure provides information about the qualifications and business practices of Diamondback Capital Management, LLC. If you have questions about the contents of this brochure, please contact us at the above telephone number or e-mail address. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about Diamondback Capital Management, LLC, is also available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2. Material Changes.

Since November 17, 2010, the date of the most recent Form ADV, Part II, of Diamondback Capital Management, LLC, the Advisor (as defined in Item 4 below) has identified the following material changes:

A. IMPORTANT DISCLOSURE: NEW / ADDITIONAL INVESTMENTS PERMITTED; GOVERNMENT INVESTIGATIONS; GUILTY PLEA OF FORMER EMPLOYEE

On November 22, 2010, the Advisor was served with a search warrant and received a grand jury subpoena seeking a broad range of information relating to its trading and research activities; on February 9, 2011, the Advisor received a subpoena from the SEC seeking information largely similar to the information sought in the grand jury subpoena. The search warrant appears to be focused on a former employee who was a Portfolio Manager as of November 22, 2010, as well as on a former employee who had previously reported to such Portfolio Manager. Neither of these persons is currently employed at the Advisor. Before his resignation, the Portfolio Manager reported to the Founding Partners of the Advisor. Other portfolios managed by the Advisor sometimes followed the trading strategies of the Portfolio Manager mentioned above.

Based on the information reviewed by the Advisor to date, there may be grounds for the Government to assert that the Portfolio Manager and/or the former employee reporting to the Portfolio Manager violated the securities laws, including possibly Section 10(b) of the U.S. Exchange Act and Rule 10b-5 thereunder, as well as a number of related criminal charges including but not limited to wire fraud and conspiracy, in connection with trading his portfolio.

The Advisor is cooperating with the U.S. Government and was advised on November 24, 2010 that it is not a target of the grand jury's investigation.

In December 2010, Mr. Anthony Scolaro, a former Portfolio Manager who was terminated by the Advisor in November 2009, pled guilty in federal court to conspiracy and securities fraud. The Scolaro Plea was unsealed on May 17, 2011. In his guilty plea, Mr. Scolaro admitted to receiving a tip from an employee of another hedge fund in advance of a November 2007 acquisition transaction involving a public company, and trading based on that tip. To the Advisor's knowledge, there is no indication—and Mr. Scolaro has not alleged—that any Advisor employee was involved with him in the insider trading. That illegal trading contributed approximately \$1.1 million to the aggregate performance of the Feeder Funds in 2007.

The Advisor has attempted to protect existing investors from the possible costs and liabilities resulting from the Government Proceedings by setting aside capital in escrow accounts to fund such costs. The Advisor will bear, or will cause one or more of its affiliates or owners to bear, all costs and liabilities incurred by or on behalf of the Fund arising out of the Scolaro Plea, including any legal fees, disgorgement, prejudgment interest and financial penalties.

New Shares/New Types issued on or after August 1, 2011 will not be subject to any of the costs or liabilities relating to the Government Proceedings. Each respective Feeder Fund is itself responsible

for any such costs and liabilities, but only if all of the assets of the relevant Feeder Fund other than assets attributable to the New Shares/New Types were exhausted would the New Shares/New Types have any exposure.

The Advisor cannot predict the duration or eventual outcome of the Government Proceedings or any proceedings arising out of or related to the Scolaro Plea, or their possible impact on the Advisor or either of the Feeder Funds. However, developments in either the Government Proceedings or arising out of or related to the Scolaro Plea that result in an adverse determination of some kind or otherwise result in investors redeeming/withdrawing from either or both of the Feeder Funds could impair the Advisor's ability to operate — whether or not the Advisor itself is the subject of any adverse determination — perhaps leading to a premature termination of one or both of the Feeder Funds.

The Feeder Funds suspended subscriptions as of January 1, 2011 and resumed accepting subscriptions as of August 1, 2011.

The Advisor will keep all investors apprised of any and all material developments relating to the matters set forth above.

Expenses

The Advisor has implemented or will implement the following steps to pay the legal and related expenses (**“Expenses”**) incurred by the Advisor in connection with the government investigation (**the “Investigation”**). (Certain capitalized terms not defined in this brochure have the meanings ascribed to them in the relevant Fund's confidential offering memorandum which is furnished to prospective investors in the Fund.)

The Advisor has paid all Expenses incurred with respect to the Investigation in 2010 and has agreed to pay all Expenses incurred in 2011. The Funds will not be asked to reimburse the Advisor for these Expenses.

The Advisor is using its own capital to fund an **Expenses Escrow Account** — the proceeds of which will be drawn down only to pay 2011 Expenses. The Advisor will contribute to the Expenses Escrow Account the after-tax amount received by the Advisor from 0.25% of the Advisor's management fee for 2011. The Advisor initiated this funding itself by contributing an additional \$1.5 million to the Expenses Escrow Account in January 2011.

The Expenses Escrow Account in no respect limits the Advisor's agreement to pay all 2011 Expenses. The Expenses Escrow Account is intended simply to segregate capital dedicated solely to this purpose.

Holdbacks

It is important that the Advisor act prudently to prevent continuing investors from being disadvantaged by redeeming (or withdrawing) investors in case there eventually is liability related to the Investigation other than Expenses (for example, through disgorgement by the Fund) and which is payable by the Fund, not the Advisor. As a matter of prudence, the Advisor has established two “holdback” accounts.

One percent (1%) of all Incentive Fees paid to, as well as any Incentive Allocations withdrawn by, the Advisor as well as 1% of all other amounts redeemed/withdrawn by Diamondback Parties from the Fund (other than management fees, which the Advisor has adjusted as otherwise described herein), will be deposited in a **Diamondback Holdback Escrow Account**. One percent (1%) of all Redemption/Withdrawal proceeds otherwise payable to investors will be deposited in the **Investors Holdback Escrow Account**. (The Diamondback Holdback Escrow Account and the Investors Holdback Escrow Account are referred to collectively as the “Holdback Escrow Accounts.”) The balances in the Holdback Escrow Accounts remain the Advisor’s and the investors’, respectively; and will be held only until the Advisor determines that it is no longer necessary to retain these balances in order to protect continuing investors.

All amounts in the Diamondback Holdback Escrow Account will, if necessary, be depleted before any amounts are debited from the Investors Holdback Escrow Account. No management fee or Incentive Fee/Allocation will be charged to the Holdback Accounts.

The Holdback Escrow Accounts may or may not be returned by the end of 2011, depending upon circumstances at the time.

Escrow Accounts

The Holdback Escrow Accounts will be maintained at Bank of New York-Mellon, separately from each other. Balances in the Holdback Escrow Accounts will generally earn interest at the Treasury bill rate.

Insurance

The Advisor is pursuing recoveries under its D&O and E&O insurance policies, which provide for maximum aggregate coverage of \$30 million. However, no assurance can be given that the Advisor will obtain any recovery from insurance.

Management Fee Reduction

The Advisor has agreed to reduce by 0.25% its management fee for current investors in each Feeder Fund. The Advisor will, accordingly, receive a management fee of 1.75% per annum and will deposit the after-tax amount attributable to 0.25% of that 1.75% in the Expenses Escrow Account. As a result of this reduction, the net management fee retained by the Advisor is intended to be effectively reduced from 2.0% to 1.50% for all existing investments.

B. Soft Dollars

During 2010, the Advisor revised its practices regarding the use of commission credits to pay for non-research products and services outside of the “safe harbor” provision of Section 28(3) of the Securities Exchange Act of 1934. At that time, the Advisor adopted a policy of generally utilizing “soft dollars” to pay only for research and brokerage products or services that it reasonably believes satisfy the definition of “research” or “brokerage” under Section 28(e). Section 28(e) is a “safe harbor” that permits an Advisor to use commissions or “soft dollars” to obtain certain research and brokerage services in connection with the investment decision-making process. Under Section 28(e), research obtained with “soft dollar” credits generated by the Master Fund (as defined in Item 4) may be used by the Advisor to service accounts other than Feeder Fund accounts. Where a product or service provides both research and non-research assistance to the Advisor, a portion of

the cost of the product or service, based upon a reasonable allocation between the two types of uses, may be paid for with “soft dollars.”

Please see Item 12 in this document regarding the Advisor’s practices with respect to “soft dollars.”

Item 3. Table of Contents.

- Item 1: Cover Page
- Item 2: Material Changes
- Item 4: Advisory Business
- Item 5: Fees and Compensation
- Item 6: Performance-Based Fees and Side-By-Side Management
- Item 7: Types of Clients
- Item 8: Methods of Analysis, Investment Strategies and Risk of Loss
- Item 9: Disciplinary Information
- Item 10: Other Financial Industry Activities and Affiliations
- Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading
- Item 12: Brokerage Practices
- Item 13: Review of Accounts
- Item 14: Client Referrals and Other Compensation
- Item 15: Custody
- Item 16: Investment Discretion
- Item 17: Voting Client Securities
- Item 18: Financial Information

Capitalized terms not defined in this document have the definitions ascribed to them in the relevant Feeder Fund's confidential offering documents which are furnished to prospective investors in the Feeder Fund.

Item 4: Advisory Business

A. Firm Description; Principal Owners

Diamondback Capital Management, LLC, a Delaware limited liability company, together with its Affiliated Sub-Advisors (as defined below) (collectively the “Advisor”), provides investment advisory services on a discretionary basis to collective investment vehicles organized as domestic or foreign private investment partnerships, corporations, companies and / or other entities. The investment advice provided by the Advisor is based on the investment objectives of each investment vehicle in accordance with the governing and offering documents applicable to each entity and not on the investment objectives of each individual Limited Partner or Shareholder (as defined below) of the investment vehicle.

The Advisor commenced providing advisory services in July 2005.

Currently, the Advisor serves as the investment manager to Diamondback Master Fund, Ltd., a Cayman Islands exempted company (the “Master Fund”); Diamondback Fixed Income Master Fund, Ltd. (“FI Master Fund”), a Cayman Islands exempted company and a wholly-owned subsidiary of the Master Fund; Diamondback Partners, LP, a Delaware limited partnership (the “Onshore Fund”); and Diamondback Offshore Fund, Ltd., a Cayman Islands exempted company (the “Offshore Fund”). (The term “Master Fund” as used in this document may also include, where appropriate, references to the FI Master Fund; otherwise the Master Fund and the FI Master Fund are collectively referred to in this document as the “Master Funds.”)

Diamondback Capital Management, LLC, has entered into sub-advisory agreements with the following affiliated sub-advisory entities: Diamondback Advisors CT, LLC (“DACT”); Diamondback Advisors NY, LLC (“DANY”); and Harbor Watch Capital Management, LLC (“HWCM;” collectively with DANY and DACT, the “Affiliated Sub-Advisors”).

The administrator to the Funds (as defined in this document) is Citco Fund Services (Cayman Islands) Limited (collectively with its sub-administrators, the “Administrator”).

Diamondback Capital, LLC, a Delaware limited liability company and an affiliate of the Advisor, serves as general partner (the “General Partner”) of the Onshore Fund (please see also the response to Item 7 of this document). The Master Fund, the FI Master Fund and the Offshore Fund are managed by a Board of Directors composed of David Bree, Don Seymour and John Hagarty. Mr. Hagarty is also the Chief Operating Officer of the Advisor. DBCM Partners, LLC, a Delaware limited liability company, serves as the Managing Member of the Advisor. Lawrence J. Sapanski and Richard H. Schimel are the sole members of DBCM Partners, LLC. Chad R. Loweth, a co-founder of the Advisor along with Mr. Sapanski and Mr. Schimel, was previously a member of DBCM partners, LLC, who oversaw the Advisor’s business development, including investor relations. In May 2010, Mr. Loweth left the Advisor to pursue other business interests.

The Onshore Fund is intended primarily for investment by investors who are U.S. taxpayers. Investors in the Onshore Fund are referred to in this document as “Limited Partners.” The Offshore Fund is intended primarily for investment by non-U.S. and U.S. tax-exempt investors. Investors in the Offshore Fund are referred to in this document as “Shareholders.”

Any investment in a Feeder Fund may be made only pursuant to its definitive confidential offering documents, which contains information not included in this document.

The Advisor and each Feeder Fund have entered into an Investment Management Agreement (the “Management Agreement”) that sets forth the terms and conditions under which the Advisor will provide its services to the Feeder Fund. Under the terms of the Management Agreement, each Feeder Fund will pay to the Advisor for its services a quarterly fixed fee and a quarterly incentive fee (or incentive allocation), both as described in the confidential offering documents for the Feeder Funds.

The Management Agreement provides that it shall continue until the close of business on December 31, 2035, except that the Advisor and the relevant Feeder Fund may terminate the Management Agreement effective at the close of business on the last day of any quarter by giving the other party no fewer than 60 days’ written notice. A Feeder Fund may not terminate the appointment of the Advisor other than with the unanimous approval of all of the Shareholders of the Offshore Fund, or the Limited Partners of the Onshore Fund, as applicable, entitled to vote.

B. Types of Advisory Services

The Offshore Fund and the Onshore Fund invest substantially all of their assets through a “master-feeder” fund structure in, and become shareholders of, the Master Fund. Other investment vehicles may be formed in the future to invest in the Master Fund. Together, the Onshore Fund and Offshore Fund are referred to in this document as the “Feeder Funds,” and each of them individually is referred to as a “Feeder Fund.” Collectively, the Feeder Funds, the FI Master Fund and the Master Fund are referred to as the “Funds.” Unless otherwise indicated, references in this document to the investment activities of the Funds shall mean the investment activities of the Feeder Funds through their investment in the Master Fund.

The Master Fund’s primary investment objective is to achieve consistent risk-adjusted returns through various market cycles while seeking investment performance largely uncorrelated to overall market conditions.

The Master Fund currently attempts to achieve its investment objective by implementing a variety of long/short equity, convertible bond, capital structure arbitrage, event-driven, quantitative, fixed income, credit trading, global macro, commodities and index strategies. Historically, the majority of the Master Fund’s capital has been allocated to long/short equity strategies. In managing the Master Funds’ portfolios, the Advisor employs a variety of techniques that have been used by the Founding Partners for a number of years. The Advisor generally utilizes market directional leverage in implementing its strategies, and there will be times when the Master Funds’ aggregate net market exposure significantly exceeds the Master Fund’s net asset value. The Advisor may significantly raise or lower the Master Funds’ net market exposure from time to time. The bulk of the Master Fund’s returns are intended to be driven by microeconomic or stock-specific factors, rather than market-wide influences, although macroeconomic factors can at times override other considerations.

Past results are not necessarily indicative of future performance. There can be no assurance that a Fund will achieve its objectives or avoid substantial or total losses.

C. Services Tailored to Individual Client Needs

Not applicable.

D. Wrap Fee Program Participation

Not applicable.

E. Assets Under Management

The aggregate capital managed by the Advisor as of March 31, 2011 is approximately \$4,356,216,746. This figure reflects redemptions (withdrawals) effective following the close of business on that date. The Advisor manages capital only on a discretionary basis.

