

**ITEM 1**

**COVER PAGE**

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**PART 2A OF FORM ADV: FIRM BROCHURE**

**GLG Inc.**

December 20, 2013

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GLG Inc.

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This brochure (this "Brochure") provides information about the qualifications and business practices of GLG Inc. If you have any questions about the contents of this Brochure, please contact us at (212) 649-6800 and/or [compny@man.com](mailto:compny@man.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

*GLG Inc. is registered as an investment adviser with the SEC. Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.*

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

## **ITEM 2**

### **MATERIAL CHANGES**

The Registrant's last annual update to its Brochure was dated March 28, 2013. The Registrant has made a material change to Item 9 of this Brochure for this update. Clients and prospective clients should review the Brochure carefully.

## ITEM 3

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## ITEM 4

### ADVISORY BUSINESS

#### A. General Description of Advisory Firm

GLG Inc., a Delaware corporation with an office in New York City (the "Registrant"), was established in April 2000, and provides advisory or sub-advisory services to U.S. or non-U.S., investment management companies, managed accounts, registered investment companies or pooled investment vehicles on either a discretionary or non-discretionary basis. The Registrant provides discretionary or non-discretionary investment advice and/or management services according to the stated investment objectives, restrictions and policies of each client. The principal owner of the Registrant is GLG Holdings, Inc. which is ultimately owned by Man Group plc, which is listed on the London Stock Exchange and is a component of the FTSE 250 Index. Man Group plc, through its investment management subsidiaries (collectively, "Man"), is a global alternative investment management business and provides a range of fund products and investment management services for institutional and private investors globally. As of December 31, 2012, Man has approximately \$57 billion of funds under management.

The Registrant has full discretionary advisory investment management authority with respect to investment decisions for pooled investment vehicles, including other private funds (the "GLG Inc. Funds") and a registered investment company (a "Registered Fund") that is registered as an investment company under the Investment Company Act of 1940, as amended (the "Company Act") and managed accounts. The Registrant's advice with respect to the GLG Inc. Funds and the managed accounts is made in accordance with the investment objectives and guidelines as set forth in the applicable GLG Inc. Fund's offering memorandum or the managed account's investment management agreement.

As part of its services, the Registrant provides discretionary sub-advisory investment management, research, trading, and related services to GLG Partners LP, an English limited partnership ("GLG-LP"). The Registrant is an affiliate of GLG-LP, which is located in London, England and is an investment adviser registered with the SEC and is authorized and regulated by the Financial Services Authority in the United Kingdom. In connection with the discretionary sub-advisory investment management responsibilities, the Registrant sub-advises on certain pooled investment vehicles (the "GLG Funds" and collectively with the GLG Inc. Funds and Registered Fund, the "Funds") and managed accounts for which GLG-LP serves as investment manager. The GLG Funds are organized under the laws of jurisdictions other than the United States, and shares in the GLG Funds are generally offered to persons who are not "U.S. Persons" (as defined under Regulation S of the U.S. Securities Act of 1933, as amended (the "Securities Act")).

As used herein, the term "client" generally refers to each Fund and each beneficial owner of a managed account.

The Registrant does not have discretionary authority with respect to all client accounts. However, with respect to non-discretionary accounts, the Registrant does have ongoing responsibility to select or make recommendations, based upon the needs of the client, as to specific securities or other investments the account may purchase or sell and, if such recommendations are accepted by the client, the Registrant is responsible for arranging or effecting the purchase or sale.

The Registrant may utilize the investment management, research, operational, risk management, trading, proxy voting, soft dollar/commission management, information technology and other capabilities of GLG-LP in providing services to its clients.

## **B. Description of Advisory Services**

Please see Item 8 herein.

*This Brochure generally includes information about the Registrant and its relationships with its clients and affiliates. While much of this Brochure applies to all such clients and affiliates, certain information included herein applies to specific clients or affiliates only.*

*This Brochure does not constitute an offer to sell or solicitation of an offer to buy any securities. The securities of the Funds are offered and sold on a private placement basis under exemptions promulgated under the Securities Act of 1933, as amended (the "Securities Act"), and other exemptions of similar import under U.S. state laws and the laws of other jurisdictions where any offering may be made. Shares in the non-US Funds are generally offered on a private placement basis to U.S. tax-exempt entities, and in accordance with Regulation S of the Securities Act with respect to non-U.S. persons, and subject to certain other conditions, which are fully set forth in the offering documents for the non-US Funds. The interests in the US Funds are offered on a private placement basis, pursuant to Section 3(c)(7) of the Company Act, to persons who are "accredited investors" as defined under the Securities Act and "qualified purchasers" as defined under the Company Act, and subject to certain other conditions, which are set forth in the offering documents for the US Funds. Persons reviewing this Brochure should not construe this as an offer to sell or solicitation of an offer to buy the securities of any of the Funds described herein. Any such offer or solicitation will be made only by means of a confidential private placement memorandum.*

## **C. Availability of Customized Services for Individual Clients**

The Registrant's investment decisions and advice with respect to each Fund are subject to the Fund's investment objectives and guidelines, as set forth in its offering documents. Similarly, the Registrant's investment decisions and advice with respect to each managed account are subject to each client's investment objectives and guidelines, as set forth in the client's investment management agreement, as well as any written instructions provided by the beneficial owner to the Registrant.

A Fund may issue other classes, sub-classes, tranches, sub-tranches and/or series (or sub-series) of shares or interests, as applicable, in the future (or enter into "side letter" agreements with certain investor(s) that alter, modify or change the terms of the shares or interests, as applicable, held by the investor(s)), which may differ and may be more favorable from the shares or interests, as applicable, currently offered by the Fund in terms of, among other things, the performance compensation, the management fee, redemption rights (including redemption dates and notice periods), currency denomination, minimum and additional subscription amounts, informational rights and other rights. New classes, sub-classes, tranches, sub-tranches and/or series (or sub-series) of shares or interests, as applicable, may be issued (or "side letter" agreements may be entered into) by a Fund's board of directors, in its sole discretion, on behalf of the Fund, in consultation with the Registrant, in the case of a Fund that is organized in a non-US jurisdiction (a "non-US Fund"), or by the Registrant or its affiliate, in the case of a Fund that is organized as a Delaware entity (a "US Fund"), without providing prior notice to, or receiving consent from, existing investors. The terms of such classes, sub-classes, tranches, sub-tranches and/or series (or sub-series) or "side letter" agreements will be determined by the board of directors, in its sole discretion, in consultation with the Registrant, in the case of a non-US Fund, or by the Registrant or its affiliate, in the case of a US Fund. In general, a Fund will not be required to notify investors of any such "side letter" agreements or any of the rights and/or terms or provisions thereof, nor will a Fund be required to offer such additional and/or different rights and/or terms to any or all of the other investors.

**D. Wrap Fee Programs**

The Registrant does not participate in wrap fee programs.

**E. Assets Under Management**

The Registrant manages approximately \$4.952 billion in regulatory assets under management on a discretionary basis and \$57 million on a non-discretionary basis as of December 31, 2012.



## ITEM 5

### FEES AND COMPENSATION

The Registrant does not maintain a basic fee schedule. Fees for each client are determined on a case-by-case basis. In general, the following is a description of the types of fees the Registrant charges its clients:

#### A. Advisory Fees and Compensation

##### 1. GLG Funds

As agreed upon with GLG-LP, the Registrant receives payment for the sub-advisory services it provides to the GLG Funds. Investors in the GLG Funds are not additionally charged for these fees.

Fees charged to the GLG Funds are fully described in the respective GLG Funds' offering document. Generally, with respect to the GLG Funds, GLG-LP or its affiliates (i) charge a monthly management fee in arrears at annualized rates generally ranging from 0.5% to 2.75%, and (ii) charge performance fees generally 20% of net profits calculated and payable semi-annually. The specific level of fees depends upon various factors, including the availability of certain share classes, which may be closed to new investors.

Certain share classes of the GLG Funds charge performance fees on a class-by-class (or series-by-series) basis in order to maintain a single net asset value per share within each class (or series, as applicable). In general, this calculation is effected by taking the aggregate amount of appreciation in net asset value with respect to all shares within a class or series, as applicable, for the relevant performance period, and then charging a performance fee generally 20% of such aggregate amount of appreciation to the class or series, as applicable, as a whole. This means that, where a performance fee is payable in respect of a class or series, as applicable, the net asset value per share of all shares in that class or series, as applicable, is reduced equally to reflect the payment of the per share average of the aggregate performance fee for the class or series, as applicable, as a whole, and not the individual performance of those shares, during the relevant performance period. Since the net asset value per share of all shares within such class is reduced to reflect the payment of the performance fee attributable to such class or series, as applicable, it is possible that (a) the net asset value of the shares in such class or series, as applicable, that are held by an investor may reflect the payment of a performance fee even though the net asset value of such shares experienced no appreciation or even depreciated during the relevant period, and (b) the net asset value of shares held by an investor may bear a disproportionate amount of the performance fee relative to the actual appreciation that such shares experienced during the relevant period. In these cases, the performance fee attributable to a share that is redeemed at any time other than at a date as of which the performance fee is calculated (a "Calculation Date") shall be determined separately for the share that is being redeemed. Accordingly, when a share is redeemed at any time other than at a Calculation Date: (i) the performance fee attributable to such share could be different from the performance fee

that would be payable if such share was not redeemed until the Calculation Date; and (ii) the holder redeeming such share would not get the benefit of, or suffer the disadvantage of, the allocation of the performance fee across the class or series, as applicable, as a whole.

In the alternative, certain share classes of the GLG Funds may charge performance fees using the full equalization method, which computes fees on a share-by-share basis so that performance fees are only paid on shares that have appreciated in value during the relevant performance period.

The manager to the GLG Funds also charges an administration fee of up to 0.50% per annum of average net asset value paid monthly. The fees of the administrator and the investment manager for performing administration services are paid out of the administration fee. Certain share classes in the GLG Funds may be subject to distribution fees ranging from 1.0% to 1.25% per annum of the average net asset value paid monthly, which may be used for distribution and sales costs of the shares, including payments to affiliated and/or unaffiliated distributors. The manager to the GLG Funds may from time to time in its sole discretion and out of its own resources decide to rebate to some or all investors or to intermediaries part or all of the management and/or performance fees and/or distribution fees.