Item 5: Fees and Compensation

A. Compensation for Advisory Services

The description of compensation requirement is inapplicable as this Brochure is delivered only to qualified purchasers under the Investment Company Act of 1940, as amended (the “Company Act”).

B. Fee Deductions

Fixed fees and incentive fees are deducted directly by the Advisor. In addition, in the event that an investor redeems (or withdraws) its shares or interests or the Management Agreement with the Advisor is terminated at any time other than at the end of a calendar quarter, the incentive fee will be computed with respect to the redeemed shares or withdrawn interests, or all the outstanding shares (in the event of the termination of the Management Agreement), as the case may be, as though the redemption (or withdrawal) or termination occurred on the last day of the calendar quarter.

C. Expenses

The Advisor is authorized to incur and pay in the name and on behalf of the Feeder Funds all expenses which the Advisor deems necessary or advisable.

Each Feeder Fund pays its own operating expenses, including: legal, auditing, accounting and other professional expenses (for example, accounting and tax advisory fees, tax compliance and filings related costs and legal fees charged in negotiating prime brokerage, ISDA Master Agreements and related custody and segregation agreements, repurchase agreements or other trading or financing agreements on behalf of the Fund), administration expenses and fees including, but not limited to, the provision of any investment/management related reporting; research expenses (including research-related and due diligence travel); investment expenses such as commissions, ticket charges, prime brokerage fees, give up fees, borrow costs, interest on margin accounts and other indebtedness and similar charges, as well as the expenses incurred by Portfolio Managers in connection with trading the Fund’s account; order management systems; custodial fees; bank and wire service and transaction fees; regulatory reporting costs (including EDGAR formatting and filing costs); and other expenses and legal fees related to the purchase, sale and maintenance of Fund assets as determined by the Advisor (including, but not limited to, withholding, income, capital gains and other taxes). A Fund’s operating expenses also include the Fund’s and the Advisor’s directors’ and officers’ errors and omissions insurance and other costs associated with the Fund’s business, such as the costs and expenses associated with establishing new classes (or sub-classes) / tranches (or sub-tranches) of shares (or interests) as well as revising the Fund’s offering and operative documents.

The Advisor is responsible for all of its ordinary office overhead expenses, including, but not limited to, overhead expenses of an ordinarily recurring nature such as rent, supplies, secretarial expenses, stationery, office furniture and fixtures, employee insurance, payroll taxes and compensation of its

personnel.

Each Feeder Fund invests substantially all of its assets through a “master-feeder” fund structure in the Master Fund. Each Feeder Fund that invests in the Master Fund indirectly bears the administrative and other expenses of the Master Fund *pro rata* based on its ownership interest in the Master Fund. Virtually all expenses, other than the fixed fee and the incentive fee (incentive allocation), are incurred at the Master Fund level. If expenses are incurred by a Feeder Fund requiring payment by that Fund, the Fund redeems a portion of its interest in the Master Fund in order to pay those expenses.

D. Advance Payment of Fees

Fixed fees are paid in advance as of the first day of each fiscal quarter.

E. Compensation for Sale of Securities / Other Products

Not applicable.

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

The Advisor charges performance-based fees (also referred to as “incentive fees”) to all clients.

Item 7. Types of Clients

The Advisor currently provides investment advice exclusively to private pooled investment vehicles commonly referred to as “hedge funds.” Shares or interests in the Feeder Funds are not registered under the Securities Act of 1933, as amended, and the Feeder Funds are not registered under the Company Act. Accordingly, interests in the Feeder Funds are offered and sold exclusively to investors satisfying certain eligibility and suitability requirements either in private transactions within the United States or in offshore transactions with non-U.S. investors. The Feeder Funds’ eligibility and suitability requirements are described in more detail in the relevant Feeder Funds’ confidential offering documents.

The minimum initial investment in either of the Feeder Funds is \$5,000,000, subject to the Fund’s determination to accept a lesser amount (but not below any applicable statutory minimum).

Each Feeder Fund invests substantially all of its assets through a “master-feeder” fund structure in the Master Fund, through which the Advisor’s investment strategies are implemented. Additional investment vehicles may be formed in the future that will also invest part or all of their assets in the Master Fund. Fixed income strategies are currently implemented primarily through the FI Master Fund though they may in the future be primarily or exclusively implemented through the Master Fund.

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

A. Methods of Analysis

Investment ideas and information are generated internally through various information services, and externally through an extensive network of sell-side brokers, industry professionals, consultants, attorneys, financial advisors, accountants and others who may assist with investment analysis.

The Advisor may, at the expense of the Master Fund, retain and compensate non-discretionary third-party consultants for the use of proprietary software, research or other services. The Master Fund may (directly or indirectly) compensate each of these persons based on the success of their ideas or services and otherwise bear operating expenses related to the consulting arrangements.

B. Investment Strategies and Instruments Traded

The Master Fund is authorized to invest or trade, on margin or otherwise, in long and short positions in all types of securities, derivatives and other financial instruments of U.S. and non-U.S. issuers, including, but not limited to, U.S. and non-U.S. common stocks and preferred stocks, bonds, notes, commercial paper, bank deposits and acceptances, any other obligations and instruments, evidences of indebtedness or securities, rights, warrants and options to purchase or sell any of the foregoing or any securities index, total return swaps, interest rate, security and currency swaps, caps, floors, contracts for differences, and other notional principal contracts, repurchase and reverse repurchase contracts, currency forward contracts, stock and financial futures and options, commodity futures and options on futures. Through the Advisor's Portfolio Managers and their investment teams (discussed below), the Master Fund may pursue certain or all of the following investment strategies:

- Long/short equity investment strategies;
- Event-driven strategies, including merger arbitrage;
- Convertible bond and capital structure arbitrage and other related strategies;
- Quantitative trading strategies, including statistical arbitrage;
- Fixed income strategies;
- Credit and distressed trading strategies;
- Global macro strategies;
- Commodities strategies; and
- Index-based strategies.

The Master Fund may pursue any investment strategy that it believes will achieve the objective described above: to seek above average, positive returns that are not correlated to the principal U.S. equity markets.

Long/Short Equity

Long/short equity strategies involve investing and trading long and/or short positions in equity securities in U.S. and international sectors and sub-sectors, including, without limitation, the financial, health care, industrial and cyclical, consumer and retail, telecommunication, media and technology, energy and insurance sectors.

Event-Driven

Event-driven strategies involve investing in opportunities created by transactional events, such as spin-offs, mergers and acquisitions, bankruptcy reorganizations, recapitalizations and share buybacks, as well as merger arbitrage strategies — that is, investing in the securities of publicly-traded companies involved in prospective mergers or corporate combinations, acquisitions, cash tender offers, exchange offers or corporate recapitalizations, with the intent to profit from the difference between the price of the securities at the inception of the investment and the price of the securities in expectation of or upon actual consummation of particular events.

Convertible Bond and Capital Structure Arbitrage

Convertible bond and capital structure arbitrage generally involves investments in convertible and derivative securities designed to take advantage of price discrepancies between the convertible and derivative security and the underlying equity security or other convertible or derivative security. These investments may be made at multiple levels of an entity's capital structure to take advantage of valuation or other pricing discrepancies. These strategies may also use options to hedge equity exposure as well as asset swaps and credit default swaps to hedge credit risk.

Quantitative Trading

Quantitative strategies make use of historical price data in an attempt to anticipate future price movements. These strategies typically rely heavily or entirely on computer-generated trading signals and trading systems to initiate, maintain and liquidate positions. The Master Fund may also employ quantitative methods that seek to allocate capital among the different investment strategies identified by the Advisor as having the most profit potential from time to time, based on the historical performance of the strategies and the Advisor's judgment.

Fixed Income

Fixed income strategies seek mainly to take advantage of relative mispricings between related fixed income securities through convergence/divergence trades. Certain of these trading strategies arbitrage different maturities on the fixed income yield curve by taking long positions in higher yielding, longer duration fixed income instruments and short positions in lower yielding, shorter duration instruments; others implement a variety of hedged, spread and outright trading approaches, focusing on both relative and absolute interest-rate movements.

Credit and Distressed Trading

Credit trading concentrates on investing and trading in bank loans and participations, credit default swaps, collateralized debt obligations, bonds and other credit-related instruments. Certain of these strategies are highly issuer-specific, and may involve issuers experiencing significant financial or business difficulties, while others rely more on probabilistic statistics projecting likely payout streams. Given the volatility in the credit markets over the last few years, there may be substantial risks, as well as opportunities, in these strategies.

Global Macro

Global macro strategies seek to analyze shifts in macroeconomic trends and attempt to capitalize on directional opportunities across a broad spectrum of markets, asset classes and financial instruments.

Commodities

The Advisor's commodities trading opportunistically employs a wide range of volatility, directional, relative value, hybrid and other strategies.

Among the commodities markets in which the Master Fund may trade are: energy products (including heating oil, light crude oil, natural gas and unleaded gasoline); precious metals (including platinum, silver, gold and palladium); base metals (including copper, zinc, tin and lead); agriculturals (including wheat, soybeans, soybean oil, live hogs, hog bellies, live cattle and corn); and the so-called "softs" (including cocoa, coffee, cotton and sugar).

Index-based Strategies

The Advisor's index-based strategies may involve trading publicly-traded equity securities, equity indices and exchange-traded funds in an effort to track additions, deletions, upweights, downweights and rebalancings in G20 and other major market indices.

C. Material Risks

Shares / Interests are Speculative, Illiquid and High-Risk

Investors should understand that shares in the Offshore Fund and interests in the Onshore Fund are speculative, illiquid securities involving substantial risk of loss and are suitable for investment only by sophisticated persons for which an investment in the relevant Fund does not represent a complete investment program and who fully understand and are capable of assuming the risks of an investment in that Fund — including the risk of losing all or substantially all of the investment. Subscribing for shares or interests in a Feeder Fund is not a suitable investment for many portfolios. There can be no assurance that the Feeder Funds will achieve their investment objectives. The following considerations, which do not purport to be a complete recitation of all risks involved in an investment in a Feeder Fund, should be carefully evaluated before deciding whether to invest in a Feeder Fund.

Market Risks in General

The Advisor's strategies are subject to a number of market risks, including, without limitation, directional price movements, deviations from historical pricing relationships, changes in the regulatory environment, changes in market volatility, "flights to quality" and "credit squeezes." The Advisor's style of alternative investing can be materially more leveraged and speculative than traditional investing strategies. Under certain market conditions, alternative investment strategies such as those employed by the Master Fund have from time to time incurred sudden and dramatic losses.

The diversification of the Master Fund's positions may not always be significant and, even if significant, may not provide meaningful risk control, even though such diversification may reduce the Master Fund's profit potential due to offsetting profits and losses from different positions and strategies.

The particular or general types of market conditions in which the Master Fund may incur losses or experience unexpected performance volatility cannot be predicted, and the Master Fund may

materially underperform other investment funds with substantially similar investment objectives and approaches.

Prevailing Market Conditions

The market crisis of 2008–2009 is continuing. Continued lack of available credit as well as the need for numerous financial institutions (both regulated and unregulated) to liquidate non-performing assets from their balance sheets is likely to exert a continuing adverse influence on the markets for the foreseeable future. In addition, the governmental and regulatory response to the events of 2008–2009 may lead to permanent restrictions on the markets as well as to levels of taxation that may be detrimental to investors.

The Master Fund may be materially adversely affected by the events of 2008–2009 and the regulatory response to these events. There may be significant new regulations, in addition to the Dodd Frank Wall Street Reform and Consumer Protection Act (the “Reform Act”), that could limit the Master Fund’s activities and investment opportunities or change the functioning of the capital markets, and there remains the possibility of a severe worldwide economic downturn. The Master Fund may not be capable of, or successful at, preserving the value of its assets, generating positive investment returns or effectively managing its risks.

Past Performance

The past performance of speculative trading strategies such as those implemented by the Master Fund is not necessarily indicative of their future results. Furthermore, on an ongoing basis the Advisor is continually expanding the Master Fund’s portfolio into new strategies, market sectors and instruments so that the Master Fund’s strategies in the future may differ materially from those implemented in the past.

The ongoing financial market crisis has led to significant losses for many hedge funds and the financial markets in general. Investment results observed in earlier periods may have little relevance to the results observable in the current environment.

Risk of Loss

An investment in the Feeder Funds involves a high degree of risk, including the risk that the entire amount invested may be lost.

As was demonstrated by the events of 2008–2009, the Master Fund may incur substantial or even total losses. The leverage obtained by the Master Fund correspondingly increases the risk of loss, and also magnifies the Master Fund’s exposure to market illiquidity.

“Alternative investment strategies,” such as those implemented by the Master Fund, are subject to a “risk of ruin” — sudden and material losses of which no indication is given in their past performance. This happened in 2008–2009, when numerous leveraged strategies incurred unprecedented losses as a result of adverse market movements, the increased cost and reduced availability of leverage and pervasive illiquidity in the markets.

Importance of the Advisor

The Feeder Funds must rely on the ability of the Advisor to manage the Master Fund's trading and investment program. The Advisor, in turn, depends on the services of certain key personnel. The loss of the Advisor's services could be material and adverse to the Feeder Funds and would likely result in the premature termination of the Funds.

Dependence on Key Individuals

The success of the Feeder Funds depends upon the ability of key personnel of the Advisor to develop and implement investment strategies that achieve the Master Fund's investment objective. If the Advisor were to lose the services of any of these individuals, the consequence to the Feeder Funds could be material and adverse, and could include the premature termination of the Funds.

Reliance on Portfolio Managers

The Master Fund's trading is conducted through a large number of Portfolio Managers, and the success of the Master Fund's, and the Feeder Funds', investment program is dependent on their performance. The Advisor faces intense competition in attracting these Portfolio Managers from other firms in the financial services industry. The Advisor's ability to continue to compete effectively will depend upon its ability to attract new, and retain and motivate existing, Portfolio Managers. During any given period, a relatively small number of Portfolio Managers are often responsible for a significant amount of the Master Fund's positive performance; these Portfolio Managers must be carefully selected. To the extent that the Advisor: (i) is unable to select, manage, allocate appropriate levels of capital to, and retain Portfolio Managers who, in the aggregate, are able to produce consistently positive returns for the Master Fund; or (ii) conversely, does not allocate capital away from Portfolio Managers who are underperforming — the performance of the Master Fund, and therefore the Feeder Funds, will be significantly impaired.

Systemic Risk

The events of late 2008 demonstrated the systemic risk of a general loss in confidence, or simply uncertainty, concerning the stability of financial institutions in general. It is difficult, if not impossible, for any counterparty to know the financial condition of another counterparty in detail, and in a scenario in which a major investment bank declares bankruptcy, resulting in lasting uncertainty concerning, and material losses of, its customer funds, financial institutions can suddenly cease ordinary-course dealings with each other, resulting in "credit freezes," the inability to refinance short-term borrowings and general dysfunction of the financial markets.

Many other highly successful financial market participants sustained major losses as a result of the systemic dysfunction of the global financial system following the Lehman Brothers bankruptcy. There can be no assurance that these disruptions will not recur or that the Master Fund will not incur major losses as a result.