Certain share classes may also be subject to up-front sales charges of up to 5% of the initial amount invested, and may be subject to contingent deferred sales charges depending upon the length of time that the shares in the GLG Funds are held as further described in the GLG Fund's offering documents. Sales charges and contingent deferred sales charges may be reduced or waived at the sole discretion of the manager of the GLG Fund. It is not currently intended that the GLG Funds will assess such sales or contingent deferred sales charges although the GLG Funds reserve the right to do so in the future. Certain share classes in the GLG Funds may be subject to redemption fees if the shares are redeemed before certain holding periods have elapsed. These redemption fees may be waived for each investor by the directors of the GLG Fund. Schedules of fees and performance based fees are set forth in the offering document for each of the GLG Funds, which should be consulted by any prospective investor to determine the applicable level of fees or allocations, when fees are paid, and any conditions on redemptions from the GLG Fund.

GLG-LP or its affiliates may also invest GLG Fund assets in investments that charge additional fees or are subject to additional allocations (including other Funds advised by GLG-LP, the Registrant or their affiliates ("Affiliated Funds")). Investors may therefore indirectly bear (i) advisory fees or an allocation (including management, performance, administrative, or other fees or a performance allocation) to GLG-LP or its affiliates and (ii) fees charged by the underlying investment. Investments that charge additional fees may include, but are not limited to, money market funds, short-term investment vehicles, exchange traded funds, pooled investment vehicles, special purpose investment vehicles and alternative investment vehicles. If a GLG Fund invests in any Affiliated Fund, the performance compensation and management fee, but not the administrative fee (if any), will generally be waived by such Affiliated Fund.

## **2. GLG Inc. Funds**

Fees charged and allocations applicable to the GLG Inc. Funds are fully described in the respective GLG Inc. Funds' offering document. Generally, with respect to the GLG Inc. Funds, the Registrant or its affiliates (i) charge a monthly management fee in arrears at an annualized rate which ranges from 1.5% to 2.0%, and (ii) may subject the Fund to an annual performance allocation at a 20% rate subject to a "high water mark" provision. The specific level of the management fee or performance allocation depends upon various factors, including the availability of certain share or interest classes, as applicable, which may be closed to new investors. In the event that an investor withdraws from a capital account in a GLG Inc. Fund or shares are redeemed from a GLG Inc. Fund, as applicable, other than as of the end of a fiscal year, any incentive allocation attributable to that capital account or shares, as applicable, will be determined and allocated as of the withdrawal date or redemption date, as applicable.

Certain GLG Inc. Funds may also be subject to an administration fee payable monthly to the manager of the GLG Inc. Fund, if applicable, of up to 0.50% per annum of average net asset value. The fees of the administrator, the investment manager and the administrator for performing administration services to the applicable GLG Inc. Fund are paid out of the administration fee.

The Registrant or its affiliates, may, in its sole discretion, reduce, waive, rebate or calculate differently the management fee and/or incentive allocation with respect to any investor.

The Registrant may also invest GLG Inc. Fund assets in investments that charge additional fees or are subject to additional allocations (including Affiliated Funds)). Investors may therefore indirectly bear (i) advisory fees or an allocation (including management, performance, administrative, or other fees or a performance allocation) to the Registrant or its affiliates and (ii) fees charged by the underlying investment. Investments that charge additional fees may include, but are not limited to, money market funds, short-term investment vehicles, exchange traded funds, pooled investment vehicles, special purpose investment vehicles and alternative investment vehicles. If the GLG Inc. Fund invests in any Affiliated Fund, the performance compensation and management fee, but not the administrative fee (if any), will generally be waived by such Affiliated Fund.

## **3. The Registered Fund**

Fees charged and allocations applicable to the Registered Fund are fully described in the Registered Fund's offering document. Generally, with respect to the Registered Fund, the Registrant or its affiliates charge a monthly management fee that is accrued daily at an annual rate of 1.25% of the average daily net assets of the Registered Fund. The Registered Fund is not subject to a performance fee or allocation. It should be noted that the Registered Fund announced its liquidation on March 4, 2013.

## **4. Services Provided to Parties Other Than GLG-LP and the GLG Inc. Funds**

The Registrant may provide discretionary or non-discretionary advisory or sub-advisory services to unaffiliated managed accounts or pooled investment vehicles, and the fees

and performance compensation for such services will be negotiated on a case-by-case basis and as such may differ from each other. Depending on the investment strategy, the nature of the account and other factors, the compensation will generally be in the form of an asset based fee and may include a performance-based fee or allocation. Any performance-based compensation will be charged in accordance with Section 205 of the Advisers Act and Rule 205-3 promulgated thereunder.

In addition, managed accounts may incur fees charged by the underlying investments. Investments that charge additional fees may include, but are not limited to, money market funds, short-term investment vehicles, exchange traded funds, pooled investment vehicles, special purpose investment vehicles, alternative investment vehicles, and Affiliated Funds. Generally, the investment management agreements may be terminated by either party in accordance with the terms and notice period described in each managed account's agreement.

## **B. Payment of Fees**

Fees and compensation paid to the Registrant or its affiliates by the Funds or managed accounts that it manages are generally paid by the client from its assets. Management fees are generally paid on either a monthly or quarterly basis in arrears and the performance compensation is generally deducted on a semi-annual basis, in the case of the GLG Funds, or allocated on an annual basis, in the case of the GLG Inc. Funds, or at the time of a redemption or withdrawal, as applicable, or more frequently as agreed with the client. Alternatively, the Registrant may enter into an arrangement with a client where the client pays the Registrant a management fee for investment management services quarterly in arrears.

## **C. Additional Fees and Expenses**

Not all of the Registrant's clients bear all of the expenses set forth below, however the following sets forth the expenses that the Registrant's clients may bear: To the extent permitted under the applicable documents, each client bears its own operating and other expenses and its *pro rata* portion of master fund expenses, if applicable, including, but not limited to, fees paid to administrators; fees paid to custodians; investment-related expenses (*e.g.*, brokerage commissions (see Item 12 for more information on brokerage expenses) and transaction costs, clearing and settlement charges, interest expense, consulting, investment banking and any other professional fees or compensation relating to particular investments or contemplated investments and research-related expenses, including, without limitation, news and quotation equipment and services (including fees for data and software providers)); expenses relating to third-party valuation services; expenses relating to reports provided to members; external legal and compliance expenses (which include, without limitation, responding to formal and informal inquiries, subpoenas, investigations and other regulatory matters, indemnification expenses and expenses associated with regulatory filings relating to the Fund and/or master fund and the master fund's investments, if applicable); external accounting, audit and tax preparation expenses; directors fees; organizational expenses; expenses relating to the offer and sale of

interests and/or shares; entity-level taxes; expenses related to the maintenance of the Fund's registered office; and corporate licensing expenses.

A Fund may also pay certain other costs and expenses incurred in its operation, including without limitation, withholding taxes that may arise on securities, registration fees and other expenses due to regulatory, supervisory or fiscal authorities in various jurisdictions, insurance, promotional and marketing expenses and all professional and other fees and expenses in connection therewith and the cost of publication of the net asset value of the Fund's shares, if applicable.

The Registrant's employees may invest in one or more Affiliated Funds. The Registrant's employees are generally charged a management fee and subject to performance based compensation by these Affiliated Funds subject to the Registrant's right to charge a discounted fee or allocation in its sole discretion.

Each managed account may bear certain of the fees and expenses described above. The expenses borne by a managed account are set forth in the managed account's investment management agreement.

## **ITEM 6**

### **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

The Registrant accepts performance-based fees for some, but not all, clients it provides investment advisory services, as described above. The Registrant may face a conflict of interest by managing accounts that are subject to a performance-based fee or allocation and accounts that are not subject to a performance-based fee or allocation, including that the Registrant may have an incentive to favor accounts for which it receives performance-based fees or allocations. The Registrant also may have an incentive to favor accounts from which the Registrant will receive a performance fee calculated at a higher rate over accounts from which the Registrant will receive a performance fee or allocation calculated at a lower rate. Generally, the Registrant addresses this conflict of interest by utilizing an investment allocation policy designed to treat all accounts fairly and equitably. Please see Item 11.B.2 below.

**ITEM 7**  
**TYPES OF CLIENTS**

The Registrant provides advisory or sub-advisory services primarily to the Funds and managed accounts on either a discretionary or non-discretionary basis. The securities of these Funds are not registered under the Securities Act. In addition, the Funds (except for the Registered Fund) are not registered under the Company Act, and may or may not be continuously offered.

## ITEM 8

### METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

#### A. Methods of Analysis and Investment Strategies

*The descriptions set forth in this Brochure of specific advisory services that the Registrant offers to clients, and investment strategies pursued and investments made by the Registrant on behalf of its clients, should not be understood to limit in any way the Registrant's investment activities. The Registrant may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that the Registrant considers appropriate, subject to each client's investment objectives and guidelines. The investment strategies the Registrant pursues are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any client will be achieved.*

The Registrant conducts its own analyses and may also use the analyses of its affiliates as well as third parties. The Registrant may use many sources of information in its analyses of securities which may be obtained from its affiliates or third parties. These sources include but are not limited to: financial filings; business, economic, financial and other publications; trade journals; other money managers or financial services professionals; media sources; information from brokers including, research, models, discussions with analysts, idea meetings, and other information provided by brokers; third-party data services; external research; one-on-one conversations with company management teams, suppliers, customers, end users and sector specialists, as well as lawyers, economists, strategists, lobbyists and academic specialists. In addition, the Registrant may employ third-party consultants to provide it with fundamental and technical research, including, but not limited to, information regarding various markets, industries and companies. Furthermore, the Registrant may utilize other sources of information which may exist from time to time.

The Registrant may employ a number of investment strategies in connection with its advisory and sub-advisory services depending upon the type and stated investment objectives of each client. These investment strategies include, but are not limited to the following which may be used for investment, hedging or speculating purposes: fundamental stock picking; long only equities; long-short equities; buying put options and call options; selling put options and call options on both a covered and uncovered basis; options and futures on equity indices; long volatility instruments; buying and selling of derivatives; securities lending; long-short debt; pairs trading; leverage; arbitrage; event driven; relative value; credit/distressed debt and offsetting positions in various credit and/or equity instruments, including unsecured and secured debt, preferred stock, common stock, derivatives or capital structure arbitrage.

Depending on the specific investment strategies pursued, the Registrant may invest in one or more of the following, among others: stocks, bonds, debt instruments (investment and non-investment grade), equity instruments (including listed and un-listed



securities), exchange-traded funds ("ETFs"), loans, commodities, derivatives or other financial instruments, asset backed securities, convertible and preferred securities, and warrants, collateralized loan obligations, bank debt, floating rate notes, government bonds and preferred real or personal property or any other types of assets it can own unless otherwise specified in the fund's offering documents. The derivative instruments in which the Funds may purchase or sell include, without limitation, credit derivatives, exchange-traded or over-the-counter derivatives, swaps (including, but not limited to, basket swaps, equity swaps and total return swaps), and deliverable and non-deliverable forward contracts. The Funds also may from time to time purchase or sell currencies, forward currency contracts or other related derivative instruments.

The Registrant may also engage in specific trading strategies such as algorithm trades, short term trading and others. The Registrant may engage in other investment and trading strategies that may be deemed appropriate from time to time. Investment strategies utilized in the management of Funds are described in greater detail in the offering document for each Fund managed by the Registrant.

The Registrant's investment programs are speculative and entail investment and market-related risks. There can be no assurance that client's investment objectives will be achieved. The client's activities could result in substantial losses under certain circumstances. Investing in securities involves risk of loss that clients should be prepared to bear.

## **B. Material, Significant or Unusual Risks Relating to Investment Strategies**

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in a Fund or managed account managed by the Registrant. The term "Accounts" refers to managed accounts and the Funds.

*The following risk factors may not be applicable to all the Accounts. Investments in an Account are speculative and involve a substantial degree of risk, including the risk that an investor could lose some or all of its investment in an Account. Prospective investors should carefully consider the risks of investing, which include, without limitation, those set forth below which are more fully described in the applicable Fund's offering documents. These risk factors include only those risks the Registrant believes to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by the Registrant and do not purport to be a complete list or explanation of the risks involved in an investment in the clients advised by the Registrant.*

### **Risks of Investments in Securities Generally**

Investing in securities involves risks, including the risk that the entire amount invested may be lost. On behalf of its clients, the Registrant invests in and actively trades securities and other financial instruments using investment techniques with certain risk characteristics, including, without limitation, risks arising from the volatility of the debt and equity markets, risks particular to emerging markets, the risks of borrowings, the potential illiquidity of securities and other financial instruments and the risk of loss from counterparty defaults. No guarantee or representation is made that an Account's investment objective will be

achieved. The Registrant may utilize such investment techniques as leverage and margin transactions, limited diversification and options and derivatives trading, which practices can, in certain circumstances, increase the adverse impact to which the Accounts may be subject.

### **Investing in Developing Europe**

The Registrant may invest on behalf of an Account in countries that are not part of the G8.<sup>1</sup> The economies of such countries generally are heavily dependent upon international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. Business entities in countries outside of the G8 have only a limited history of operating in a market-oriented economy, and the ultimate impact of such countries' attempts to move toward more market-oriented economies is currently unclear. The social and economic difficulties resulting from local corruption and crime could adversely affect the value of the investments. Certain countries outside of the G8 have been developing a body of real property, securities and tax laws and laws governing corporations and other business entities. Such legal structures governing private and foreign investment and private property, where they have been implemented, are new. Laws may not exist to cover all business and commercial relationships or to protect the holders of interests in equity or debt securities adequately. Laws, regulations, and legal interpretations in less developed European countries can change quickly and unpredictably in a manner far more volatile than in the United States and certain of the more developed European countries. These changes could materially and adversely affect the investments.

### **Investing in Emerging Markets and Frontier Markets**

The Registrant may cause an Account to invest in investments in various markets, some of which may be considered as “emerging markets” or “frontier markets”. Many emerging markets or frontier markets are developing both economically and politically and may have relatively unstable governments and economies based on only a few commodities or industries. Many emerging market or frontier markets countries do not have firmly established product markets and companies may lack depth of management or may be vulnerable to political or economic developments such as nationalisation of key industries. Investments in companies and other entities in emerging markets or frontier markets and investments in emerging market or frontier market sovereign debt may involve a high degree of risk and may be speculative. The Investment Manager considers that frontier markets are similar to emerging markets. However, they have smaller and fewer companies, fewer investors and less trading than emerging markets. There is also less regulation, information on companies and transparency in frontier markets. It is generally expected that frontier markets will be the next generation of emerging markets.

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<sup>1</sup> The G8 countries include Canada, France, Germany, Great Britain, Italy, Japan, Russia and the United States.

Risks include: (i) greater risk of expropriation, confiscatory taxation, nationalisation, social and political instability (including the risk of changes of government following elections or otherwise) and economic instability; (ii) the relatively small current size of some of the markets for securities and other investments in emerging markets issuers and the current relatively low volume of trading, resulting in lack of liquidity and in price volatility; (iii) certain national policies which may restrict a Portfolio's investment opportunities including restrictions on investing in issuers or industries deemed sensitive to relevant national interests; (iv) the absence of developed legal structures governing private or foreign investment and private property; (v) the potential for higher rates of inflation or hyper-inflation; (vi) currency risk and the imposition, extension or continuation of foreign exchange controls; (vii) interest rate risk; (viii) credit risk; (ix) lower levels of democratic accountability; (x) differences in accounting standards and auditing practices which may result in unreliable financial information; (xi) different corporate governance frameworks; (xii) lack of quality, timing and reliability of official data published by governments or government agencies; and (xiii) political instability due to government or military intervention in decision making, terrorism, civil unrest, extremism, hostilities between neighbouring countries and anti-western views.

The emerging markets or frontier markets risks described above increase counterparty risks for those Portfolios invested in these markets. In addition, investor risk aversion to emerging markets or frontier markets can have a significant adverse effect on the value and/or liquidity of investments made in or exposed to such markets and can accentuate any downward movement in the actual or anticipated value of such investments which is caused by any of the factors described above.

Emerging markets or frontier markets are characterised by a number of market imperfections, analysis of which requires long experience in the market and a range of complementary specialist skills. These inefficiencies include: (i) the effect of politics on sovereign risk and asset price dynamics; (ii) institutional imperfections in emerging markets, such as deficiencies in formal bureaucracies and historical or cultural norms of behaviour at the level of individual economic factors; (iii) the fact that asset classes in emerging markets are still developing and the information driving markets is a small proportion of the available information, and underlying development and sovereign risk fundamentals may take days, months and sometimes years to impact asset prices; (iv) liquidity imperfections and the unpredictability of market concentration; and (v) information asymmetries, most typically the result of experience and local knowledge and the fact that some market participants have access to relevant market information that others do not. The Investment Manager will seek to take advantage of these market imperfections to achieve the investment objectives of the relevant Portfolios. It is not, however, guaranteed that it will be able to do so at any time.

In the recent past, the tax systems of some emerging markets or frontier markets countries have been marked by rapid change, which has sometimes occurred without warning and has been applied with retroactive effect. In these countries, a large national budget deficit often gives rise to an acute government need for tax revenues, while the condition of the economy has reduced the ability of potential taxpayers to meet their tax obligations. In some cases, there is widespread non-compliance with tax laws, insufficient personnel to deal with the problem and inconsistent enforcement of the laws by the inexperienced tax inspectors.

In addition, the market practices in relation to settlement of securities transactions and custody of assets may not be as developed as in developed countries, increasing the risk of conducting transactions in those countries.

### **Legal Risk Relating to Investments in Emerging Markets**

Many of the laws that govern private and foreign investment, securities transactions, creditors' rights and other contractual relationships in emerging markets are new and largely untested. As a result, the Accounts may be subject to a number of unusual risks, including inadequate investor protection, contradictory legislation, incomplete, unclear and changing laws, ignorance or breaches of regulations on the part of other market participants, lack of established or effective avenues for legal redress, lack of standard practices and confidentiality customs characteristic of developed markets, and lack of enforcement of existing regulations. Regulatory controls and corporate governance of companies in developing countries may confer little protection on investors. Anti-fraud and anti-insider trading legislation is often rudimentary. The concept of fiduciary duty is also limited when compared to such concepts in developed countries. In certain instances, management may take significant actions without the consent of investors. There can be no assurance that this difficulty in protecting and enforcing rights will not have a material adverse effect on an Account and its operations. Furthermore, it may be difficult to obtain and enforce a judgment in certain of emerging market countries in which securities are invested.

### **Risk of Errors and Omissions in Information Relating to Emerging Markets**

Companies in emerging countries are generally subject to less stringent and less uniform accounting, auditing and financial reporting standards, practices and disclosure requirements than those applicable to companies in developed countries. In particular, valuation of assets, depreciation, exchange differences, deferred taxation, contingent liabilities and consolidation may be treated differently from accounting standards in more developed countries. Consequently, there is less publicly available information about an emerging country company than about a company in a developed market. Furthermore, the quality and reliability of official data published by the government or securities exchanges in emerging markets may not accurately reflect the statistics being reported.

### **Limited Diversification**

There are no limits on the Registrant's investment discretion with respect to the Funds. At any given time, it is therefore possible that a Fund's portfolio could become significantly concentrated in any one issuer, industry, sector, strategy, country or geographic region, and such concentration of risk may increase the losses suffered by the Fund. In addition, it is possible that the Registrant may select investments that are concentrated in a limited number or type of financial instruments. This limited diversity could expose a Fund to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in those financial instruments.