Financing Arrangements; Availability of Credit

The use of leverage is integral to many of the Master Fund's strategies, and the Master Fund depends on the availability of credit to finance its portfolio. The Master Fund may enter into term financing arrangements with counterparties in an attempt to ensure available liquidity and will bear the material additional fees and other expenses associated with these arrangements. For example, if

the Master Fund's counterparties incur increased financing costs, these costs will likely be passed on to the Master Fund. Despite incurring these fees and expenses, there can be no assurance that the Master Fund will, in fact, be able to access adequate amounts of credit. As a general matter, the banks and dealers that provide financing to the Master Fund can apply essentially discretionary margin, haircut, financing, security and collateral valuation policies. Changes by banks and dealers in these policies or the imposition of other credit limitations or restrictions may result in margin calls, loss of financing, forced liquidation of positions at disadvantageous prices, termination of margin financing, swap and repurchase agreements and cross-defaults to agreements with other banks and dealers. The adverse effects of these events may be exacerbated if the limitations or restrictions are imposed suddenly and / or by multiple market participants at or about the same time. The imposition of these or substantially similar limitations or restrictions could compel the Master Fund to liquidate all or a portion of its portfolio at disadvantageous prices, which would have a material adverse effect on the Master Fund and, therefore, the Feeder Funds.

In 2008–2009, banks and dealers substantially curtailed financing activities and increased collateral requirements, forcing many investors to liquidate positions. Ongoing increased collateral requirements by banks, dealers, or other counterparties would adversely impact the profit potential of the Master Fund. There can be no assurance that the Master Fund will be able to obtain adequate financing to pursue its investment program and achieve its objectives.

“Master-Feeder” Structure

The Feeder Funds invest in the Master Fund. In the future, there may be other entities which invest in the Master Fund. The co-investment by different funds in the Master Fund creates “adjacency risk” for the Master Fund. One or more of these investing funds may be required to withdraw all or substantially all of its investment in the Master Fund on short notice — perhaps for reasons unrelated to the performance of the Master Fund (for example, an unusually high level of investor withdrawals from that investing entity). These withdrawals, which may be made at a time when the particular Feeder Fund itself cannot also withdraw from the Master Fund, can disrupt the Master Fund's portfolio, resulting in material losses for the Feeder Fund, and/or causing the Master Fund to postpone withdrawals, forcing the Feeder Fund to take the same action with respect to its investors.

Certain Strategy Risks

Evolving Strategies; New Strategies

The Advisor's investment approaches are continually evolving. The past performance of the Master Fund may not be representative of its future trading.

The Advisor regularly adds new trading strategies and intends to continue to do so in the future. The Advisor may use the Master Fund's capital to develop and incubate new strategies, even if the Advisor has limited experience in those strategies. The Advisor anticipates that it will add additional, and terminate existing, sector portfolios and strategies on an ongoing basis. There can be no assurance that the Advisor will be successful in implementing the strategies which the Advisor may from time to time develop and implement for the Master Fund, or that the Master Fund will not suffer losses during the development or incubation stage of a strategy.

Importance of Market Judgment

The Advisor's strategies are by no means wholly quantitative or systematic; the market judgment and discretion of the Advisor's personnel are fundamental to the implementation of its investment strategies. Generally, the greater the importance of subjective factors to a trading strategy, the more unpredictable its results.

Model Risk

Certain of the Advisor's strategies require the use of quantitative valuation models that it has developed over time, as well as valuation models developed by third parties and licensed to the Advisor. As market dynamics shift over time (due to changed market conditions and participants, among other factors), a previously highly successful model often becomes outdated or inaccurate, perhaps without the Advisor recognizing that fact before substantial losses are incurred. It is an inherent feature even of successful quantitative models that they must be continuously updated. There can be no assurance that the Advisor will be successful in continuing to develop and maintain effective quantitative models. Furthermore, the changing nature of these models implies that the past results of any given quantitative strategy may not be representative of its future performance.

Hedging

The Advisor is not obligated to enter into any hedging transactions. The Advisor does not, in general, attempt to hedge all market or other risks inherent in the Master Fund's positions and hedges certain risks only partially, if at all. Specifically, the Advisor may choose not to hedge certain risks or determine that hedging is economically unattractive — either in respect of particular positions or in respect of the Master Fund's overall portfolio. The Master Fund's portfolio composition commonly results in various directional market risks remaining unhedged. Although the Advisor may rely on diversification to control these risks to the extent that the Advisor believes it is desirable to do so, the Master Fund is not subject to any formal diversification policies.

If the Advisor attempts to enter into hedging transactions with the intention of reducing or controlling risk, these hedging transactions, even if successful in achieving their objective, will likely reduce the Master Fund's returns. Furthermore, hedging strategies may be ineffective in controlling risk, due to unexpected non-correlation (or even positive correlation) between the hedging instrument and the position being hedged, increasing rather than reducing both risks and losses.

To the extent that the Advisor hedges, its hedging positions are not generally static but rather are continually adjusted based on the Advisor's assessment of market conditions, as well as the expected degree of non-correlation between the hedges and the portfolio being hedged. The success of any of the Advisor's hedging strategies will depend on the Advisor's ability to implement the strategies efficiently and cost-effectively, as well as on the accuracy of the Advisor's ongoing subjective judgments concerning the hedging positions to be acquired by the Fund.

No Formal Diversification Policies

The Advisor is not restricted as to the percentage of the Master Fund's assets that may be invested in any particular issuer, industry, instrument, market or strategy. The Master Fund does not and will not maintain any fixed requirements for diversifying its portfolio among issuers, industries, instruments, markets, sectors or strategies. The Advisor may concentrate the holdings of the Master Fund in those industries, companies, instruments or markets that, in the sole judgment of the

Advisor, provide the best profit opportunities consistent with the Master Fund's investment objectives. If the market moves against any concentrated position, significant losses to the Master Fund could result — substantially in excess of those that would have been incurred had the Master Fund's trading been more diversified.

Reliance on Corporate Management and Financial Reporting

Many of the Advisor's investment strategies rely on the financial information made available by the issuers to which the Master Fund has exposure. The Advisor has no ability independently to verify the financial information disseminated by the issuers in which the Master Fund invests, and depends upon the integrity of both the management of these issuers and the financial reporting process in general. Recent events have demonstrated the material losses that investors such as the Master Fund can incur as a result of corporate mismanagement, fraud and accounting irregularities. Equity securities prices are particularly vulnerable to instances of corporate mismanagement.

Uncertain Value of Investments

The Advisor has broad discretion to invest the Master Fund's capital and will do so in certain cases in instruments which have an uncertain fair value.

There is a risk that a Shareholder who redeems, or a Limited Partner who withdraws, will be paid an amount less than the Shareholder or Limited Partner would otherwise be paid if the actual value of the Master Fund's investments is higher than the value determined by the Advisor. Conversely, there is a risk that that Shareholder or Limited Partner might, in effect, be overpaid if the actual value of the investment is lower than the value determined by the Advisor.

The Master Fund may acquire a significant position in a given instrument — a position sufficiently large that the Master Fund is unable to transact freely in the instrument, due to practical, contractual, legal or regulatory restrictions. The value of the position may be materially less than it would have been in the absence of the restrictions.

The actual timing of a position's liquidation may materially affect the value obtained on the liquidation, irrespective of the "fair value" of the position.

The Advisor, its Affiliates and the Administrator are entitled to rely, without independent investigation, upon pricing information and valuations furnished by third parties, including pricing services.

The prices which dealers and counterparties quote for certain positions may differ materially from the prices at which those dealers and counterparties would be prepared actually to execute transactions in those positions.

Volatility

The prices of numerous instruments traded by the Master Fund have been subject to periods of excessive volatility in the past, and these periods can be expected to recur. Price movements are influenced by many unpredictable factors.

Although volatility can create profit opportunities for the Master Fund, it can also create the specific risk that historical or theoretical pricing relationships will be disrupted, causing what should otherwise be comparatively low risk positions to incur potentially substantial losses.

Stagnant Markets

Although volatility is one indication of market risk, certain of the investment strategies employed through the Master Fund rely for their profitability on market volatility contributing to the mispricings that they are designed to identify. In periods of trendless, stagnant markets and/or deflation, these strategies have materially diminished prospects for profitability.

Declining Equity Markets

Although the Master Fund takes both long and short positions, the Master Fund's profit potential may be diminished during market cycles in which there is a general decline in equity instrument price levels.

Relative Value and Event-Driven Investments

The Master Fund pursues certain relative value strategies, taking highly leveraged long positions in securities believed to be undervalued and short positions in securities believed to be overvalued. In the event that the perceived valuations underlying the Master Fund's trading positions were to fail to converge toward, or were to diverge further from, the Advisor's expectations, the Master Fund could incur substantial losses. Market disruptions and uncertainty can also cause substantial losses if relative value positions are forced to be prematurely terminated due to severe price changes.

Due to the leverage required to give relative value positions a profit potential generally consistent with the Master Fund's investment objectives, the Master Fund is subject in its relative value trading to the risk of "credit squeezes" such as occurred in 2008–2009.

Trade Execution Risk

Many of the trading techniques used by the Master Fund require the rapid and efficient execution of transactions. The inability to execute transactions, or if executions are inefficient, can eliminate the small pricing differentials on which the Advisor seeks to capitalize in implementing certain of its strategies and may materially adversely affect the profitability of the strategies.

The Costs of Frequent Trading

Certain strategies employed by the Master Fund require frequent trading, resulting in substantial brokerage commissions and other transaction fees and expenses. The brokerage and commission expenses of the Master Fund, as a percentage of its net asset value, generally exceed those of many other private investment funds. These expenses must be offset by investment gains in order for the Master Fund to be profitable. Furthermore, because the Advisor utilizes "soft dollars" to pay research and brokerage expenses to the extent that the Advisor believes is consistent with the "safe harbor" provided by Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended, the Advisor has an incentive to trade the Master Fund's assets in higher volumes than the Advisor otherwise would.

Short Sales

Short selling — the sale of securities not owned by the Master Fund — involves certain additional risks not applicable to other trading strategies. Short selling exposes the Master Fund to the risk of potentially unlimited losses.

Securities borrowed by the Master Fund in connection with a short sale need to be returned to the securities lender on short notice if so requested. If that request occurs at a time when other short sellers of the same security are receiving similar requests, a “short squeeze” can occur, in which the Master Fund might be compelled, at a very disadvantageous time, to replace borrowed securities previously sold short with purchases on the open market, likely at prices significantly in excess of the proceeds received from the earlier short sales.

The SEC has adopted an uptick rule but its impact on the Master Fund’s strategies is as yet unclear.

Leverage

The Master Fund uses leverage, both through its borrowings and through the significant degree of leverage typically embedded in the derivative instruments in its portfolio. Losses incurred on the Master Fund’s leveraged investments increase in direct proportion to the degree of leverage employed.

The Master Fund incurs interest expense on the borrowings used to leverage its positions. If the gains (if any) earned by the Master Fund’s portfolio fail to cover the costs, the Master Fund will incur losses.

The Master Fund typically obtains its leverage from securities brokers and dealers, which leverage is typically secured by the Master Fund’s securities and other assets. Brokers and dealers could liquidate assets held in the account to discharge the Master Fund’s loan from the counterparty. Liquidation in that manner could have extremely adverse consequences for the Master Fund. The recent, and potentially soon to recur, tightening of credit by lenders and counterparties may have a material adverse impact on the Master Fund and its operations.

Exchange-Rate Risks

Master Fund investments denominated in a foreign currency are subject to the risk that the value of a particular currency will change in relation to one or more other currencies (primarily the U.S. dollar in which the investments are generally denominated). Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in the values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments.

The Master Fund may enter into currency forward contracts (agreements to exchange one currency for another at a future date) to manage currency exchange rate risks, to protect against adverse changes in exchange rates and to facilitate transactions in non-U.S. securities. Currency forward contracts involve a risk of loss if the Master Fund fails to predict accurately the direction of currency exchange rates. For example, the Master Fund may experience a loss if it increases its exposure to a particular currency and that currency’s value in relation to the U.S. dollar subsequently falls in value against the U.S. dollar. In addition, forward contracts are not guaranteed by an exchange or clearinghouse, and may involve substantial credit risks.

The fixed fee and the incentive fee (or incentive allocation) are calculated after deduction for, among other things, exchange rate hedging as well as speculative exchange rate trading.

Possible Positive Correlation with Stocks and Bonds

One of the goals in incorporating a non-traditional investment such as the shares (of the Offshore Fund) or interests (of the Onshore Fund) into a portfolio is to provide an investor with a potentially valuable element of diversification. However, there can be no assurance, particularly during periods of market disruption and stress, that the Master Fund will, in fact, experience a low level of correlation with a traditional portfolio of stocks and bonds. In 2008–2009, many hedge funds incurred losses generally comparable to the decline in the S&P 500 Stock Index. A concentration on equity and equity-linked markets may increase the likelihood of such correlation.

Risks of Certain Instruments Traded

Common Stocks

The Master Fund invests a substantial amount of its capital in long and short positions in common stock. Common stock prices are directly affected by issuer-specific events, as well as general market conditions. In addition, in many countries investing in common stocks is subject to greater regulatory and self-regulatory scrutiny than investing in debt or other financial instruments.

Preferred Stock

Preferred stock generally has a preference as to dividends and upon the event of liquidation over an issuer's common stock, but it ranks junior to debt securities in an issuer's capital structure. Preferred stock generally pays dividends in cash (or additional shares of preferred stock) at a defined rate, but unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer's board of directors. Dividends on preferred stock may be cumulative, meaning that, in the event the issuer fails to make one or more dividend payments on the preferred stock, no dividends may be paid on the issuer's common stock until all unpaid preferred stock dividends have been paid. Preferred stock may also be subject to optional or mandatory redemption provisions.

Convertible Securities

Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or a different issuer within a particular period of time at a specified price or formula. A convertible security generally entitles its holder to receive interest or a dividend until the convertible security matures or is redeemed or converted. Convertible securities generally: (i) have higher yields than the dividends on the underlying common stocks, but lower yields than non-convertible securities of a comparable duration; (ii) are less volatile in price than the underlying common stock due to their fixed-income characteristics; (iii) have a significant option component to their value which is directly impacted by the prevailing market volatility and interest rates; and (iv) provide the potential for capital appreciation if the market price of the underlying common stock increases.

The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion feature) and its "conversion value" (the security's worth, at market value, if converted

into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates (with investment value declining as interest rates increase) as well as market volatility (with the conversion value increasing as market volatility increases). The credit standing of the issuer and other factors may also have an effect on investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent that the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases (as with an option) as the convertible security approaches maturity.

A convertible security may be subject to redemption at the option of the issuer. If a convertible security held by the Master Fund is called for redemption, the Master Fund will be required either to permit the issuer to redeem the security or convert it into the underlying common stock. Either of these actions could have an adverse effect on the value of the position.