## **Flexible Investment Approach**

The Registrant has broad investment authority, and may trade in any type of security, issuer or group of related issuers, country, region and sector that it believes will help the Accounts achieve investment objectives. The Registrant may also invest in and utilize, in order to manage or mitigate risk, currency spot and forward contracts, currency and interest rate futures contracts, "over the counter" and exchange-listed options and options on futures contracts. Additionally, the strategies that the Registrant may pursue for the Accounts are not limited to the strategies described herein; furthermore, such strategies may change and evolve materially over time. The Registrant will opportunistically implement whatever strategies, techniques and discretionary approaches, as well as such other investment tactics, as it believes from time to time may be suited to prevailing market conditions. The Registrant may utilize such leverage, position size, duration and other portfolio management techniques as it believes are appropriate for the Accounts. In addition, any new investment strategy, technique and tactic developed by the Accounts may be more speculative than earlier investment strategies, techniques and tactics and may involve material and as-yet-unanticipated risks that could increase the risk of an investment in the Accounts. Investors will not generally be informed of any changes in the Registrant's strategies, techniques, discretionary approach and tactics. There can be no assurance that the Registrant will be successful in applying its approach and there is material risk that an investor may suffer significant impairment or total loss of its capital.

## **Highly Volatile Markets**

The prices of derivative instruments, including, without limitation, futures and option prices, can be highly volatile. Price movements of derivative contracts in which a portfolio's assets may be invested by the Registrant are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies, financial instruments, futures and options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. A client's portfolio is also subject to the risk of the failure of any exchanges on which its positions trade or of their clearinghouses.

## **Leverage; Interest Rates; Margin**

The Registrant may use leverage on behalf of its clients by trading on margin and/or through other direct and indirect borrowings, which at times may be substantial. The use of leverage has attendant risks and can substantially increase the adverse impact to which a client's investment portfolio may be subject. In addition, the leverage used by the Registrant will be subject to the risk that changes in the general level of interest rates may adversely affect expenses and operating results.

In general, the Registrant's use of short-term margin borrowings may result in certain additional risks. For example, should the securities pledged to brokers to secure the

portfolio's margin accounts decline in value, the portfolio could be subject to a "margin call," pursuant to which the portfolio must either deposit additional funds with the broker, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden precipitous drop in the value of the portfolio's assets, the portfolio might not be able to liquidate assets quickly enough to pay off its margin debt. When the Registrant purchases an option in the U.S., there is no margin requirement because the option premium is paid for in full. The premiums for certain options traded on non-U.S. exchanges may be paid for on margin. Whether any margin deposit will be required for over-the-counter options and other over-the-counter instruments, will depend on the credit determinations and specific agreements of the parties to the transaction, which are individually negotiated.

The Registrant may leverage its Accounts' investment positions by borrowing funds from securities broker-dealers, banks or others, including pursuant to repurchase arrangements and/or deferred purchase agreements. Leverage may also take the form of, without limitation, any of the securities described herein, including derivative instruments which are inherently leveraged and trading in products with embedded leverage such as options, short sales, swaps and forwards. Such leverage increases both the possibilities for profit and the risk of loss. Borrowings will typically be secured by the securities and other assets held by Accounts. Under certain circumstances, such a lender may demand an increase in the collateral that secures an Account's obligations and if the Registrant were unable to provide additional collateral, the lender could liquidate assets held in the account to satisfy an Account's obligations. Liquidation in that manner could have extremely adverse consequences. In addition, interest rates will typically be affected by economic factors including, without limitation, inflation, lending rates established by central banks or similar governmental agencies, availability of credit, liquidity in the markets, and the pace of economic growth. The amount of the Registrant's borrowings and the interest rates on those borrowings, which will fluctuate, may have a significant effect on an Account's profitability.

### **Special Situations**

The Registrant may invest in companies involved in (or the target of) acquisition attempts or tender offers or in companies involved in or undergoing work-outs, liquidations, spin-offs, reorganizations, bankruptcies or other catalytic changes or similar transactions. In any investment opportunity involving any such type of special situation, there exists the risk that the contemplated transaction either will be unsuccessful, take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the Accounts of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, the Registrant may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which the Registrant may invest, there is a potential risk of loss by the Registrant of its entire investment in such companies.

## **Short Selling**

Short selling involves selling securities which are not owned and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which the Registrant engages in short sales depends upon its investment strategy and opportunities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Registrant of buying those securities on behalf of a client to cover the short position. There can be no assurance that the Registrant will be able to maintain, on behalf of a client, the ability to borrow securities sold short. In such cases, the Registrant can be "bought in" (*i.e.*, forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

In a short sale, an Account would ordinarily be entitled to receive payments (at rates based in part on prevailing short-term "money market" rates) with respect to such proceeds. To complete such a transaction, the Registrant would generally, on behalf of an Account, borrow the security sold in order to make delivery to the buyer. The proceeds of the short sale would generally be retained by the broker, to the extent necessary to meet margin requirements, until the short position is closed out. The Registrant may be required to pay, on behalf of an Account, a premium to the lender of the securities, which would increase the cost of the security sold. The Account would generally be obliged to replace any securities borrowed by purchasing them at the market price at the time of replacement. The Account may be obliged to return the securities borrowed at any time. The price at such time may be more or less than the price at which the security was sold by the Registrant. Until the security is replaced, the Account is generally required to pay to the lender amounts equal to any dividends or interest which accrue on the securities borrowed during the period of the loan. The Account will incur a loss as a result of the short sale if the price of the security increases between the date of the short sale and the date on which the Account replaces a borrowed security and the Account will realized a gain to the extent the security declines in price between those dates by an amount in excess of the costs incurred in effecting the short sale.

## **Convertible Trading and Arbitrage**

Convertible trading and arbitrage strategies involve investing in convertibles that appear incorrectly valued relative to their theoretical value. The strategy consists of the purchase (or short sale) of a convertible security coupled with the short sale (or purchase) of the underlying security for which the convertible security can be exchanged to exploit price differentials. The Registrant typically will seek to hedge out the risk inherent in the stock; the remaining interest rate risk may or may not be hedged.

Convertible arbitrage strategies generally involve spreads between two or more positions. To the extent the price relationships between such positions remain constant, no gain

or loss on the position will occur. Such positions do, however, entail a substantial risk that the price differential could change unfavorably, causing a loss to the spread position. Substantial risks also are involved in borrowing and lending against such investments. The prices of these investments can be volatile, market movements are difficult to predict, and financing sources and related interest and exchange rates are subject to rapid change. Certain corporate securities may be subordinated (and thus exposed to the first level of default risk) or otherwise subject to substantial credit risks. Government policies, especially those of the Federal Reserve Board and foreign central banks, have profound effects on interest and exchange rates that, in turn, affect prices in areas of the investment and trading activities of convertible arbitrage strategies. Many other unforeseeable events, including actions by various government agencies and domestic and international political events, may cause sharp market fluctuations.

### **Risk Arbitrage**

Risk arbitrage is a strategy that seeks to profit from changes in the price of securities of companies involved in extraordinary corporate transactions. The difference between the price paid by the Registrant for securities of a company involved in an announced extraordinary corporate transaction and the anticipated value to be received for such securities upon consummation of the proposed transaction will often be very small. Since the price bid for the securities of a company involved in an announced extraordinary corporate transaction will generally be at a significant premium above the market price prior to the announcement, if the proposed transaction appears likely not to be consummated or in fact is not consummated or is delayed, the market price of the securities will usually decline sharply, perhaps by more than the Registrant's anticipated profit, even if the security's market price returns to a level comparable to that which exists prior to the announcement of the deal.

The risk arbitrage business is extremely competitive. In any given transaction, arbitrage activity by other firms will tend to narrow the spread between the price at which a security may be purchased by the Registrant and the price it expects to receive upon consummation of the transaction.

### **Capital Structure Arbitrage**

The success of this strategy will depend on the ability of the Registrant to identify and exploit the relationships between movements in different Financial Instruments within an issuer's capital structure (including bank debt, convertible and non-convertible senior and subordinated debt and preferred and common stock). Identification and exploitation of these opportunities involve uncertainty. There can be no assurance that the Registrant will be able to locate investment opportunities or to correctly exploit price discrepancies. A reduction in the pricing inefficiency of the markets in which the Registrant will seek to invest will reduce the scope for the Registrant's investment strategies. In the event that the perceived mispricings underlying the Accounts' positions fail to materialize, these investment strategies could be unsuccessful or result in losses.



## **Merger Arbitrage**

Merger or "risk" arbitrage strategies attempt to exploit merger activity to capture (or sell short) the spread between current market values of securities and their values after successful completion of a merger, restructuring or similar corporate transaction. Merger arbitrage investments often incur significant losses when anticipated merger or acquisition transactions are not consummated. The consummation of mergers, tender offers and exchange offers can be prevented or delayed by a variety of factors, including: (i) regulatory and antitrust restrictions; (ii) political factors; (iii) industry weakness; (iv) stock-specific events; and (v) failed financings. Merger arbitrage positions are also subject to the risk of overall market movements. To the extent that a general increase or decline in equity values affects the stocks involved in a merger arbitrage position differently, the position may be exposed to loss. Merger arbitrage strategies also depend on the overall volume of merger activity, which historically has been cyclical in nature.

## **Risks of Event-Driven Investing**

A portion of the Accounts' investment portfolio may be devoted to event-driven investing, which often involves the purchase of a company's securities after the announcement or disclosure of a significant event, including, but not limited to, a spin-off, auction of the company or subsidiary, merger, tender offer or other type of restructuring.

The Registrant, on behalf of the Accounts, may also invest and trade in securities of a company that, although not the subject of an announced spin-off, merger, tender offer or other restructuring transaction, is in the Registrant's view, a potential candidate for such a transaction. Alternatively, investments may be made in a company experiencing accounting problems, in anticipation of a potential corporate transaction or in a company being impacted by possible legislative activity or litigation. In any such a case, if the anticipated transaction or event does not in fact occur, or if events occur in a sequence not anticipated by the Registrant, the Registrant, on behalf of the Accounts, may close out the investment at a loss.

The price offered for securities of a company involved in an announced deal generally represents a significant premium above the market price prior to the announcement. Therefore, the value of such securities held by the Accounts will decline in the event the proposed transaction is not consummated and if the market price of the securities returns to a level comparable to the price prior to the announcement of the deal. Furthermore, the difference between the price paid by the Accounts for securities of a company involved in an announced deal and the anticipated value to be received for such securities upon consummation of the proposed transaction will often be very small. If the proposed transaction appears likely not to be consummated or, in fact, is not consummated or is delayed, the market price of the securities will usually decline, perhaps by more than the Accounts' anticipated profit. In addition, when the Accounts have sold short the securities it anticipates receiving in an exchange or merger, and the proposed transaction is not consummated, the Accounts may be forced to cover its short position in the market at a higher price than its short sale, with a resulting loss. If the Accounts have sold short securities that are the subject of a proposed cash tender offer or cash merger and

the transaction is consummated, the Registrant on behalf of the Accounts also may be forced to cover its short position at a loss.

Where Registrant has purchased put options with respect to the securities it anticipates receiving in an exchange or merger, if the proposed transaction is not consummated, the exercise price of the put options held by the Accounts may be lower than the market price of the underlying securities, with the result that the cost of the options will not be recovered. If the Registrant has purchased put options with respect to securities which are the subject of a proposed cash tender offer or cash merger and the transaction is consummated, the Registrant on behalf of the Accounts also may not exercise its options and may lose the premiums paid therefor. Since options expire on defined dates, in the event consummation of a transaction is delayed beyond the expiration of a put option held by the Accounts, they may lose the anticipated benefit of the option.

The Registrant may determine that the offer price for a security which is the subject of a tender offer is likely to be increased, either by the original bidder or by another party. In those circumstances, the Registrant may purchase securities above the offer price, and such purchases are subject to the added risk that the offer price will not be increased or that the offer will be withdrawn.

The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors, including: (i) opposition of the management or stockholders of the target company, which will often result in litigation to enjoin the proposed transaction; (ii) intervention of a regulatory agency; (iii) efforts by the target company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) in the case of a merger, failure to obtain the necessary stockholder approvals; (v) market conditions resulting in material changes in securities prices; (vi) compliance with any applicable securities laws; and (vii) inability to obtain adequate financing.

Often a tender or exchange offer will be made for less than all of the outstanding securities of an issuer or a higher price will be offered for a limited amount of the securities, with the provision that, if a greater number is tendered, securities will be accepted *pro rata*. Thus, a portion of the securities tendered by the Registrant may not be accepted and may be returned to the Accounts. After completion of the tender offer, the market price of the securities may have declined below the Accounts' cost, and a sale of any returned securities may result in a loss.

### **Necessity for Counterparty Trading Relationships; Counterparty Risk**

The Registrant may establish relationships to obtain financing, derivative intermediation and prime brokerage services that permit the Registrant to trade in any variety of markets or asset classes over time; however, there can be no assurance that the Registrant will be able to maintain such relationships or establish such relationships. An inability to establish or maintain such relationships would limit the Registrant's trading activities, and could create losses, preclude the Registrant from engaging in certain transactions, financing, derivative intermediation and prime brokerage services and prevent the Registrant from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime

brokerage services provided by any such relationships before the Registrant establishes additional relationships could have a significant impact on the Registrant's business (and thus its clients) due to the Registrant's reliance on such counterparties. Some of the markets in which the Registrant may effect transactions are not "exchange-based," including "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to the credit evaluation and regulatory oversight to which members of "exchange-based" markets are subject. The lack of evaluation and oversight of over-the-counter markets exposes the Accounts to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Accounts to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Registrant has concentrated its transactions with a single or small group of counterparties. Generally, the Registrant will not be restricted from dealing with any particular counterparties. The Registrant's evaluation of the creditworthiness of counterparties may not prove sufficient. The lack of a complete and "foolproof" evaluation of the financial capabilities of the Registrant's counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Registrant's clients.

### **Currency Risk**

The net asset value of an Account may be computed in a particular currency of denomination of such Account, whereas securities for the applicable portfolio may be acquired in other currencies. The base currency value of the securities, which may be designated in any currency, may rise and fall due to exchange rate fluctuations in respect of the relevant currencies. Adverse movements in currency exchange rates can result in a decrease in return and a loss of capital. It may not be possible, desirable or practicable to successfully hedge against the consequent currency risk exposure in all circumstances.

### **Hedging Transactions**

The Registrant is not required to attempt to hedge the Accounts' portfolio positions. Furthermore, the Registrant may not anticipate a particular risk so as to hedge against it. The Registrant may utilize a variety of financial instruments (including options and derivatives), both for investment purposes and for risk management purposes in order to: (i) protect against possible changes in the market value of an Account's investment portfolio resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect the unrealized gains in the value of an Account's investment portfolio; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in an Account's portfolio; (v) hedge the interest rate or currency exchange rate on any of the liabilities or assets of an Account; (vi) protect against any increase in the price of any securities the Registrant anticipates purchasing at a later date; or (vii) for any other reason that the Registrant deems appropriate. The success of the Registrant's hedging strategy is subject to its ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolios being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the instances when the Registrant hedges portfolio positions for an Account is also subject to the

Registrant's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While the Registrant may enter into certain hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for an Account than if the Registrant had not engaged in any such hedging transactions. For a variety of reasons, the Registrant may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent an Account from achieving the intended hedge or expose an Account to risk of loss. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of portfolio holdings for an Account.

### **Narrowing Credit Spreads**

The Registrant seeks to hedge against a "tail hedge" event, including the possibility that the widening of credit spreads is more likely than a tightening. If credit spreads were to narrow, it would result in an increase in the cost to the Accounts of buying securities to cover the short position or resulting in the inability of the Accounts to cover the short position.

### **Non-Performing Nature of Debt**

It is possible that certain debt instruments purchased by the Registrant for an Account may become non-performing and possibly go into default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to such loans.

### **Global Investments**

The Registrant may invest a portion of an Account's assets in securities of global companies which are traded in global markets. Investing in the securities of global companies traded in global markets involves certain considerations, including: political and economic considerations, such as greater risks of expropriation and nationalization, confiscatory taxation, the potential difficulty of repatriating funds, general social, political and economic instability and adverse diplomatic developments; the possibility of imposition of withholding or other taxes on dividends, interest, capital gain or other income; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the portfolio's investment opportunities.

### **Repurchase and Reverse Repurchase Agreements**

The Registrant may enter into repurchase and reverse repurchase agreements. When the Registrant enters into a repurchase agreement, it "sells" securities to a broker-dealer or financial institution, and agrees to repurchase such securities on a mutually agreed date for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. In a reverse repurchase transaction, the Registrant "buys" securities issued from a broker-dealer or financial institution on behalf of an Account, subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid by the Account, plus interest at

a negotiated rate. The use of repurchase and reverse repurchase agreements by the Registrant involves certain risks. For example, if the seller of securities to an Account under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, the Registrant will seek to dispose of such securities, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, the Registrant's ability to dispose of the underlying securities may be restricted. It is possible, in a bankruptcy or liquidation scenario, that the Registrant may not be able to substantiate the relevant Account's interest in the underlying securities. Finally, if a seller defaults on its obligation to repurchase securities under a reverse repurchase agreement, an Account may suffer a loss to the extent that it is forced to liquidate its position in the market, and proceeds from the sale of the underlying securities are less than the repurchase price agreed to by the defaulting seller. Similar elements of risk arise in the event of the bankruptcy or insolvency of the buyer.

### **Investment in Undervalued Securities**

The Registrant may seek to invest an Account's portfolio in securities of companies which it believes to be undervalued. However, the identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired.

### **Relative Value**

The success of an Account's relative value investment strategy depends on the Registrant's ability to identify and exploit perceived inefficiencies in the pricing of securities, financial products or markets. Identification and exploitation of such discrepancies involve uncertainty. There can be no assurance that the Registrant will be able to locate investment opportunities or to exploit pricing inefficiencies in the securities markets. A reduction in the pricing inefficiency of the markets in which the Registrant seeks to invest will reduce the scope for an Account's investment strategies. In the event that the perceived mispricings underlying an Account's positions were to fail to converge toward, or were to diverge further from, relationships expected by the Registrant, an Account may incur losses. An Account's relative value investment strategy may result in high portfolio turnover and, consequently, high transaction costs. In addition, an Account's relative value strategy is designed to be uncorrelated with respect to the movements in equity markets and risk-free interest rates. Depending upon the investment strategies employed and market conditions, unforeseen events involving such matters as political crises, or changes in currency exchange rates or interest rates, forced redemptions of securities, or general lack of market liquidity may have a material adverse effect on an Account.

### **Issuer Risk**

Investments by the Registrant on behalf of an Account may include debt instruments and equity securities of companies that the Registrant does not control. Such instruments and securities may be acquired by the Registrant on behalf of an Account through trading activities or through purchases of securities from the issuer. These investments will be subject to the risk that the company in which the investment is made may make business,

financial or management decisions with which the Registrant does not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve an Account's interest. If any of the foregoing were to occur, the value of an investment by the Registrant could decrease.

### **Small and Mid-Capitalization Risks.**

Investments in unseasoned and small and mid-capitalization companies may expose the Accounts to greater investment risk. Investments in the securities of these companies may present greater opportunities for growth but also involve greater risks than are customarily associated with investments in securities of more established and larger capitalized companies. The securities of less seasoned and smaller capitalized companies are often traded in the over-the-counter market and have fewer market makers and wider price spreads, which may in turn result in more abrupt and erratic market price movements and make the Accounts' investments more vulnerable to adverse general market or economic developments than would investments only in large, more established companies. It is more difficult to obtain information about less seasoned and smaller capitalization companies because they tend to be less well known and have shorter operating histories and because they tend not to have significant ownership by large investors or be followed by many securities analysts. Additionally, these companies may have limited product lines, markets or financial resources, or they may be dependent upon a limited management group that may lack depth and experience. Investments in larger and more established companies present certain advantages in that such companies generally have greater financial resources, more extensive research and development, manufacturing, marketing and service capabilities, more stability and greater depth of management and technical personnel.

### **Prime Brokers and Custodian**

Cash held by certain of the Funds' prime brokers may not be treated as client money subject to applicable regulatory requirements. Accordingly, an Account's cash may not be segregated from the relevant prime broker's own money, may be used by it in the course of its investment business and the Account may therefore rank as one of the relevant prime broker's unsecured creditors in relation thereto. In relation to an Account's rights to the return of assets equivalent to those of its investments which a prime broker borrows, lends or otherwise uses for its own purposes or margin the Account will rank as one of such prime broker's unsecured creditors and in the event of the insolvency of such prime broker the Account might not be able to recover such equivalent assets in full.