Equity-Linked Instruments and Related Options

A number of the financial instruments traded by the Master Fund are referenced to underlying equities but also incorporate other components — duration, strike price, premiums, etc. — which can result in the Master Fund's positions being unprofitable even though the Advisor may have correctly assessed the market value of the underlying equity instrument.

The Advisor may trade in put and call options, which involve qualitatively different risks than owning or selling short the underlying common stock. Because option premiums paid or received by an investor are small in relation to the market value of the investments underlying the options, trading put and call options is highly leveraged.

A number of traders as a matter of policy will not sell “naked” options — i.e., options on common stocks not already owned by the trader in question — due to the risk of the value of such options spiking dramatically due to changes in stock prices, market volatility and/or interest rates. The Advisor, however, will from time to time sell “naked” options.

Derivatives

The Master Fund uses derivative financial instruments, including, without limitation, warrants, options, swaps, convertible securities, notional principal contracts, contracts for differences, forward contracts and futures contracts as well as options on such futures contracts. The use of derivative instruments — both for speculation and for hedging purposes — involves a variety of material risks, including the extremely high degree of leverage often embedded in such instruments as well as the possibility of material and prolonged deviations between the theoretical and realizable value of a derivative. The market in derivative instruments is also typically materially less liquid than the market in the underlying reference asset. These risks (and other risks that may not be anticipated) may make it difficult as well as economically non-viable to the Master Fund to close out derivative positions in order either to realize gains or to limit losses.

Many of the derivatives traded by the Master Fund are principal-to-principal or “over-the-counter” (“OTC”) contracts between the Master Fund and third parties entered into privately, rather than on an exchange. As a result, the Master Fund will not be afforded the regulatory and financial protections of an exchange or its clearinghouse (or of the government regulator that oversees such exchange and clearinghouse). OTC contracts subject the Master Fund to credit risk with regard to the third parties with which it trades and the Master Fund will also bear the risk of counterparty non-performance under these contracts. Furthermore, in privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices.

Many derivatives are valued on the basis of dealers’ pricing of these instruments. However, the price at which dealers value a particular derivative and the price which the same dealers would be willing to pay for such derivative should the Master Fund wish or be forced to sell such position may be materially different. These differences can result in an overstatement of the Master Fund’s net asset value and may have a material adverse effect upon the Master Fund in situations in which the Master Fund is required to sell derivative instruments.

The Master Fund’s use of derivatives for hedging purposes involves certain additional risks, including: (i) imperfect correlation between price movements in the asset on which the derivative is based and price movements in that derivative; and (ii) possible impediments to effective portfolio management or the ability to meet short-term obligations because of the percentage of the Master Fund’s assets segregated to secure its obligations under derivatives contracts

The terms of the Master Fund’s derivative contracts generally allow the counterparty to the Master Fund to terminate the contracts under numerous circumstances, including as a result of certain levels of net asset value declines (whether as a result of performance, redemptions / withdrawals, or a combination of the two), increases in the Master Fund’s mark-to-market exposure to that counterparty and the Master Fund’s suspension of the calculation of net asset value and / or redemptions / withdrawals. If a derivative contract is terminated prematurely, the Master Fund is likely to incur material losses.

Swap Agreements

Among the various derivative transactions the Master Fund may enter into are swap agreements and options on swap agreements (“swaptions”). These agreements can be individually negotiated and structured to include exposure to a variety of different types of investments, asset classes or market factors. The Master Fund, for instance, may enter into swap agreements with respect to interest rates, credit defaults, currencies, securities, indices of securities and other assets and / or other components of risk or return. Depending on their structure, swap agreements may increase or decrease the Master Fund’s market exposure.

Whether the Master Fund’s use of swap agreements or swaptions will be successful will depend on the Advisor’s selection and negotiation of the transactions for the Master Fund. Swap transactions may be highly illiquid and may increase or decrease the volatility of the Master Fund’s portfolio. Moreover, the Master Fund bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty. The Master Fund will also bear the risk of loss related to swap agreements, for example, due to breaches of the agreements or the failure of the Master Fund to post or maintain required collateral. Many swap markets are relatively new and still developing. The Reform Act, as well as possible additional government

regulation or other developments in the swap markets, could adversely affect the Master Fund's swaps trading and result in material losses.

Futures Contracts

The Master Fund trades futures contracts and commodity options. Trading in futures contracts and options is a highly specialized activity and may entail greater than ordinary investment risks.

Futures positions may become illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." During a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated. This could prevent the Advisor from promptly liquidating unfavorable positions and subject the Master Fund to substantial losses. In addition, the Advisor may not be able to execute futures contract trades at favorable prices if little trading in the contracts involved is taking place. It also is possible that an exchange or the U.S. Commodity Futures Trading Commission (the "CFTC") may suspend trading, order immediate liquidation and settlement or order that trading in a particular contract be conducted for liquidation only.

The low initial margin deposits normally required for futures positions (typically between 2% and 15% of the face value of a futures contract) permit an extremely high degree of leverage. Accordingly, a relatively small price movement may result in immediate and substantial losses to the Master Fund. Like other leveraged investments, a futures trade may result in losses in excess of the amount invested.

The bankruptcy of Refco, Inc., demonstrated that a significant portion of customer funds on deposit with CFTC-regulated futures brokers are, as a matter of practice, maintained in "unregulated" rather than "regulated" accounts at the futures broker. The futures brokers do not have to maintain "net capital" with respect to amounts on deposit in unregulated accounts. However, amounts in unregulated accounts are not subject to "customer protection" in the event of the futures broker's bankruptcy — in which case the amounts become simply unsecured debts of the futures broker.

While the Advisor will, as a matter of policy, attempt to ensure that the Master Fund's assets are maintained in regulated accounts (or at a custodian other than a futures broker), this may not always be the case (e.g., because of error, interim processing transfers, intentional misconduct of futures broker personnel, etc.).

Commodities

The Master Fund may implement a wide range of strategies in the commodities markets. Among the commodities markets in which the Master Fund may trade are energy commodities, precious metals, base metals, agriculturals and "soft" commodities — e.g., sugar, cotton and cocoa. Commodities trading is subject to risks — destruction, loss, industry-specific regulation (e.g., pollution control regulation), operating failures, labor relations, etc. — that are not typically directly applicable to financial instrument trading.

Commodity price movements are influenced by many unpredictable factors and are, in particular, subject to dramatic price movements as the result of political and/or weather events (e.g., Middle East political unrest, Hurricane Katrina, etc.), as well as due to factors such as market sentiment,

inflation rates (real and perceived), interest rate movements, and general economic and political conditions.

In certain market conditions, the Advisor may have a significantly reduced likelihood of being able to capitalize on commodity price movements. For example, in “whipsaw” markets in which commodity price trends appear to develop, but then frequently reverse, the Advisor’s commodity strategies are likely to be unprofitable.

The restrictions on “insider trading” such as those under the federal securities laws are generally not applicable to the commodities markets. Consequently, the Master Fund may often be trading in these markets at a material informational disadvantage to other market participants with better market access and / or information sources.

Although the Master Fund does not expect to trade physical commodities at this time, it may do so in the future. Physical commodity trading — unlike commodity derivatives or securities trading — can be subject to sales and other taxes, and investors in the Feeder Funds may be required to file state, local, foreign and other tax returns in respect of such trading. If the Master Fund trades physical commodities, prospective investors should anticipate that an investment in the Feeder Funds may increase their tax filing requirements and effective tax rate.

Agricultural Trading

Although the Master Fund does not expect to trade agricultural commodities at this time, it may do so in the future. Trading in agricultural products is subject to the risks affecting supply and demand, including climatic conditions, transportation difficulties, natural disasters and other events that affect the availability of agricultural staples in certain models. As the agricultural markets tend to be less liquid than at least certain financial markets, the risk of a limited group of investors materially affecting prices are likely to be greater in the agricultural market.

Energy Sector and Utility Industry Related Risks

The Master Fund invests in the global energy markets, including in utility companies. Accordingly, the Master Fund faces the risk that earnings and dividends of energy companies will be greatly affected by changes in the prices and supplies of oil, natural gas and other energy fuels. Prices and supplies can fluctuate significantly over short periods due to a variety of factors, including but not limited to changes in international politics, policies of the Organization of the Petroleum Exporting Countries (OPEC), relationships among OPEC members and between OPEC and oil-importing nations, energy conservation, the regulatory environment, government tax policies, and the economic growth and stability of key energy-consuming countries.

The risks associated with certain energy and utility companies include those involving the construction, operation and licensing of nuclear power plants, including the risk of nuclear accident. Oil and gas companies are subject to the risk of, among other things, production disruptions, spills and the costs associated therewith. The market value of the stock of utility companies also may be adversely affected by inadequate rate increases from regulatory agencies. Other risks of electric and gas utilities include their sensitivity to changes in interest rates, their continuing requirements for raising additional capital and their obligation to comply with environmental and other governmental mandates.

A number of major private investment funds incurred material losses in energy trading during the periods surrounding Hurricane Katrina and the Deepwater Horizon oil spill. There can be no assurance that the Master Fund itself might not, from time to time, incur similar losses.

Weather Analysis

Weather is a notoriously unpredictable factor in attempting to assess commodity price movements. Although the changing seasons in certain regions have an effect upon weather-linked commodities, trade strategies based upon seasonality have been shown not to produce consistent profits over time, exhibiting a high degree of volatility. In the past, there have been periods without discernible trends, and periods in which prices of commodity interests traditionally thought to be weather-related moved independently, or contrary to, the directions predicted by weather analysts. These periods will continue to occur in the future. To the extent the Master Fund invests in weather-linked commodities, it may incur losses.

Small to Medium Capitalization Companies

The Advisor may invest a significant portion of the Master Fund's capital in the securities of companies with small to medium market capitalizations. Although the Advisor believes that these securities may provide significant potential for appreciation, these securities, particularly smaller-capitalization stocks, often involve higher risks than do investments in the securities of larger-capitalization companies. Smaller-capitalization stocks are often more volatile and more illiquid than large-capitalization stocks.

High Growth Company-Related Risks

The Master Fund may invest in high growth companies, which may allocate, or may have allocated, greater than usual amounts to research and product development. The securities of these companies may experience above-average price movements associated with the perceived prospects of success of their research and development programs. In addition, companies in which the Master Fund invests could be adversely affected by the lack of commercial acceptance of a new product or products or by technological change and obsolescence. Many of these companies may participate in undeveloped or limited markets, have limited products, rely on proprietary technology that may be difficult to protect from competitors, have no proven profit-making history, operate at a loss or with substantial variations in operating results from period to period, have limited access to capital and / or be in the developmental stages of their businesses.

Financial Services Sector Investments

The Master Fund may invest in financial services companies. Among the factors to which the financial services industry is vulnerable are: extensive government regulation, rapid business changes, general economic conditions, significant competition, and value fluctuations. Many financial services companies suffered substantial losses as a result of the events of 2007–2009 due to heavy losses in proprietary trading. The ongoing volatility in the credit and other market sectors in 2009 and 2010 continues to pose significant financial challenges and risks to financial services companies. Extensive and changing governmental regulation of financial services companies can, among other things, both increase costs and make it difficult to pass the increased costs on to consumers. Far-reaching revisions to the regulation of the financial services industry have recently been adopted in the Reform Act which could further affect the profitability of companies in that sector. On the

other hand, in certain cases, deregulation of financial service companies has resulted in increased competition and reduced profitability.

Investment in the financial services sector may expose the Master Fund to systemic risk in the financial system. Moreover, the prices of stocks and bonds issued by many financial services companies have historically been more closely correlated with changes in interest rates than the prices of other stocks.

Distressed Securities

The Master Fund may invest in “distressed securities” — securities, private claims and obligations of companies that are experiencing significant financial or business difficulties. Investments may include loans, commercial paper, loan participations, trade claims, stocks, partnership interests and similar financial instruments, executory contracts and options or participations in any of the foregoing. Distressed securities may result in significant returns to the Master Fund, but also involve a substantial degree of risk. The Master Fund may lose a substantial portion or all of its investment in a distressed security. Among the risks inherent in distressed investing is the frequent difficulty in obtaining information as to the true financial condition of the underlying issuers. These investments also may be adversely affected by state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability, and the bankruptcy court’s discretionary power to disallow, subordinate or disenfranchise particular claims. The market prices of these instruments are subject to abrupt and erratic market movements, above average price volatility, and the spread between the bid and asked prices of these instruments may be greater than normally experienced.

Debt Securities

The Master Fund invests in rated as well as unrated fixed income and other debt securities as part of certain strategies and may, in the future, establish additional sector portfolios dedicated to investing in debt. The Master Fund may invest in debt securities that rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of which may be secured by substantially all of that issuer’s assets. The market for credit spreads is often efficient and illiquid, making it difficult to accurately calculate the spreads used for valuing various financial instruments. Debt investments normally involve the assumption of interest rate risk.

Credit Default Swaps

The Master Fund may purchase and sell credit derivatives contracts — primarily credit default swaps — both for hedging and speculative purposes. The typical credit default swap contract generally requires the seller to pay to the buyer, in the event that a particular reference entity experiences specified credit events, a specified notional amount in exchange for securities issued by the reference entity (if the contract is physically settled) or an amount equal to the specified notional amount minus the value of securities issued by the reference entity (if the contract is cash settled). In return, the buyer agrees to make periodic payments equal to a fixed percentage of the notional amount of the contract. The Master Fund may also purchase or sell credit default swaps on a basket of reference entities as part of a synthetic collateralized debt obligation transaction. Credit default swaps, and collateralized debt obligations referenced to them, will be subject to additional regulation under the Reform Act in the near future.

As a seller of credit default swaps, the Master Fund incurs leveraged exposure to the credit of the reference entity and is subject to many of the same risks it would incur if it were holding debt securities issued by the reference entity. However, the Master Fund would not have any legal recourse against the reference entity and would not benefit from any collateral securing the reference entity's debt obligations. In addition, the credit default swap buyer is likely to have broad discretion to select which of the reference entity's debt obligations to deliver to the Master Fund following a credit event and would likely choose the obligations with the lowest market value in order to maximize the payment obligations of the Master Fund.

As a buyer of credit default swaps, in circumstances in which the Master Fund did not own the debt securities that are deliverable under a credit default swap, the Master Fund would be exposed to the risk that deliverable securities would not be available in the market, or would be available only at unfavorable prices, as would be the case in a so-called "short squeeze."

As a buyer or a seller of credit default swaps, the Master Fund takes credit risk with respect to its counterparties. Credit default swaps generally trade on the basis of theoretical pricing and valuation models, which may not accurately value the swap positions when established or when subsequently traded or unwound under actual market conditions.

In certain instances of issuer defaults or restructurings, it has been unclear under the standard industry documentation for credit default swaps whether or not a "credit event" triggering the seller's payment obligation had occurred.