## **Investment Selection**

The Registrant may select investments on the basis of information and data filed by the issuers of such securities with various regulatory bodies or made directly available to the Registrant by the issuers of the securities and other instruments or through sources other than the issuers. Although the Registrant evaluates all such information and data and seeks independent corroboration when it considers it appropriate and when it is reasonably available, the Registrant is not in a position to confirm the completeness, genuineness or accuracy of such information and data.

## **Discretion to Employ New Strategies and Techniques**

The Registrant has considerable discretion in the types of securities which the Accounts may trade and has the right to modify the trading strategies or hedging techniques of the Accounts. Any of these new trading techniques may not be thoroughly tested in the market before being employed and may have operational or theoretical shortcomings which could result in unsuccessful trades and, ultimately, loss to the Accounts. In addition, any new investment strategy or hedging technique developed by the Registrant may be more speculative than earlier techniques and may increase the risk of an investment in the Accounts.

## **Competition; Availability of Investments**

Certain markets in which the Registrant may invest are extremely competitive for attractive investment opportunities and, as a result, there may be reduced expected investment returns. There can be no assurance that the Registrant will be able to identify or successfully pursue attractive investment opportunities in such environments. Among other factors, competition for suitable investments from other pooled investment vehicles, the public equity markets and other investors may reduce the availability of investment opportunities. There has been significant growth in the number of firms organized to make such investments, which may result in increased competition to the Registrant in obtaining suitable investments.

## **Portfolio Turnover**

The Registrant's investment program for certain clients may involve frequent trading, which may result in higher investment costs and charges to those clients.

## **Execution, Market and Liquidity Risks**

The Registrant, on behalf of the Accounts, may make investments or hold trading positions in markets that are volatile and which may become illiquid. Timely divestiture or sale of trading positions can be impaired by decreased trading volume, increased price volatility, concentrated trading positions, limitations on the ability to transfer positions in highly specialized or structured transactions to which it may be a party, and changes in industry and government regulations. It may be impossible or costly for the Registrant to liquidate positions rapidly in order to meet margin calls, redemption requests or otherwise, particularly if there are other market participants seeking to dispose of similar assets at the same time or the relevant market is otherwise moving against a position or in the event of trading halts or daily price

movement limits on the market or otherwise. Furthermore, if an Account incurs substantial trading losses, the need for liquidity could rise sharply while its access to liquidity could be impaired. In addition, in conjunction with a market downturn, the counterparties of an Account could incur losses of their own, thereby weakening their financial condition and increasing the Accounts' credit risk to them. Trading orders for the Accounts may not be executed in a timely and efficient manner due to various circumstances, including, without limitation, trading volume surges or systems failures attributable to the Accounts, the Registrant, the counterparties of an Account, brokers, dealers, agents or other service providers. In such event, the Registrant might only be able to acquire or dispose of some, but not all, of the components of such position, or if the overall position were to need adjustment, the Registrant might not be able to make such adjustment. As a result, an Account would not be able to achieve the market position selected by the Registrant, which may result in a loss.

### **Credit Default Swaps**

The Registrant, on behalf of the Accounts, may invest in credit default swaps. Credit default swaps can be used to implement the Registrant's view that a particular credit, or group of credits, will experience credit improvement or deterioration. In the case of expected credit improvement, the Registrant may sell credit default protection in which it receives a premium to take on the risk. In such an instance, the obligation of the Registrant to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. The Registrant, on behalf of the Accounts, may also buy credit default protection with respect to a referenced entity if, in the judgment of the Registrant, there is a high likelihood of credit deterioration. In such instance, the Accounts will pay a premium regardless of whether there is a credit event. The credit default swap market in high-yield securities is comparatively new and rapidly evolving compared to the credit default swap market for more seasoned and liquid investment-grade securities, creating the risk that the newer markets will be less liquid, and making it potentially more difficult to exit or enter into a particular credit default swap transaction.

### **Currency Exchange Exposure**

The Registrant, on behalf of the Accounts, may invest in securities denominated in non-U.S. currencies, the prices of which are determined with reference to currencies other than the U.S. dollar. The Registrant, however, values its securities in U.S. dollars. The Registrant may or may not seek to hedge its non-U.S. dollar currency exposure by entering into currency hedging transactions, such as treasury locks, forward contracts, futures contracts and cross-currency swaps. There can be no guarantee that securities suitable for hedging currency or market shifts will be available at the time when the Registrant wishes to use them, or that hedging techniques employed by the Registrant will be effective. Furthermore, certain currency market risks may not be fully hedged or hedged at all. To the extent unhedged, the value of the Registrant's positions in non-U.S. dollar denominated investments will fluctuate with U.S. dollar exchange rates as well as with the price changes of the investments in the various local markets and currencies. Such fluctuations may result in a loss to the Accounts.



## **Assumption of Business, Terrorism and Catastrophe Risks**

Opportunities involving the assumption by the Registrant of various risks relating to particular assets, markets or events may be considered from time to time. An Account's portfolio is subject to the risk of loss arising from exposure that it may incur, directly or indirectly, due to the occurrence of various events, including, without limitation, hurricanes, earthquakes, and other natural disasters, terrorism and other catastrophic events and events that could adversely affect the health or life expectancy of people. These risks of loss can be substantial, could greatly exceed all income or other gains, if any, received by an Account in assuming these risks and, depending on the size of the loss, could adversely affect the return of an Account.

## **Non-Execution of Trading Orders**

The efficacy of investment and trading strategies depends largely on the ability to establish and maintain an overall market position in a combination of financial instruments. Trading orders may not be executed in a timely and efficient manner due to various circumstances, including systems failures or human error. In such event, a portfolio might only be able to acquire some but not all of the components of the position, or if the overall position were to need adjustment, a portfolio might not be able to make such adjustment. As a result, the portfolio would not be able to achieve the market position selected by the Registrant and might incur a loss in liquidating its position.

## **Risks of Clearing Houses, Counterparties or Exchange Insolvency**

The liquidity of a secondary market in derivatives is subject to the risk of trading halts, suspensions, exchange or clearing house equipment failures, government intervention, insolvency of a brokerage firm, clearing house or exchange or other disruptions of normal trading activity, including prime brokers refusing to clear or settle any trade.

The Registrant may cause the assets of the Accounts to be held in one or more accounts maintained for the Accounts by counterparties, including, without limitation, its prime brokers. There is a risk that any of such counterparties could become insolvent. The insolvency of the counterparties accounts is likely to impair the operational capabilities or the assets of the Registrant's clients. If one or more of the counterparties were to become insolvent or the subject of liquidation proceedings in the U.S. (either under the Securities Investor Protection Act or the U.S. Bankruptcy Code), there exists the risk that the recovery of the Accounts' securities and other assets from such prime broker or broker-dealer will be delayed or be of a value less than the value of the securities or assets originally entrusted to such prime broker or broker-dealer. In addition, the Registrant may use counterparties located in various jurisdictions outside the U.S. Such local counterparties are subject to various laws and regulations in various jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to an Account's assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of their insolvency on an Account and its assets.

Insolvency of any of the counterparties would result in a loss to the applicable Accounts, which could be material.

### **Regulatory Oversight – Financial Services Industry**

Banking institutions in which the Accounts may invest may be subject to extensive regulation, supervision and examination by regulators. Regulatory authorities in certain jurisdictions have extensive discretion in connection with supervision and enforcement activities applicable to banks. In many instances, an extensive regulatory regime governs all aspects of a financial institution's activities and, thus, may have an adverse effect on its business, financial position or results of operation.

The results of operations of banking institutions also may be materially affected by general economic conditions, changes in the level of interest rates, national and local cycles in real estate, and the monetary and fiscal policies of applicable authorities. Although in recent years certain banking institutions have derived an increased portion of their income from the receipt of fees, the results of operations generally continue to depend to a large extent on the level of their net interest income.

### **Fraud**

Of paramount concern for any investment is the possibility of material misrepresentation or omission on the part of a counterparty. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying an investment. The Registrant will rely upon the accuracy and completeness of representations made by counterparties to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to the Accounts may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

### **Business and Regulatory Risks of Hedge Funds.**

Legal, tax and regulatory changes are likely to occur during the term of the Funds and some of these changes may adversely affect the Funds, perhaps materially. The financial services industry generally, and the activities of hedge funds and their managers, in particular, have been subject to intense and increasing regulatory scrutiny. Such scrutiny may increase the Funds' exposure to potential liabilities and to legal, compliance and other related costs. Increased regulatory oversight may also impose additional administrative burdens on Registrant and affiliates, including, without limitation, responding to investigations and implementing new policies and procedures. Such burdens may direct Registrant's and affiliates' attention and resources from portfolio management activities.

In addition, futures and securities markets are subject to comprehensive statutes, regulations and margin requirements. The SEC, other regulators, self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial actions.

In July 2010, the U.S. President signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which aims to reform various aspects of the U.S. financial markets. The Dodd-Frank Act covers a broad range of market participants including banks, non-banks, rating agencies, mortgage brokers, credit unions, insurance companies, payday lenders, broker-dealers and investment advisers. The Dodd-Frank Act directly affects Registrant and affiliates by mandating additional new reporting requirements, including, but not limited to, position information, use of leverage and counterparty and credit risk exposure. The new reporting requirements will impose additional burdens on Registrant's and affiliates' time, attention and resources. The Dodd-Frank Act may also affect the Funds in a number of other ways. The Dodd-Frank Act creates the Financial Stability Oversight Council (the "Council") that is charged with monitoring and mitigating systemic risk. As part of this responsibility, the Council would have the authority to subject banks and other financial firms to regulation by the Federal Reserve Board, which could limit the amount of risk-taking engaged in by the Funds.

It is impossible to predict what, if any, changes in regulation applicable to the Funds, Registrant or affiliates, the markets in which they trade and invest or the counterparties with which they do business may be instituted in the future. The effect of any future regulatory change on the Funds could be substantial and adverse.

Investors should understand that the Funds' business is dynamic and is expected to change over time. Therefore, the Funds may be subject to new or additional regulatory constraints in the future. This document cannot address or anticipate every possible current or future regulation that may affect Registrant, affiliates, the Funds or their respective businesses. Such regulations may have a significant impact on the Shareholders or the operations of the Funds, including, without limitation, restricting the types of investments the Funds may make, preventing the Funds from exercising its voting rights with regard to certain financial instruments, requiring the Funds to disclose the identity of their investors, its positions or otherwise. Registrant or affiliates may cause the Funds to be subject to such regulations if it believes that an investment or business activity is in the Funds' interest, even if such regulations may have a detrimental effect on one or more shareholders. Prospective shareholders are encouraged to consult their own advisors regarding an investment in the Funds.

## **C. Risk Associated With Particular Types of Securities**

### **Equity Securities**

The investment portfolio for the Accounts may include equity and equity-related securities. Equity securities fluctuate in value in response to many factors, including the activities and financial condition of individual companies, the business market in which individual companies compete and industry market conditions and general economic environments. For example, beginning in September 2008, world financial markets experienced extraordinary market conditions resulting in extreme volatility in the global equity markets.

## **Debt Securities**

The Registrant may invest in private and government debt securities and instruments. Debt instruments in which the Registrant invests may be unrated, and whether or not rated, the debt instrument may have speculative characteristics. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal. Such instruments are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations and involve major risk exposure to adverse conditions. In addition, an economic recession could severely disrupt the market for most of these securities and may have an adverse impact on the value of such instruments. It is also likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

## **Fixed Income Securities**

Fixed income securities are subject to the risk of an issuer's ability to meet principal and interest payments on the obligation (credit risk), and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (market risk). The fixed-income securities in which the Registrant may invest on behalf of its Accounts are interest rate sensitive. An increase in interest rates will generally reduce the value of fixed-income securities, while a decline in interest rates will generally increase the value of fixed-income securities. The performance of the Accounts will therefore depend in part on the ability to anticipate and respond to such fluctuations on market interest rates, and to utilize appropriate strategies to maximize returns, while attempting to minimize the associated risks to investment capital.

## **Preferred Securities**

The Registrant may invest in preferred stock of certain companies. Preferred stock, unlike common stock, offers a stated dividend rate payable from a corporation's earnings. These dividends may be cumulative or non-cumulative, participating or auction rate. If interest rates rise, the fixed dividend on preferred stocks may be less attractive, causing the prices of preferred stocks to decline. Preferred stock may have mandatory sinking provisions and call/redemption provisions prior to maturity, a negative feature when interest rates decline. Dividends on some preferred stock may be "cumulative," requiring all or a portion of prior unpaid dividends to be paid before dividends are paid on the issuer's common stock. Preferred stock also generally has a preference over common stock on the distribution of a corporation's assets upon liquidation of the corporation, and may be "participating," which means that it may be entitled to a dividend exceeding the stated dividend in certain cases. Preferred securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. If the Registrant owns a preferred security that is deferring its distributions, the Registrant may be required to report income for tax purposes although it has not yet received such income. Preferred securities are generally subordinate to the rights associated with an issuer's debt securities in terms of priority to corporate income and

liquidation payments, and therefore are subject to greater credit risk than more senior debt instruments. Preferred securities may be substantially less liquid than many other securities.

### **Illiquid Securities**

The Registrant may invest on behalf of Accounts in thinly traded or illiquid securities. Securities may be illiquid because of contractual restrictions, because no significant trading market has developed for them because they are interests in private investment vehicles for which no trading market exists or because they are investments in privately held companies in which no trading market exists. The Registrant may find it difficult to dispose of or to obtain accurate price quotations for thinly traded or illiquid securities and it may take longer to liquidate positions in such securities than would be the case for more actively traded or liquid securities. In addition, inactive or low volume trading markets typically experience more volatility than higher volume markets. The prices realized on the resale of illiquid securities could be less than those originally paid by a client and lower than the price at which similar securities which are not subject to restrictions on resale may sell.

### **Risks Associated With Investments in High Yield and Distressed Debt**

The Registrant may invest on behalf of Accounts in obligors and issuers in weak financial condition, experiencing poor operating results, having substantial financial needs or negative net worth, facing special competitive problems, or in obligors and issuers that are involved in bankruptcy or reorganization proceedings. Among the problems involved in investments in troubled obligors and issuers is the fact that it may frequently be difficult to obtain full information as to the conditions of such obligors and issuers. The market prices of such investments are also subject to abrupt and erratic market movements and significant price volatility, and the spread between the bid and offer prices of such investments may be greater than normally expected. It may take a number of years for the market price of such investments to reflect their intrinsic value. Some of the investments held by a portfolio may not be widely traded, and depending on the investment profile of a particular portfolio, that portfolio's exposure to such investments may be substantial in relation to the market for those investments. In addition, there may be no recognized market for some of the investments held in a portfolio, with the result that such investments are likely to be illiquid. As a result of these factors, the investment objectives of the relevant portfolio may be more difficult to achieve. Fluctuations in interest rates may significantly affect the return derived from a portfolio's investments, as well as the market values of, and the corresponding levels of gains or losses on, such investments.

### **Investments in Distressed Securities**

The Registrant, on behalf of the Accounts, may invest in "below investment grade" securities and obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These securities are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the fact that it may frequently be

difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies' securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to an Account's investment in any instrument, and a significant portion of the obligations and securities in which the Registrant invests may be less than investment grade. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the Registrant will correctly evaluate the value of the assets collateralizing an Account's loans or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which the Registrant invests, the Accounts may lose its entire investment, may be required to accept cash or securities with a value less than the Accounts' original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Accounts' investments may not compensate the shareholders adequately for the risks assumed.

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

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

### **Lower-Rated or Unrated Convertible Securities**

Lower rated or unrated securities may have a higher yield than securities rated "A1" or better by Moody's or "AA" or better by S&P but are more likely to react to developments affecting market and credit risk than such higher rated securities, which primarily react to movements in the general level of interest rates. Lower rated or unrated securities are generally subject to a greater default risk than such higher rated securities. Convertible securities include bonds, debentures, corporate notes and preferred stock that are convertible to common stock. Prior to conversion, convertible securities have the same general characteristics as non-convertible debt securities, which provide a stable stream of income with generally higher yields than those of equity securities of the same or similar issues. Lower-rated or unrated convertible securities are subject to greater loss of principal and interest than higher-rated convertible securities. They are also generally subject to greater market risk than higher-rated convertible securities. The capacity of issuers of lower-rated or unrated securities to pay interest and repay principal is more susceptible to real or perceived adverse economic conditions than investment

grade securities, although the market values of lower-rated or unrated convertible securities tend to react less to fluctuations in interest rate levels than do higher-rated convertible securities. The market for lower-rated or unrated convertible securities may be thinner, and less active, than for higher-rated securities, which can adversely affect the prices at which such convertible securities can be sold. Investing in lower-rated or unrated convertible securities can increase the risk to investors of losing all or a substantial portion of their investment.

### **Stock Index Options**

The Registrant may cause an Account to purchase and sell call and put options on stock indices listed on securities exchanges or traded in the over-the-counter market. A stock index fluctuates with changes in the market values of the stocks included in the index. Because the value of an index option depends upon movements in the level of the index rather than the price of a particular stock, whether an Account will realize gains or losses from the purchase or writing of options on indices depends upon movements in the level of stock prices in the stock market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular stocks. Accordingly, successful use by the Registrant of options on stock indices will be subject to the Registrant's ability to correctly predict movements in the direction of the stock market generally or of particular industries or market segments. This requires different skills and techniques than predicting changes in the price of individual stocks.

### **Stock Index Futures**

The price of stock index futures contracts may not correlate perfectly with the movement in the underlying stock index because of certain market distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, futures contracts may close through offsetting transactions that would distort the normal relationship between the index and futures markets. Secondly, from the point of view of speculators, the deposit requirements in the futures market are less onerous than margin requirements in the securities market. Therefore, increased participation by speculators in the futures market also may cause price distortions. Successful use of stock index futures contracts by the Registrant also is subject to the Registrant's ability to correctly predict movements in the direction of the market.

### **Call Options**

There are risks associated with the sale and purchase of call options. The seller (writer) of a call option which is covered (*e.g.*, the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security offset by the gain by the premium received if the option expires out of the money, and gives up the opportunity for gain on the underlying security above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The buyer of a call option assumes the risk of losing the premium if the option expires out of the money.

## **Put Options**

There are risks associated with the sale and purchase of put options. The seller (writer) of a put option which is covered (*e.g.*, the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sale price of the short position of the underlying security offset by the premium if the option expires out of the money, and thus the gain in the premium, and the option seller gives up the opportunity for gain on the underlying security below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security to zero. The buyer of a put option assumes the risk of losing the premium if the option expires out of the money.

## **Swap Agreements**

The Registrant may cause an Account to enter into swap agreements. These agreements are individually negotiated and can be structured to include exposure to a variety of different types of investments, asset classes or market factors. Depending on their structure, swap agreements may increase or decrease an Account's exposure to, for example, equity securities. Swap agreements can take many different forms and are known by a variety of names. The Registrant is not limited to any particular form of swap agreement if consistent with the applicable Account's investment objective. Whether the Registrant's use of swap agreements, on behalf of its clients, will be successful will depend on the Registrant's ability to select appropriate transactions for the Accounts. Swap transactions may be highly illiquid and may increase or decrease the volatility of an Account's portfolio. Moreover, an Account 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. An Account also bears the risk of loss related to swap agreements, for example, for breaches of such agreements or the failure of the Accounts to post or maintain required collateral. Many swap markets are relatively new and still developing. It is possible that developments in the swap markets, including potential government regulation, could adversely affect the Registrant's ability to terminate existing swap transactions or to realize amounts to be received under such transactions.

## **Derivative Instruments Generally**

The Registrant may cause an Account to use futures, options, swaps and other derivatives for investment purposes, for efficient portfolio management and to enhance investment performance. The Registrant's ability to use these strategies may be limited by market conditions, regulatory limits and tax considerations. Use of these strategies involves certain special risks, including: (i) dependence on the Registrant's ability to predict movements in the price of securities being hedged and movements in interest rates; (ii) imperfect correlation between movements in the securities or currency on which a futures or options contract is based and movements in the securities or currencies; (iii) the absence of a liquid market for any particular instrument at any particular time; (iv) the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty; (v) possible impediments to effective portfolio management or the ability to meet repurchase requests or other short-term obligations because of the percentage of an Account's assets



segregated to cover its obligations; and (vi) the degree of leverage inherent in futures trading, *i.e.*, the low margin deposits normally required in futures trading means that futures trading may be highly leveraged. Accordingly, a relatively small price movement in a futures contract may result in an immediate and substantial loss to an Account.