Special Situations

The Master Fund may invest in companies involved in (or the target of) acquisition attempts or tender offers as well as companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies or other catalytic changes or similar transactions. In any of these "special situations," there exists the risk that the contemplated transaction will not be consummated, will take considerably longer than anticipated and / or will result in a distribution of cash or a new security the value of which is less than the purchase price to the Master Fund of the security or other financial instrument in respect of which the distribution is received. Similarly, if an anticipated transaction does not in fact occur, the Master Fund may be required to sell its investment at a substantial loss. There is typically substantial uncertainty concerning whether a special situation event will be consummated as well as what the outcome of the consummation will be.

Currency Markets

The Master Fund trades currencies and foreign exchange. These transactions involve a significant degree of risk. The markets in which foreign exchange transactions are effected are volatile and specialized. Significant changes, including changes in liquidity and prices, can occur in these markets within very short periods of time, often within minutes. Foreign exchange trading risks include, but are not limited to, exchange rate risk, maturity gaps, interest rate risk, and potential governmental interference through regulation of the local exchange markets, foreign investment or particular transactions in the native or foreign currencies. Foreign exchange transactions can result in the Master Fund's returns being substantially better or worse than they would have been had the Master Fund not entered into the transactions.

The fixed fee and the incentive fee (or incentive allocation) are calculated after deduction for exchange rate hedging as well as speculative exchange rate trading.

Non-U.S. Markets

Investing in non-U.S. securities involves certain considerations not typically associated with investing in the securities of U.S. issuers. These considerations include changes in exchange rates and exchange control regulations, political and social instability, expropriation, imposition of punitive and retroactive taxes, less market liquidity and less available issuer-specific information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards, and greater price volatility.

Emerging Markets

Investing in emerging market debt or equity involves certain risks and special considerations not typically associated with investing in other more established economies or securities markets. These risks may include: (i) the risk of nationalization or expropriation of assets or confiscatory taxation; (ii) social, economic and political uncertainty including war; (iii) dependence on exports and the corresponding importance of international trade; (iv) price fluctuations, less liquidity and the smaller capitalization of the securities markets; (v) currency exchange rate fluctuations; (vi) rates of inflation (including hyperinflation); (vii) controls on foreign investment and limitations on repatriation of invested capital and on the Master Fund's ability to exchange local currencies for U.S. dollars; (viii) governmental involvement in and control over the economies; (ix) governmental decisions to discontinue support of economic reform programs generally and to impose centrally planned economies; (x) differences in auditing and financial reporting standards which may result in the unavailability of material information about issuers; (xi) less extensive regulation of the securities markets; (xii) longer settlement periods for securities transactions in emerging markets; (xiii) less developed corporate laws regarding fiduciary duties of officers and directors and the protection of investors; and (xiv) certain considerations regarding the maintenance of Master Fund portfolio securities and cash with non-U.S. sub-custodians and securities depositories.

The foregoing issues are also generally applicable to many non-U.S. markets. All of these issues tend to be exacerbated in the emerging markets.

Certain Structural Risks

Lack of Market Liquidity

Despite the generally heavy volume of trading in most of the instruments traded by the Master Fund, the market for certain of these instruments may have periods of limited liquidity. Lack of liquidity can make it economically unfeasible for the Master Fund to recognize profits on open positions or to close out open positions against which the market is moving. In addition, illiquidity can disconnect market values from the historical pricing indicators used in the Advisor's investment analysis, and the fewer transactions that take place, the greater the risk that market values do not reflect true pricing relationships or fair value.

The events of 2008–2009 highlighted the adverse effects of market illiquidity on leveraged alternative investment strategies.

The sale of unregistered, restricted or illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than the sale of securities eligible for trading on national securities exchanges or in the OTC markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. Further, these investments may be extremely difficult to value with any degree of certainty.

Governmental Interventions; Dodd-Frank Wall Street Reform / Consumer Protection Act

The global financial markets have recently undergone pervasive and fundamental disruptions which have led to extensive and unprecedented governmental intervention. This intervention has in certain cases been implemented on an “emergency” basis, suddenly and substantially eliminating market participants’ ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition — as one would expect given the complexities of the financial markets and the limited time frame within which governments have felt compelled to take action — these interventions have typically been unclear in scope and application, resulting in confusion and uncertainty which in itself has been materially detrimental to the efficient functioning of the markets as well as to the results achieved by previously successful investment strategies.

The U.S. “bailout” of financial institutions is the largest governmental intervention in the history of the U.S. financial markets. Moreover, the form of the “bailout” continues to shift as the impact of the current financial crisis is further analyzed. For example, the Troubled Asset Relief Program was initially designed to purchase illiquid mortgage-backed securities. Funds were then used to inject capital directly into certain consumer-oriented financial companies. As a further response to this crisis, it seems highly likely that Congress will require that new market restrictions be applied to the U.S. financial markets, and legislation has already been proposed to further regulate hedge funds or hedge fund managers. These restrictions may have a material adverse impact on both the future competitiveness of these markets as well as the profit potential of the Master Fund. Regulators in other jurisdictions also appear likely to take similar action.

The interim global prohibition on short-selling financial sector stocks imposed during the financial crisis of 2008 resulted in certain strategies becoming non-viable literally overnight. The SEC imposed a temporary ban on short-selling on September 18, 2008. Short-selling is an integral component of many relative-value alternative investment strategies. However, these strategies were generally not exempted from the ban, causing dramatic losses for certain groups of investors. There is no guarantee that such SEC-imposed limitations on short-selling will not recur or that similar limitations will not be imposed.

A number of countries imposed bans on short-selling, typically on an “emergency” basis, making it impossible for numerous market participants either to continue to implement their strategies or to manage the risk of their open positions. Any ongoing regulatory limitations or a recurrence of bans on short-selling could materially adversely affect the Advisor’s ability to implement its strategies for the benefit of the Master Fund.

In response to the recent financial crises, the Obama Administration and the U.S. Congress proposed sweeping reform of the U.S. financial regulatory system. After over a year of debate, the Reform Act became law in July 2010. The Reform Act seeks to regulate markets, market participants and financial instruments that previously have been unregulated and substantially alters the regulation of many other markets, market participants and financial instruments. Because many provisions of the Reform Act require rulemaking by the applicable regulators before becoming fully

effective and the Reform Act mandates multiple agency reports and studies (which could result in additional legislative or regulatory action), it is difficult to predict the impact of the Reform Act on the Funds, the Advisor, and the markets in which they trade and invest. The Reform Act could result in certain investment strategies in which the Master Fund engages or may have otherwise engaged becoming non-viable or non-economic to implement. The Reform Act and regulations adopted pursuant to the Reform Act could have a material adverse impact on the profit potential of the Funds.

Market Disruptions

The Master Fund may incur major losses in the event of disrupted markets and other extraordinary events in which historical pricing relationships (on which the Advisor bases a number of its trading positions) become materially distorted. The risk of loss from pricing distortions is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. The financing available to the Master Fund from its dealers and other counterparties is typically reduced in disrupted markets. Such a reduction may result in substantial losses to the Master Fund as it is forced to close out positions which it is no longer able to finance, and likely in depressed market conditions.

A financial exchange may from time to time suspend or limit trading. Such a suspension could render it difficult or impossible for the Master Fund to liquidate affected positions and thereby expose it to uncontrollable losses. There is also no assurance that off-exchange markets will remain liquid enough for the Master Fund to close out positions.

It is impossible to predict what additional interim or permanent governmental restrictions may be imposed on the markets (including specifically the hedge fund industry) and / or the effect of the restrictions on the Master Fund's strategies. However, the Advisor believes that there is a high likelihood of significantly increased regulation of the financial markets, and that the increased regulation could be materially detrimental to the Master Fund.

Contingent Liabilities

From time to time the Master Fund may incur contingent liabilities in connection with an investment. For example, the Master Fund may enter into agreements pursuant to which it agrees to assume responsibility for default risk presented by a third-party, or may, on the other hand, enter into agreements through which third-parties offer default protection to the Master Fund.

The outcome of contingent liabilities is typically uncertain, both as to timing and amount. Contingent liabilities may result in actual costs to the Master Fund long after the events which gave rise to the contingencies arose, and at a time when the investor population of the Feeder Funds has changed materially from what it was at the time of the events. Furthermore, the amount of the liability ultimately incurred may far exceed the corresponding contingency reserves established from time to time in the past. On the other hand, certain contingent liabilities—for example, reserves established under ASC 740 (as defined in this document)—may neither be realized nor resolved until the Master Fund itself is dissolved, and most of the investors whose capital account(s) were reduced by reserves created to cover these contingencies have withdrawn.

Counterparty and Settlement Risk

The Master Fund will be subject to (i) the credit risk of the OTC counterparties with which it trades, as well as (ii) the risk of settlement default on the OTC transactions. In the OTC markets, these risks are materially greater than in the case of exchange-traded transactions (which generally are backed by clearing organization guarantees, daily marking-to-market and settlement and segregation and minimum capital requirements applicable to intermediaries). Transactions entered into directly between two counterparties generally do not benefit from these (or other) protections and expose the parties to the risk of counterparty default. Irrespective of whether an OTC counterparty to the Master Fund becomes insolvent (see below), the OTC markets do not have the benefit of the “automatic” clearing and settlement mechanics of the exchange-traded markets.

Counterparty Insolvency

It is expected that all securities and other assets deposited with the Prime Brokers (as defined in Item 15) will be identified as being assets of the Master Fund; however, these assets may not always be segregated in practice or under applicable law, and there may also be significant practical or timing problems associated with enforcing the Master Fund’s rights to its assets in the case of an insolvency of any of these parties. Even where required by applicable law, there can be no guarantee that a counterparty will comply with the relevant custody and segregation requirements. Furthermore, to the extent that the Master Fund enters into OTC agreements, such as swaps, the Master Fund’s counterparties hold the Master Fund’s assets on a non-segregated basis and the Master Fund will be exposed to credit risk with regard to these counterparties.

The recent significant losses incurred by many hedge funds, including the Master Fund, as a result of the bankruptcy and / or administration of Lehman Brothers illustrate the risks incurred in both derivatives trading and custody / brokerage arrangements. Many Lehman Brothers customers, including the Master Fund, have had their accounts frozen, and the inability to access these funds or positions has led to losses as well as extraordinary actions by the hedge funds, such as suspending redemptions (or withdrawals) and / or net asset value, declaring side pockets, or creating separate share classes to hold the assets.

Custody Risk

The Master Fund, its Prime Brokers, certain U.S. trust bank affiliates of the Prime Brokers, its Custodian (as defined in Item 15), and its other primary custodians may appoint sub-custodians in certain non-U.S. jurisdictions to hold the assets of the Master Fund. The Master Fund’s primary custodians may not be responsible for cash or assets held by sub-custodians in certain non-U.S. jurisdictions, or for any losses suffered by the Master Fund as a result of the misconduct, bankruptcy or insolvency of any such sub-custodian. The Master Fund may therefore have potential exposure on the default of any sub-custodian and, as a result, many of the protections which would normally be provided to the Master Fund by a custodian will not be available to the Master Fund.

Custody services in certain non-U.S. jurisdictions remain undeveloped and, accordingly, there is transaction and custody risk of dealing in certain non-U.S. jurisdictions. Given the undeveloped state of the regulation of custodial activities and custodian bankruptcies in certain non-U.S. jurisdictions, the ability of the Master Fund to recover assets held by a sub-custodian in the event of that sub-custodian’s bankruptcy would be in doubt. Even where a custodian, including a registered

broker-dealer, is located and regulated in the United States, U.S. protections and regulations may be insufficient, and the Master Fund unable to recover its assets — at least on a timely basis.

The Master Funds may change their respective brokerage and custodial arrangements without prior notice to, and without the consent of, investors.

Limited Redemption (Withdrawal) and Transfer Rights; Distributions In Kind

Investors have limited redemption (if they are Shareholders) or withdrawal (if they are Limited Partners) rights, and transfers of shares or interests are permitted only with the written consent of the Board of Directors (in the case of the Offshore Fund) and the General Partner (in the case of the Onshore Fund). An investment in a Feeder Fund is an illiquid investment. If a substantial number of investors were to redeem (or withdraw) from a Feeder Fund, it may be necessary for the Advisor to meet the redemptions (or withdrawals) through distributions of thinly-traded or illiquid investments directly to the investors.

Different Redemption (Withdrawal) Rights

The different redemption (or withdrawal) rights applicable to different tranches and sub-tranches of shares (in the case of the Offshore Fund), or types of interests (in the case of the Onshore Fund), could in certain circumstances adversely affect certain of the investors (for example, some investors may not be able to redeem or withdraw at a time when other investors are doing so).

Effect of Substantial Redemptions

Substantial redemptions from the Master Fund (which might be made by other clients of the Advisor for reasons unrelated to the Feeder Funds) over a short time period could necessitate the liquidation of a significant portion of the Master Fund's trading positions on materially disadvantageous terms.

Each Tranche / Type of Interest Not a Separate Legal Entity

Each Feeder Fund as a whole, including any subsequently issued tranches of shares / types of interests, is one legal entity. All of the assets of each Feeder Fund are available to meet all of the liabilities of that Fund, regardless of the tranche, sub-tranche, series of shares, or type of interest to which the assets or liabilities are attributable. For example, if the Offshore Fund's Tranche A shares or Tranche B shares, or the Onshore Fund's "Old Interests," incurred losses with respect to the Lehman claims that exceed the value of the Lehman claims, the Tranche C shares and Tranche D shares, in the case of the Offshore Fund, and the "New Interests" in the case of the Onshore Fund, would potentially be exposed to those losses. In addition, the Offshore Fund in the future may issue additional non-U.S. tranches and the Advisor may engage in currency hedging transactions to protect Shareholders owning non-U.S. tranches from related currency fluctuation exposure. While expenses, gains and losses related to currency hedging done on behalf of one or more non-U.S. tranches will be allocated to the relevant non-U.S. tranche, the ability of non-U.S. tranches to bear those losses and expenses is limited to their aggregate net asset value. Accordingly, the Tranche A, Tranche B, Tranche C and Tranche D shares issued by the Offshore Fund could potentially be exposed to the currency hedging losses if the non-U.S. tranches incur significant losses in connection with the currency hedging transactions in the unlikely event that the amount of the losses exceeds the assets of the non-U.S. tranches to which those losses are applicable.

Changes in Assets Under Management

Since inception the Advisor has experienced substantial increases and declines in assets under management. After recovering from a decline in assets under management in 2008, the Advisor has recently experienced substantial redemptions (withdrawals). When assets significantly increase or decrease, there can be no assurance — particularly given the highly competitive environment for alternative investing strategies and successful Portfolio Managers — that the Advisor will continue to be successful managing significantly different amounts of capital. The more assets under management the Advisor has, the more Portfolio Managers it will need to retain; the fewer assets under management, the more important it is for the Advisor to retain its successful Portfolio Managers. There can be no assurance that the Advisor will be able to do so.

Certain Regulatory and Legal Risks

Non-Disclosure of Positions

In an effort to protect the confidentiality of its positions, the Advisor (and the Board of Directors of the Offshore Fund) will not generally disclose the Master Fund's positions to any investor.

Risk of Litigation and Regulatory / Investigatory Proceedings; Limitations on Liability

In the ordinary course of business, the Master Fund may be subject to litigation from time to time. In addition, the Master Fund may accumulate substantial positions in the securities of issuers that become involved in proxy contests or other litigation. As a result of such investments, the Master Fund could be named as a defendant in a lawsuit or regulatory action, including investigation by one or more regulatory or governmental authorities. The outcome of any of these proceedings, which may materially adversely affect the value of the Master Fund, may be impossible to anticipate, and these proceedings may continue without resolution for long periods of time. Any litigation or regulatory / investigatory proceeding may consume substantial amounts of the Advisor's time and attention, and that time and the devotion of these resources to litigation or regulatory / investigatory proceedings may, at times, be disproportionate to the amounts at stake in the matter(s). In addition, these proceedings could distract the principals of the Advisor from their investing activities and accordingly negatively affect the Master Fund's returns.

The Master Fund's auditors have severely limited their liability under the terms of their engagement by the Master Fund by foreclosing the Master Fund's rights of possible recourse against such auditors.

The Master Fund has given a broad indemnity to the Advisor against a wide range of losses relating to their activities on behalf of the Master Fund, provided that such activities are not finally determined to violate the applicable standard of care (as defined in the confidential offering documents).

Absence of Regulatory Oversight

While the Funds may be considered similar to registered investment companies, they are not required to, and do not intend to, register as such under the Company Act. Accordingly, the provisions of the Company Act (which require, among other things, investment companies to have a majority of disinterested directors, that their securities be held in custody and individually segregated from the securities of any other person and marked to clearly identify the securities as the property of that investment company) are not applicable to the Funds.

Registration under the Cayman Islands Mutual Funds Law (Revised) does not involve a detailed examination of the merits of those of the Funds organized under Caymans law, or substantive supervision of the investment performance of those Funds by the Cayman Islands government or CIMA. There is no financial obligation or compensation scheme imposed on or by the government of the Cayman Islands in favor of or available to the investors in those Funds.

Possibility of Additional Government or Market Regulation

There have recently been certain well-publicized incidents of regulators unexpectedly announcing regulatory changes or interpretations that prohibited strategies that had been implemented in a variety of formats for many years. For instance, in September 2008 the SEC and various non-U.S. regulatory bodies imposed temporary bans on short-selling in a variety of stocks, and adopted permanent regulations that may have the effect of making short-selling more difficult or costly. These actions were generally regarded as disrupting market fundamentals and causing unexpected and volatile increases in the stock prices of a variety of issuers, as short sellers closed out their positions by buying securities. Market disruptions like those experienced in the credit-driven equity market collapse in 2008 as well as the dramatic increase in the capital allocated to alternative investment strategies during recent years have led to increased governmental as well as self-regulatory scrutiny of the hedge fund industry in general. In addition, legislation proposing greater regulation of the “alternative investment” industry periodically is considered by the Congress, as well as the governing bodies of non-U.S. jurisdictions.

It is impossible to predict what, if any, changes in regulation applicable to the Funds, the Advisor, the markets in which they trade and invest or the counterparties with which they do business may be instituted in the future. Any such regulation could have a material adverse impact on the profit potential of the Funds, and may also require increased transparency as to the identity of investors in the Feeder Funds.

Regulation of the Over-the-Counter (OTC) Derivatives Market

The Reform Act includes provisions that comprehensively regulate the OTC derivatives markets for the first time.

The Reform Act will mandate that a substantial portion of OTC derivatives must be executed in regulated markets and submitted for clearing to regulated clearinghouses. OTC trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant

clearinghouse, as well as possible SEC- or CFTC-mandated margin requirements. The regulators also have broad discretion to impose margin requirements on non-cleared OTC derivatives and new requirements will apply to the holding of customer collateral by OTC derivatives dealers. These requirements may increase the amount of collateral the Master Fund is required to provide and the costs associated with providing it. Although the Reform Act includes limited exemptions from the clearing and margin requirements for so-called “end-users,” the Master Fund does not expect to be able to rely on these exemptions. In addition, the OTC derivative dealers with which the Master Fund executes the majority of its OTC derivatives will not be able to rely on the end-user exemptions under the Reform Act and therefore these dealers will be subject to clearing and margin requirements irrespective of whether the Master Fund is subject to the requirements. OTC derivative dealers also will be required to post margin to the clearinghouses through which they clear their customers’ trades instead of using the margin in their operations, as is currently permitted. This will increase the OTC derivative dealers’ costs, and these increased costs are expected to be passed through to other market participants in the form of higher upfront and mark-to-market margin, less favorable trade pricing, and the possible imposition of new or increased fees.

The SEC and CFTC may also require a substantial portion of derivative transactions that are currently executed on a bi-lateral basis in the OTC markets to be executed through a regulated securities, futures, or swap exchange or execution facility. These requirements may make it more difficult and costly for investment funds, including the Master Fund, to enter into highly tailored or customized transactions. They may also render certain strategies in which the Master Fund might otherwise engage impossible or so costly that they will no longer be economical to implement.

OTC derivative dealers and major OTC derivatives market participants will be required to register with the SEC and/or CFTC. The Master Fund or the Advisor may be required to register as major participants in the OTC derivatives markets. Dealers and major participants will be subject to minimum capital and margin requirements. These requirements may apply irrespective of whether the OTC derivatives in question are exchange-traded or cleared. OTC derivatives dealers will also be subject to new business conduct standards, disclosure requirements, reporting and recordkeeping requirements, transparency requirements, position limits, limitations on conflicts of interest, and other regulatory burdens. These requirements may further increase the overall costs for OTC derivative dealers, which costs are also likely to be passed along to market participants. The overall impact of the Reform Act on the Funds is highly uncertain and it is unclear how the OTC derivatives markets will adapt to this new regulatory regime.

The European Union Directive

A directive recently adopted in the European Union could ultimately have the effect of materially restricting the ability of European Union capital to invest in the Feeder Funds. Currently, a significant amount of the Master Fund’s capital derives directly or indirectly from European Union sources. If that capital became unavailable to the Advisor, the results could be materially adverse to the Advisor’s operations.

Business and Regulatory Risks of Hedge Funds

Legal, tax and regulatory developments may adversely affect the Master Fund. The markets in which the Master Fund trades are subject to comprehensive statutes, regulations and margin requirements enforced by the SEC, the CFTC, and other regulators and self-regulatory organizations. Securities and futures exchanges are also authorized to take extraordinary actions in

the event of market emergencies. The regulation of the markets and market participants (such as the Master Fund) is an evolving area of law and is subject to modification by governmental and judicial actions. The regulatory environment for private funds is evolving, and changes in the regulation of private funds and their trading activities may adversely affect the Funds.

Revised Regulatory Interpretations Could Make Certain Strategies Obsolete

In addition to proposed and actual accounting changes, there have recently been certain well-publicized incidents of regulators unexpectedly taking positions prohibiting strategies that had been implemented in a variety of formats for many years. In the current unsettled regulatory environment, it is impossible to predict if future regulatory developments might adversely affect the Funds.

Possible Adverse Tax Consequences

The Feeder Funds cannot assure any investors that the U.S. Internal Revenue Service or the applicable U.S. state, local or non-U.S. tax authorities (collectively, the “Tax Authorities”) will accept the tax positions taken by the Funds. The Board of Directors, the Advisor, or the general partner of the Onshore Fund will not be liable to the Feeder Funds or any investors for any tax position taken by the Board of Directors, the Advisor, or the general partner with respect to the relevant Feeder Fund in good faith and which was not clearly contrary to law when taken.

The Master Fund invests, and the Advisor and its Affiliates may establish offices or engage in other activities, in jurisdictions outside the United States. These investments, offices and / or activities could result in the Feeder Funds, and potentially certain investors, being subject to taxation in one or more jurisdictions.

The Advisor’s investment decisions are based primarily upon economic, not tax, considerations, and could result, from time to time, in adverse tax consequences to some or all investors.

U.S. Source Payments to the Fund May Be Subject to Withholding Under the HIRE Act

The Hiring Incentives to Restore Employment Act (the “HIRE Act”) provides that, beginning January 1, 2013, a 30% withholding tax may be imposed on payments of U.S. source income and proceeds from the sale of property that could give rise to U.S. source interest or dividends to certain non-U.S. entities unless those entities enter into an agreement with the U.S. Internal Revenue Service (the “IRS”) to disclose the name, address and taxpayer identification number of certain U.S. persons that own, directly or indirectly, interests in those entities, as well as certain other information relating to those interests. Although the relevant Feeder Fund will attempt to satisfy any obligations imposed on it to avoid the imposition of this withholding tax, no assurance can be given that that Fund will be able to satisfy these obligations. If the relevant Feeder Fund becomes subject to a withholding tax as a result of the HIRE Act, the return(s) of all investors in that Fund may be materially affected. In addition, the Master Fund may invest directly or indirectly in entities that are subject to these requirements. No assurance can be given that the underlying entities will be able to satisfy their obligations under the HIRE Act. If an underlying entity becomes subject to a withholding tax as a result of the HIRE Act, there may be a materially adverse impact on the return of all affected investors. Prospective investors are encouraged to consult with their own tax advisors regarding the possible implications of the HIRE Act on their investment in a Feeder Fund.

The Feeder Funds May Mandatorily Redeem (or Withdraw) any Investor that Fails to Cooperate with the Fund's Efforts to Comply with the HIRE Act

A Feeder Fund's ability to comply with the HIRE Act will depend on each affected investor providing that Fund with information that the Fund requests concerning the direct and indirect owners of the investor. If the investor fails to provide the Fund with any information the Fund requests, the Fund may exercise its right to mandatorily redeem (or withdraw) the investor and / or reduce the net asset value of the investor's investment through the issuance of a separate class or series for any investor and charge that investor for any withholding tax attributable to that investor's failure to cooperate.

Accounting for Uncertainty in Income Taxes

Accounting Standards Codification 740 (in part formerly known as FASB Interpretation No. 48), "Income Taxes" ("ASC 740"), provides guidance on the accounting treatment of uncertain tax positions. ASC 740 prescribes the minimum recognition threshold that a tax position is required to meet without being recognized as a contingent liability in an entity's financial statements. It also provides guidance on the recognition, measurement and classification of, as well as interest and penalties with respect to, tax positions. ASC 740 could have a material adverse effect on the periodic calculations of the net asset value of the Funds, including reducing the net asset value to reflect reserves for income taxes that could be payable by the Feeder Funds in respect of prior periods. This will cause economic dilution to certain investors, depending upon the timing of their entry and exit from the Feeder Funds.

Restrictions on Investments by Benefit Plan Investors

The U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and a regulation issued thereunder contain rules for determining when an investment by a benefit or other plan in an entity will result in the underlying assets of the entity being assets of the plan ("plan assets") for purposes of ERISA and Section 4975 of the Internal Revenue Code (the "Code"). Those rules provide that assets of an entity will not be plan assets of a plan which purchases an interest therein if the investment by all "benefit plan investors" is not "significant" or certain other exceptions apply. The term "benefit plan investors" includes all plans (i.e., all "employee benefit plans" as defined in and subject to the fiduciary responsibility provisions of ERISA and all "plans" as defined in and subject to Section 4975 of the Code) and all entities that hold "plan assets" (each, a "Plan Assets Entity") due to investments made in those entities by referenced benefit plan investors. ERISA provides that a Plan Assets Entity is considered to hold plan assets only to the extent of the percentage of the Plan Assets Entity's equity interests held by benefit plan investors. Investments by benefit plan investors will be deemed not significant if benefit plan investors own, in the aggregate, less than 25% of the total value of each class of equity interests of the entity (determined by not including the investments of persons with discretionary authority or control over the assets of the entity, of any person who provides investment advice for a fee (direct or indirect) with respect to those assets, and "affiliates" (as defined in the regulations issued under ERISA) of those persons; however, under no circumstances are investments by benefit plan investors excluded from such calculation).

In order to avoid causing assets of the Feeder Funds to be “plan assets,” each of the Feeder Funds intends to restrict the aggregate investment by benefit plan investors to under 25% of the total value of each class of equity interests of the relevant Fund (not including the investments of the Advisor, any director of the Advisor, any Portfolio Manager, any person who provides investment advice for a fee (direct or indirect) with respect to the assets of that Fund, and any entity (other than a benefit plan investor) that is directly or indirectly through one or more intermediaries controlling, controlled by or under common control with any of those entities (including a partnership or other entity for which the Advisor is the general partner, investment adviser or provides investment advice), and each of the principals, officers and employees of any of the foregoing entities who has the power to exercise a controlling influence over the management or policies of that entity or of the relevant Fund). Furthermore, because the 25% test is ongoing, it not only restricts additional investments by benefit plan investors, but also can cause the affected Fund to require that existing benefit plan investors redeem (or withdraw) from that Fund in the event that other investors redeem (or withdraw). If rejection of subscriptions or mandatory redemptions (or withdrawals) are necessary, as determined by the affected Fund, to avoid causing the assets of that Fund to be “plan assets,” then the relevant Fund will effect the rejections or redemptions (or withdrawals) in the manner as the Fund, in its sole discretion, determines.

Ineligible Purchasers

In general, no plan may invest in a Feeder Fund if the Advisor, the Administrator, any of the Advisor or of a Fund, any Prime Broker, any Portfolio Manager, any placement agent, any of their respective affiliates, or any of their respective employees either: (i) has investment discretion with respect to the investment of the plan’s assets; (ii) has authority or responsibility to give or regularly gives investment advice with respect to the plan’s assets, for a fee, and pursuant to an agreement or understanding that the investment advice will serve as a primary basis for investment decisions with respect to the plan’s assets and that the advice will be based on the particular investment needs of that plan; or (iii) is an employer maintaining or contributing to that plan. A party that is described in clause (i) or (ii) of the preceding sentence is a fiduciary under ERISA and the Code with respect to the plan, and any purchase of interests in a Feeder Fund might result in a “prohibited transaction” under ERISA and the Code.

Except as otherwise set forth, the foregoing statements regarding the consequences under ERISA and the Code of an investment in the Fund are based on the provisions of the Code and ERISA as currently in effect, and the existing administrative and judicial interpretations relating to those provisions. No assurance can be given that administrative, judicial or legislative changes will not occur that may make the foregoing statements incorrect or incomplete.

Conflicts of Interest

The Advisor is subject to material conflicts of interest in managing the Feeder Funds.

(i) Other Clients of the Advisor

The Advisor devotes as much of its time and effort to the affairs of the Feeder Funds as may, in its judgment, be necessary to accomplish the investment objectives of those Funds. The Management Agreement specifically provides that the Advisor and its principals, members, directors, officers and employees, and their respective affiliates (the “Diamondback Parties”), may conduct any other business including any business within the securities or private investment fund industry. As noted elsewhere in this document, the Advisor serves as investment manager for the Feeder Funds, which invest substantially all of their assets in the Master Fund. Any Diamondback Party may also serve as investment manager to other entities, accounts, or investors and may conduct investment activities for their own accounts (those accounts are collectively referred to as the “Other Clients”).

The Diamondback Parties may have conflicts of interest in allocating their time and activity between the Feeder Funds and Other Clients, in allocating investments among the Feeder Funds and between the Feeder Funds and Other Clients, and in effecting transactions for the Feeder Funds and Other Clients, including transactions in which certain Diamondback Parties may have a greater financial interest. The Other Clients may have investment objectives or may implement investment strategies similar to those of the Feeder Funds and may invest in the same or similar positions as the Master Fund. The Diamondback Parties may give advice or take action with respect to the Other Clients that differs from the advice they give or actions they take with respect to the Master Fund.

Purchase and sale transactions (including swap transactions) may be effected between the Master Fund and Other Clients subject to the following guidelines: (i) the transactions will be effected for consideration at current market prices; (ii) no brokerage commission or fee (except for customary transfer fees or commissions) or other remuneration will be paid in connection with the transaction; and (iii) the transaction will comply with applicable law.

In the event that the Advisor organizes other accounts (each, an “Other Parallel Account”) to be managed alongside the Master Fund (or another Fund) with investment strategies substantially similar to one or more sector or other portfolios of the type utilized by the Master Fund, the Advisor may have a conflict of interest in managing the Master Fund (or other Fund) and the Other Parallel Accounts. For example, the Advisor may determine, due to market conditions, not to liquidate certain assets held by an Other Parallel Account while simultaneously liquidating the same assets held by the Master Fund (or other Fund). Although the Advisor intends to make investment decisions with respect to the Master Fund based solely on what the Advisor perceives to be in the best interests of the Master Fund, the Advisor may nevertheless implement policies and procedures designed to limit potential conflicts, which policies may result in the Master Fund not purchasing or liquidating assets at a time it might otherwise do so (for example, if the policies require a *pro rata* allocation of available positions among the Master Fund’s investors, and the Feeder Fund’s *pro rata* amount, together with such Other Parallel Accounts’, was not the full amount which the Advisor would otherwise have purchased or liquidated for that Fund).

The Advisor may recommend that the Master Fund purchase or sell an investment that is being sold or purchased, respectively, at the same time by the Advisor, a Diamondback Party or an Other Client (including an Other Parallel Account) or another investment fund advised by the Advisor.

(ii) Valuation Policies

Although the Master Fund's portfolio typically is valued based on pricing information from independent sources such as brokers, the Master Fund is entitled to rely on pricing information from the Advisor. Because the Advisor is eligible to receive incentive fees (or incentive allocations) consisting of a percentage of new appreciation in the value of shares (or interests) which includes unrealized gains allocable to an investor's shares (or interests), the Advisor's involvement in the valuation of the Master Fund's portfolio may present a potential conflict of interest. Furthermore, higher valuations would improve the apparent performance of the Master Fund.

The Advisor determines the fair market value of the assets and liabilities of the Master Fund. The Advisor generally determines the value of the Master Fund's investments to the extent possible based on quotes provided by brokers and other independent third-party pricing sources. However, the Advisor is authorized, but not required, to use its own valuations, rather than quotes supplied by independent pricing sources, if the Advisor believes that its valuations are more accurate.

The Master Fund's less liquid investments may not have a readily-determinable market value. The Advisor will value these positions using internal Advisor-provided models, independent valuation consultants as well as the Advisor's market judgment, and will have the same conflict of interest in doing so as described in the preceding paragraph.

No Fund has retained a third-party service provider to conduct an independent verification of the Advisor's "marks" or of a Fund's overall valuations.

(iii) Incentive Fee

The allocation of a percentage of new appreciation to the Advisor may create an incentive for the Advisor to cause the Master Fund to make investments that are riskier or more speculative than would be the case if this allocation were not made. Similarly, the performance-based compensation that is generally payable to Portfolio Managers may create an incentive for the Portfolio Managers to make investments that are riskier or more speculative than would be the case if the Portfolio Managers were not compensated in this manner.

The incentive fee (or incentive allocation) is calculated quarterly, rather than annually. The more frequent calculation of the incentive fee (or incentive allocation) payable by a Feeder Fund may provide added incentive for the Advisor to invest in a more speculative fashion than it otherwise would.

(iv) “Soft Dollars”

The Advisor utilizes “soft dollars” to pay for certain products or services (see also Item 12). Research services obtained from the commissions arising from the Master Fund’s portfolio transactions may be used by the Advisor in its other investment activities. The Master Fund may not, in any particular instance, be the direct or indirect beneficiary of the research services so provided. Additionally, the Affiliated Sub-Advisors and the Advisor may transfer or exchange soft dollar credits between or among themselves. As a result, commissions generated by the trading of a particular Affiliated Sub-Advisor on behalf of the Master Fund or the FI Master Fund may be used to obtain products and services used by another Affiliated Sub-Advisor or the Advisor, and trading by the Advisor on behalf of the Master Fund or the FI Master Fund may be used to obtain products or services used by an Affiliated Sub-Advisor. The Master Fund may also enter into arrangements under which certain direct expenses of that Fund may be paid with or from “soft dollar” credits from brokers. While the Advisor believes these arrangements are generally favorable to the Funds, the costs of the products and services in question are less transparent than would be the case if they were paid directly.

(v) Trade Errors

The Advisor will from time to time make trade errors in managing the Master Fund’s portfolio. Trade errors are not errors in judgment, strategy, market analysis, economic outlook, etc., but rather errors in implementing specific trades that the Advisor has determined (rightly or wrongly) to make for the Master Fund. Examples of trade errors would be: buying 10,000 shares of an issue rather than the 1,000 that was intended; or taking a long rather than the intended short position in a particular issue. Trade errors can result from clerical mistakes, miscommunications between the Advisor’s personnel and other reasons. Trade errors are not the function of poor strategies, inaccurate valuation models, economic expectations, undue speculation, unauthorized trades or the like, but rather of the incorrect implementation of specific trades which the Advisor had decided to make.

The Advisor determines whether to have the costs arising from trade errors borne by the Master Fund or the Advisor by applying the same standard of liability which would apply to any other action or omission by the Advisor in the course of such management. See also Item 8 above, Risk of Litigation and Regulatory / Investigatory Proceedings; Limitation on Liabilities.

The Advisor itself determines in good faith whether or not a given trade error is required to be reimbursed under the general liability and exculpation standards applicable to the Master Fund. The Advisor has a conflict of interest in determining whether a trade error has occurred, as well as whether the costs of such trade error should be for the account of the Master Fund or the Advisor.

Trade error costs can be significant — including market losses resulting from the position incorrectly acquired as well as the additional brokerage costs of closing out or reversing the error.

The opportunity cost (lost profits) of not having made the trade intended to be made is not considered a trade error cost.

Any gains recognized on trade errors will be for the benefit of the Master Fund; none will be retained by the Advisor.

(vi) “Cross Trades”

The Advisor may cause the Master Fund to purchase securities from or sell securities to one or more Other Clients when the Advisor believes these transactions are in the interests both of the Master Fund and the Other Clients. The Advisor will receive no compensation from or for causing a Fund to engage in any “cross-trades.”

(vii) Principal Trades

The Advisor may cause the Master Fund to purchase securities from or sell securities to the Diamondback Parties if the Advisor believes the transactions are in the best interests of that Fund. All of these principal trades require the consent of an investor representative under the U.S. Investment Advisers Act of 1940, as amended (the “Advisers Act”). In analyzing these principal trades, the Advisor has a conflict between acting in the best interests of the Master Fund and assisting itself or an affiliate by purchasing or selling a particular security from the Master Fund.

(viii) Miscellaneous

Other present and future activities of the Advisor may give rise to additional conflicts of interest.

By acquiring shares or interests, as the case may be, in the Feeder Funds, each investor will be deemed to have acknowledged the existence of the actual or potential conflicts of interest disclosed in this document and the Feeder Funds’ confidential offering documents and to have waived any claim with respect to any liability arising from the existence of any of these conflicts of interest.

Item 9. Disciplinary Information.

Between August 2005 and October 2005, Diamondback Capital Management, LLC violated Rule 105 of Regulation M on four occasions. On each occasion, in connection with a follow-on offering, it sold securities short within five (5) business days before the pricing of the offering, and covered the short sale, in whole or in part, with shares purchased in the offering.

The SEC agreed to Diamondback Capital Management, LLC's offer to settle by ordering it to cease and desist from committing or causing any violations of Rule 105 of Regulation M. Diamondback Capital Management, LLC was censured and agreed to pay disgorgement of \$94,014, pre-judgment interests of \$21,154, and a civil penalty of \$47,007, for a total of \$162,175. Diamondback Capital Management, LLC consented to the issuance of the order without admitting or denying the SEC's findings and, within ten (10) days of the entry of the order, paid the full amount by sending to the SEC a bank check on February 25, 2009.

Item 10. Other Financial Industry Activities and Affiliations.

The managing member of the Advisor, DBCM Partners, LLC, and the General Partner of the Onshore Fund are both affiliates of the Advisor. They possess the flexibility to create other pooled investment vehicles, choose to hire the Advisor to provide investment advisory services or choose other advisers to manage assets of the Funds. As part of its business plan, the Advisor will create sub-advisory business units as needed due to expansion into other regions of the United States and abroad. On December 1, 2007, DANY opened in New York, NY. The Advisor entered into a sub-advisory agreement with DACT which became effective on January 1, 2008. On September 1, 2008, HWCW opened in Stamford, CT.

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

The General Partner is responsible for all decisions concerning the operations of the Onshore Fund, and the Advisor is responsible for managing the Feeder Funds' portfolio and the Master Fund's portfolios. The Feeder Funds and the Master Fund together comprise a "master-feeder" structure through which the Feeder Funds' investments are acquired by investing substantially all of their assets in the Master Fund. The General Partner currently maintains an investment in the Onshore Fund.

The Advisor and its principals and employees may, from time to time, engage in activities, including financial advisory activities, that are independent from, and may, from time to time, conflict with those of the Funds. When the Advisor determines that it would be appropriate for more than one of the Funds or other accounts it manages to participate in an investment opportunity, the Advisor will seek to execute orders for all of the participating accounts in a manner it considers fair, reasonable and equitable.

In addition, situations may occur where one or more of the Funds could be disadvantaged because of various activities conducted by the Advisor. These situations may be based on, among other things, the flexibility of the Advisor's principals and employees to participate in an investment opportunity in a company for which the Advisor or its principals may possess non-public information. To avoid any potential conflicts of interest involving the misuse of material, non-public information or personal trading for the benefit of the Advisor or its principals and employees, the Advisor has adopted a written Code of Ethics ("Code") intended to address and avoid potential conflicts of interest as required by Rule 204A-1, promulgated under the Advisers Act.

Rule 204A-1 requires the Advisor to adopt a written code of ethics that sets forth a standard of business conduct and compliance with federal securities laws by all of its employees. The Code contains policies and procedures intended to ensure that personal securities trading by employees of the Advisor is conducted in such a manner as to avoid actual or potential conflicts of interest or any abuse of an individual's position of trust and responsibility. The Code permits an employee to trade a security in which the Master Fund has an interest only with the prior written approval of the employee's supervisor and the Advisor's Compliance Department. More generally, the Code requires pre-clearance before an employee is permitted to purchase (or sell) any security (including any derivative security) of a publicly traded company. The Code also prohibits an employee from participating in a private placement, and requires periodic reporting of employees' personal securities transactions and holdings. In addition, the Code prohibits any employee from giving to, or receiving from, any person or firm with whom the Advisor transacts business a gift with a value greater than \$100. Finally, the Code requires prompt internal reporting of violations of the Code.

If requested, the Advisor will provide to any client or prospective client, at no cost, a copy of its Code of Ethics. Please feel free to contact the Advisor's Compliance Department by telephone at (203) 399-1600 or compliance@diamondbackcap.com should you have any questions concerning the Code.

Item 12. Brokerage Practices.

A. Broker / Counterparty Selection

The Advisor has no internal brokerage allocation requirements designating specific percentages of brokerage commissions to particular firms. It is the Advisor's policy to select brokers or counterparties (as defined below) to execute transactions in a manner that is consistent with the best interests of the Funds and to employ trading processes that attempt to maximize the value of a Fund's portfolio within the Fund's stated investment objectives and constraints.

The Advisor's senior personnel involved in order execution are responsible for carrying out these responsibilities. These staff members evaluate sufficient factors to support making a reasonable assessment of the broker-dealer's or counterparty's likely performance, considering, as deemed appropriate, the factors listed below and / or other comparable factors. Please note that the factors identified below are intended to be illustrative rather than exclusive; all or even a majority of the factors may not be relevant in evaluating a particular broker-dealer or counterparty, and a broker or counterparty will not be excluded from receiving business because it has not been identified as satisfying a particular factor or factors below. Further, one trader may weigh these and other factors differently from another trader in determining which executing broker and / or counterparty may offer best execution for a particular transaction, series of transactions, or type of transaction. As a result, it is possible that one trader may consider using a broker or counterparty for a particular type of transaction while another trader would not consider using the same broker or executing counterparty for the same or similar types of transactions. Moreover, some of these factors will be more relevant to certain types of securities, or orders, or in certain circumstances.

Trading expertise. The ability of the broker or counterparty to:

- complete trades;
- execute and settle difficult trades (e.g., large or small trades);
- obtain liquidity to minimize market impact and accommodate unusual market conditions;
- maintain anonymity; and
- account for its own trade errors and correct them in a satisfactory manner.

Infrastructure and Financial Strength / Stability. The infrastructure and financial background of the broker or counterparty, including its or their:

- order-entry systems;
- adequate lines of communication;
- timely order execution reports;
- the efficiency and accuracy of the clearance and settlement process;
- creditworthiness; and
- capacity to accommodate unusual trading volume.

Ability to minimize trading costs. The ability of the broker or counterparty to minimize total trading costs while maintaining its financial health, such as whether they can:

- maintain and commit adequate capital when necessary to complete trades;
- respond during volatile market periods; and
- minimize the number of incomplete trades.

Ability to provide research and execution services. The broker's or counterparty's ability to provide research and execution services, including:

- advice as to the value or advisability of investing in or selling securities;
- analyses and reports concerning matters such as companies, industries, economic trends and political factors;
- providing access to offerings or investment opportunities; or
- services incidental to executing securities trades, including clearance, settlement and custody.

Ability to accommodate special transaction needs. The broker's or counterparty's ability to provide services to accommodate special transaction needs, such as the ability to:

- execute and account for soft dollar arrangements;
- participate in underwriting syndicates; and
- obtain initial public offering shares.

Several of the factors listed above have been and will continue to be relevant to the process by which the Advisor selects brokers to implement direct market arrangements necessary to effect and support the Advisor's quantitative trading strategies.

With respect to trading in fixed income securities, the Advisor communicates with broker-dealers in a competitive bid and offer process to seek best execution. The Advisor's fixed income trading personnel utilize Bloomberg and other data and information sources to monitor trading level activity and generally utilize proprietary and / or commercially available databases of historical yield-spread histories with which to analyze and compare relative value and identify mispricing opportunities.

Because fixed income trading presents unique challenges, the price of a security or other instrument is the primary criteria used in selecting brokers for fixed income trades. Brokers who exhibit the ability to effect trades that most closely conform to the price expectations of the Advisor's fixed income desks are favored. However, the Advisor also reviews the financial information of a proposed broker to determine whether to permit the addition of that firm to the approved list of brokers and counterparties (discussed generally below) for fixed income securities. In particular, the proposed counterparty's balance sheet generally is reviewed to determine whether there is a net positive equity. Additional criteria and factors may be assessed based on what the Advisor learns regarding the financial profile of the proposed counterparty.

Generally, in selecting counterparties to execute transactions, the Advisor will consider the same selection criteria set forth above for broker-dealers and make reasonable inquiries into the counterparty's financial condition to prevent jeopardizing Master Fund assets. For purposes of this document, the term "counterparties" means entities that are used to buy and / or sell financial instruments in transactions that have non-standard settlement periods. Transactions in repurchase agreements, reverse repurchase agreements, dollar rolls, stock borrowing, stock lending, futures contracts (exchanges involved), currency forwards, bond forwards, options, and swaps typically involve the use of "counterparties."

The Advisor need not solicit competitive bids when selecting brokers and counterparties, and does not have an obligation to seek the lowest available commission cost, although the Advisor will make a good faith determination that the amount of commissions paid is reasonable in light of the products or services provided by a broker. Commission rates are generally negotiable and selecting brokers and counterparties on the basis of considerations that are not limited to the applicable commission rates may result in higher transaction costs than would otherwise be obtainable.

The Advisor maintains an approved list of broker-dealers and counterparties (including futures commission merchants) through which the Advisor effects transactions. In considering whether to add a particular broker-dealer or counterparty to the approved list, senior trading staff and representatives of the Advisor's Risk Management and Compliance groups review the proposed relationship. The execution quality of brokers and counterparties on the approved list is assessed quarterly by the Advisor's Execution Committee.

B. Soft Dollars

The Advisor intends to utilize "soft dollars" to pay only for research and brokerage products or services that it reasonably believes satisfy the definition of "research" or "brokerage" under Section 28(e). Section 28(e) is a "safe harbor" that permits an investment advisor to use commissions or "soft dollars" to obtain certain research and brokerage services in connection with the investment decision-making process. Under Section 28(e), research obtained with "soft dollar" credits generated by the Master Fund may be used by the Advisor to service accounts other than the Feeder Fund accounts. Where a product or service provides both research and non-research assistance to the Advisor, a portion of the cost of the product or service, based upon a reasonable allocation between the two types of uses, may be paid for with "soft dollars."

Research services within Section 28(e) may include, but are not limited to: research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts, including legal analysts and advice to the extent that the legal advice relates to a particular investment or investment strategy (e.g., legal advice relating to the possibility that legal anti-trust issues could impact a proposed merger arbitrage trade or the likelihood of success of litigation by third parties against a company in which the Master Fund has invested); meetings with corporate executives; consultants' advice on portfolio strategy; data services (including services providing market data, company financial data

and economic data); advice from brokers on order execution; and certain proxy services. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an Advisor and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self-regulatory organization such as comparison services, electronic confirms or trade affirmations.

The Advisor may engage non-discretionary third-party consultants for the use of proprietary software, research or other services. Any compensation to these consultants based on the success of their ideas and certain operating expenses related to these relationships may be paid directly by the Master Fund or Feeder Funds or with “soft dollars.”

Research and brokerage services obtained by the use of commissions arising from the Master Fund’s portfolio transactions may be used by the Advisor in its other investment activities. The Master Fund may not necessarily, in any particular instance, be the direct or indirect beneficiary of the research or brokerage services provided in consideration of the “soft dollars” generated by the Master Fund’s trading.

The Master Fund may, but is not obligated to, enter into arrangements under which certain direct expenses of the Master Fund may be paid for with “soft dollar” credits from brokers. For the avoidance of doubt, the Master Fund’s brokers may pay expenses on the Master Fund’s behalf that are billed to the Master Fund. The Advisor will enter into such arrangements where it believes it is administratively or operationally expedient to do so or where they are more favorable to the Master Fund and Feeder Funds than an arrangement under which the products or services in question are paid for with cash. However, these arrangements make it more difficult for investors to evaluate the cost structure of the Funds because the costs of the products or services are not broken out separately.

The Advisor has currently delegated certain of its duties, including the authorizations and responsibilities described in the confidential offering documents of each Feeder Fund, to its three Affiliated Sub-Advisors. The Affiliated Sub-Advisors therefore have the authority to select brokers or dealers on behalf of the Funds, maintain accounts on behalf of those entities, and to accrue and use “soft dollars” as described in the confidential offering documents for each Feeder Fund.

As noted above, the Advisor generally intends to enter into “soft dollar” arrangements that are within the safe harbor established by Section 28(e) (i.e., the Advisor intends to use “soft dollar” credits only to pay for items that constitute “research” or “brokerage” under Section 28(e)). However, certain aspects of the “soft dollar” arrangements entered into by the Advisor may fall outside of Section 28(e). For example, the Affiliated Sub-Advisors and the Advisor may transfer or exchange “soft dollar” credits between and among themselves. As a result, commissions generated

by the trading of a particular Affiliated Sub-Advisor on behalf of the Master Fund or the FI Master Fund may be used to obtain products and services used by another Affiliated Sub-Advisor or the Advisor, and trading by the Advisor on behalf of the Master Fund or the FI Master Fund may be used to obtain research and brokerage services used by an Affiliated Sub-Advisor. Because the Advisor and the Affiliated Sub-Advisors accrue “soft dollar” credits by serving the same accounts (i.e., the Master Fund and the FI Master Fund), the Advisor views the ability of the Affiliated Sub-Advisors to transfer “soft dollar” credits between and among themselves as being substantially similar to the substantive result if the Advisor provided the same services and accrued the “soft dollar” credits without the use of the Affiliated Sub-Advisors.

In some cases, at the end of a calendar year, certain brokers may provide a cash refund of unused “soft dollar” credits. In this event the Advisor intends to credit the refund to the Feeder Funds pro rata in accordance with their respective net asset values.

From time to time, the Advisor's personnel may speak at conferences and programs which are sponsored by the Prime Brokers for potential investors interested in investing in hedge funds. These conferences and programs may be a means by which the Advisor can be introduced to potential investors in the Feeder Funds. Currently, neither the Advisor nor the Feeder Funds compensate the Prime Brokers specifically for organizing “capital introduction” events or for any investments ultimately made by prospective investors attending those events (although either may do so in the future). While those events and other services provided by a Prime Broker may influence the Advisor in deciding whether to use the Prime Broker in connection with brokerage, financing and other activities of the Funds, the Advisor will not commit to allocate a particular amount of brokerage to a broker-dealer in any such situation.

C. Trade Aggregation

When appropriate, the Advisor may, but is not required to, aggregate orders to achieve more efficient execution or to provide for equitable treatment among accounts. Please note that the Advisor may decide not to aggregate trades when it otherwise has the opportunity to do so; where this occurs, it is possible that the Master Fund will pay higher brokerage costs. Funds participating in aggregated trades will be allocated securities based on the average price achieved for those trades.

Item 13. Review of Accounts.

The Advisor's co-Chief Investment Officers (the "co-CIOs") allocate capital only to experienced investment management staff; each employee who has trading discretion reports directly either to one of the co-CIOs or to an experienced portfolio manager. The Advisor also employs a risk manager for equity trading and a separate risk manager for fixed income trading. The equity risk manager and the fixed income risk manager report to the Chief Operating Officer (the "COO"), and each has his own staff. In general terms, the risk managers measure, monitor, and report the exposure(s) and profit-and-loss of each account for which trading discretion is exercised. Information from the risk managers is reported to the co-CIOs and COO on a daily basis, and there are meetings of the Investment Risk Committee, generally at least quarterly, involving the co-CIOs and led by the risk managers.

Item 14. Client Referrals and Other Compensation.

Neither the Advisor nor any Fund is a party to a solicitation agreement whereby the Advisor or a Fund compensates a third-party for referring potential investors to the Advisor. As noted elsewhere in this document, from time to time, the Advisor's personnel may speak at conferences and programs which are sponsored by the Prime Brokers (as defined in this document) for potential investors interested in investing in hedge funds. These conferences and programs may be a means by which the Advisor can be introduced to potential investors in the Feeder Funds. Currently, neither the Advisor nor the Feeder Funds compensate the Prime Brokers specifically for organizing these "capital introduction" events or for any investments ultimately made by prospective investors attending those events (although either may do so in the future). While those events and other services provided by a Prime Broker may influence the Advisor in deciding whether to use the Prime Broker in connection with brokerage, financing and other activities of the Funds, the Advisor will not commit to allocate a particular amount of brokerage to a broker-dealer in any such situation.

Item 15. Custody.

The Master Funds' prime brokers are Credit Suisse Securities (USA) LLC, J.P. Morgan Clearing Corp., Goldman, Sachs & Co., Inc. and Morgan Stanley & Co. Incorporated (collectively, the "Prime Brokers"). Accordingly, the Master Funds maintain accounts at the Prime Brokers in the Master Fund's or FI Master Fund's name, as the case may be, through which the Master Fund and the FI Master Fund execute trades, borrow funds in connection with trades, clear and settle their securities transactions, and maintain custody of their securities. The Feeder Funds' unencumbered cash and securities are held in a custodial account at the Bank of New York Mellon Corp., One Wall Street, New York, NY 10286 U.S.A. (the "Custodian"), and at certain U.S. trust bank affiliates of the Prime Brokers. The Custodian and certain U.S. trust bank affiliates of the Prime Brokers also hold certain collateral of the Master Funds and some of their respective counterparties with respect to certain of the Master Funds' OTC trades. The Master Funds reserve the right to change their brokerage and custodial arrangements (including using additional prime brokers and custodians or terminating the services of any of the Prime Brokers) without prior notice to and without the consent of investors.

The Funds also distribute audited financial statements within 120 days of the end of their fiscal year to their investors, thereby satisfying the custody rules under the Advisers Act

In addition, the Administrator, a third-party not affiliated with the Advisor, is required to provide investors in the Feeder Funds directly with periodic account statements. Investors in the Feeder Funds should carefully review the account statements they receive from the Administrator. In addition, the Advisor urges investors to compare the account statements they receive from the Administrator with any statements they receive from the Advisor.

Item 16. Investment Discretion.

The Advisor, or an Affiliated Sub-Advisor, buys and sells securities and other instruments for the Feeder Funds through the Master Fund on a discretionary basis in a manner consistent with each Feeder Fund's investment objectives and restrictions, as set forth in the confidential offering memorandum of each Feeder Fund. Any further references to the Advisor in this Item 16 should be deemed to include the Affiliated Sub-Advisors, to whom the Advisor has delegated investment and brokerage discretion, unless explicitly stated otherwise.

The Advisor is authorized to make the following determinations in accordance with each Feeder Fund's objectives and restrictions without obtaining prior consent from the Feeder Funds or their investors: (1) determining which securities or instruments to buy or sell; (2) determining total amount of securities or instruments to buy or sell; (3) selecting the executing broker or dealer for any transaction; and (4) negotiating the commission rates or commission equivalents charged for transactions.

The Advisor is authorized to determine the broker or dealer to be used for each securities transaction on behalf of the Master Fund. The Advisor seeks to obtain the best execution regarding brokerage commissions in securities transactions for the Master Fund. The response to Item 12 includes a non-exhaustive list of criteria the Advisor considers in selecting brokers and counterparties. Also as mentioned in the response to that Item, the Advisor need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost, although the Advisor will make a good faith determination that the amount of commissions paid is reasonable in light of the products or services provided by a broker. Commission rates are generally negotiable and selecting brokers on the basis of considerations that are not limited to the applicable commission rates may result in higher transaction costs than would otherwise be obtainable.

As mentioned elsewhere in this document, the Prime Brokers may introduce investors or potential investors in the Feeder Funds to the Advisor (and those brokerage firms may in turn compensate their employees as a result).

As mentioned in response to Item 15, the Master Funds maintain accounts at the Prime Brokers in the Master Fund's or FI Master Fund's name, as the case may be, through which the Master Fund and the FI Master Fund execute trades, borrow funds in connection with trades, clear and settle their securities transactions, and maintain custody of their securities. The Feeder Funds' unencumbered cash and securities are held in a custodial account at the Custodian, and at certain U.S. trust bank affiliates of the Prime Brokers. The Custodian and certain U.S. trust bank affiliates of the Prime Brokers also hold certain collateral of the Master Funds and some of their respective counterparties with respect to certain of the Master Funds' OTC trades. The Master Funds reserve the right to change their brokerage and custodial arrangements (including using additional prime brokers and custodians or terminating the services of any of the Prime Brokers) without prior notice to and without the consent of investors.

Item 17. Voting Client Securities.

Proxy Voting

The Advisor provides investment advisory services to and invests the assets of the Master Fund in securities issued by public and private issuers. The Advisor has authority to vote proxies relating to those securities on behalf of the Master Fund. The Advisor's general policy is to vote proxy proposals, amendments, consents or resolutions relating to client securities, including interests in private investment funds, if any (collectively, "proxies"), in a manner that serves the best interests of the Master Fund, as determined by the Advisor in its discretion, and taking into account relevant factors, including, but not limited to: the impact on the value of the securities; the anticipated costs and benefits associated with the proposal; the effect on liquidity; and customary industry and business practices. The Advisor generally defers to a proxy voting service, RMG/ISS Governance Services, an independent proxy voting service, with respect to vote recommendations. The Advisor has engaged RMG/ISS Governance Services to vote proxies for the Master Fund on the Advisor's behalf. RMG/ISS Governance Services provides the Advisor with proxy analysis and voting recommendations; quarterly reports indicating how individual votes have been cast; and vote execution according to RMG/ISS Governance Services's guidelines which reflect the Advisor's general policy to vote proxies in the best interests of the Funds. Proxy voting will generally be carried out by the Advisor at the Master Fund level. However, in instances where redemptions (or withdrawals) are made in-kind, it is possible that the Advisor may still be the record owner of the securities, and, accordingly, may still retain the authority to exercise voting discretion over those securities.

Clients may request a copy of the proxy voting policy or information with respect to a specific client proxy vote, at no cost. Please feel free to contact the Advisor's Compliance Department at (203) 399-1600, or by e-mail, at compliance@diamondbackcap.com.

Class Action Administration

In addition to voting proxies, the Advisor may participate in class actions involving issuers in which the Master Fund held positions in during the relevant class period. The Advisor has engaged Class Action Services, LLC, dba Battea, to track securities class actions and file proofs of claim on behalf of the Master Fund.

Item 18. Financial Information.

As of the date of this document, and to the knowledge of the Advisor, no financial condition exists that would be reasonably likely to impair the Advisor's ability to meet its contractual commitments to the Funds.