These instruments may produce an unusually or unexpectedly high amount of losses. In addition, the Registrant may, in the future, take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of the Accounts and believed by the Registrant to be legally permissible. Special risks may apply in the future that cannot be determined at this time. The regulatory and tax environment for derivative instruments in which the Accounts may participate is evolving, and changes in the regulation or taxation of such securities may have a material adverse effect on the Accounts.

Derivatives are highly specialized instruments that require investment techniques and risk analyses that are often different from those associated with the underlying securities to which they relate. The use of a derivative requires an understanding not only of the underlying instrument but also of the derivative itself, without the benefit of observing the performance of the derivative under all possible market conditions.

Liquidity risk exists when a particular derivative is difficult to purchase or sell. If a derivative transaction is particularly large or if the relevant market is illiquid (as may be the case with many privately negotiated derivatives), it may not be possible to initiate a transaction or liquidate a position at an advantageous time or price.

Because the markets for certain derivatives are relatively new and still developing, suitable derivatives transactions may not be available in all circumstances. Upon the expiration of a particular contract, the Registrant may wish to retain an Account's position in the derivative by entering into a similar contract, but may be unable to do so if the counterparty to the original contract is unwilling to enter into the new contract and no other suitable counterparty can be found. The Registrant's ability to use derivatives may also be limited by certain regulatory and tax considerations.

When managing an Account's exposure to market risks, the Registrant may from time to time use forward contracts, options, swaps, credit default swaps, caps, collars and floors or pursue other strategies or use other forms of derivative instruments to limit exposure to changes in the relative values of investments that may result from market developments, including changes in prevailing interest rates, currency exchange rates and commodity prices. The success of any hedging or other derivative transactions generally will depend on the ability to correctly predict market changes, the degree of correlation between price movements of a derivative instrument, the position being hedged, the creditworthiness of the counterparty and other factors. As a result, while the Registrant may cause an Account to enter into a transaction in order to reduce exposure to market risks, the transaction may result in poorer overall investment performance than if it had not been executed. Such transactions may also limit the opportunity for gain if the value of a hedged position increases.

## **Futures Contracts**

Transactions in futures contracts carry a high degree of risk. Though the futures contract usually only requires a much smaller amount of margin to be provided in comparison to the economic exposure which the futures contract provides to the relevant investment, index, rates, currency or physical commodity, investment in a futures contract creates a "gearing" or "leverage" effect. This means that a small margin payment can lead to enhanced losses as well as enhanced gains. It also means that a relatively small movement in the underlying reference investment, index, rate, currency or physical commodity can lead to a much larger proportional movement in the value of the futures contract. This may work against an Account as well as work for it. Futures positions may be illiquid because, for example, many 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." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Futures contract prices on various commodities or financial instruments occasionally have moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Registrant from promptly liquidating unfavorable positions and subject an Account to substantial losses. In addition, the Registrant may not be able to execute futures contract trades at favorable prices if trading volume in such contracts is low. It is also possible that an exchange or a regulator may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract or order that trading in a particular contract be conducted for liquidation only. In addition, various exchanges impose speculative position limits on the number of positions that may be held in particular commodities. Trading in commodity futures contracts and options are highly specialized activities that may entail greater than ordinary investment or trading risks. Furthermore, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss.

## **Forward Contracts and Currency Transactions**

The Registrant may deal in forward foreign exchange contracts between currencies of different countries and multi-national currency units and options on currencies and on currency futures contracts for hedging or speculation. With respect to forward currency contracts, this is accomplished through contractual agreements generally to purchase or sell one specified currency for another currency at a specified future date and price determined at the inception of the contract. Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. For example, there are no requirements with respect to record-keeping, financial responsibility or segregation of customer funds or positions. In contrast to exchange-traded futures contracts, interbank traded instruments rely on the dealer or counterparty being contracted with to fulfill its contract. As a result, trading in interbank foreign

exchange contracts may be subject to more risks than futures or options trading on regulated exchanges, including, but not limited to, the risk of default due to the failure of a counterparty with which the Registrant has a forward contract. Although the Registrant seeks to trade with reliable counterparties, failure by a counterparty to fulfill its contractual obligation could expose an Account to unanticipated losses. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any currency market traded by the Registrant due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward trading to less than that which the Registrant would otherwise recommend, to the possible detriment of an Account. Market illiquidity or disruption could result in a major loss to an Account.

### **Commodity Interests are Volatile**

Commodity interest contracts are highly volatile and are subject to occasional rapid and substantial fluctuations. The profitability of an Account may depend on the ability of the Registrant to predict these fluctuations accurately. Price movements for commodity interests are influenced by, among other things: (i) changes in interest rates; (ii) governmental, agricultural, trade, fiscal, monetary and exchange control programs and policies; (iii) weather and climate conditions; (iv) changing supply and demand relationships; (v) changes in balances of payments and trade; (vi) rates of inflation; (vii) currency devaluations and revaluations; (viii) political and economic events; and (ix) changes in philosophies and emotions of market participants. In addition, governments from time to time intervene, directly and by regulation, in certain markets, often with the intent to influence prices directly. The effects of governmental intervention may be particularly significant at certain times in certain markets, and this intervention may cause these markets to move rapidly.

In 2008, world commodity markets experienced extraordinary market conditions, including, among other things, extreme volatility. Prices and trading volumes for certain commodities have experienced significant volatility in recent months as dislocations in the equity and credit markets have caused inflows of capital and the entrance of new market participants into the commodity markets. Fundamental demand for commodities in developing countries, such as China and India, has also contributed to increased volatility in prices of certain commodities.

### **Off-Exchange Transactions**

The Registrant may enter into off-exchange transactions, including spot, forward and option contracts. The Registrant may also engage in swap transactions, consisting primarily of an exchange of a fixed price for an average floating price of a set quantity of a particular security or commodity or fixed income instrument over an agreed period of time and even purchase cash securities or commodities if market conditions are believed to be warranted. Off-

exchange contracts are not regulated and such contracts are not guaranteed by an exchange or clearing house. Consequently, trading in these contracts is subject to more risks than future or options trading on regulated exchanges, including, but not limited to, the risk that a counterparty will default on an obligation. The counterparties will typically not be required to post collateral. Off-exchange transactions are also subject to legal risks, such as the legal incapacity of a counterparty to enter into a particular contract or the declaration of a class of contracts as being illegal or unenforceable.

### **Depository Receipts**

The Registrant may purchase sponsored or unsponsored American Depositary Receipts, European Depositary Receipts and Global Depositary Receipts (collectively "Depository Receipts") typically issued by a bank or trust company which evidence ownership of underlying securities issued by a corporation. Generally, Depository Receipts in registered form are designed for use in the U.S. securities market and Depository Receipts in bearer form are designed for use in securities markets outside the U.S. Depository Receipts may not necessarily be denominated in the same currency as the underlying securities into which they may be converted. Depository Receipts may be issued pursuant to sponsored or unsponsored programs. In sponsored programs, an issuer has made arrangements to have its securities trade in the form of Depository Receipts. In unsponsored programs, the issuer may not be directly involved in the creation of the program. Although regulatory requirements with respect to sponsored and unsponsored programs are generally similar, in some cases it may be easier to obtain financial information from an issuer that has participated in the creation of a sponsored program. Accordingly, there may be less information available regarding issuers of securities' underlying unsponsored programs and there may not be a correlation between such information and the market value of the Depository Receipts.

### **Pooled Investment Vehicles**

In the event that the Registrant seeks to pursue an Account's investment strategy, either in whole or in part, through Affiliated Funds or pooled investment vehicles managed by third party managers, there can be no assurance that the managers of such pooled investment vehicles will be successful in their investment strategies. In addition, the risk factors referred to in this Item 8 may apply equally to any such pooled investment vehicles in which an Account has invested and consequently, to the extent that an Account invests in any such pooled investment vehicles, such risk factors should be interpreted accordingly as applying to both an investment in the Accounts and the Accounts' investment in such pooled investment vehicles. In addition, an Account may be restricted from redeeming from a pooled investment vehicle which may lead to a suspension of the redemption rights in the Accounts. If the Registrant invests in any Affiliated Funds, the performance compensation and management fee, but not the administrative fee (if any), will be waived by such Affiliated Funds.

### **Exchange-Traded Funds**

The Registrant may cause its clients to invest in exchange-traded funds ("ETFs"). An ETF trades like common stock and represents a fixed portfolio of securities designed to track

a particular market index. The risks of owning an ETF generally reflect the risks of owning the underlying securities they are designed to track, although lack of liquidity in an ETF could result in it being more volatile and ETFs have management fees that increase their costs. ETFs are also subject to other risks, including: (a) the risk that their prices may not correlate perfectly with changes in the underlying index; and (b) the risk of possible trading halts due to market conditions or other reasons that, in the view of the exchange upon which an ETF trades, would make trading in the ETF inadvisable. An exchange-traded sector fund may also be adversely affected by the performance of that specific sector or group of industries on which it is based.

### **Contracts for Differences**

The Registrant may cause an Account to invest in contracts for differences ("CFDs"), which are privately negotiated contracts between two parties, buyer and seller, stipulating that the seller will pay to or receive from the buyer the difference between the nominal value of the underlying instrument at the opening of the contract and that instrument's value at the end of the contract. The underlying instrument may be a single security, stock basket or index. A CFD can be set up to take either a short or long position on the underlying instrument. The buyer and seller are both required to post margin, which is adjusted daily. The buyer will also pay to the seller a financing rate on the notional amount of the capital employed by the seller less the margin deposit. A CFD is usually terminated at the buyer's initiative. As is the case with owning any financial instrument, there is the risk of loss associated with buying a CFD. There may be liquidity risk if the underlying instrument is illiquid because the liquidity of a CFD is based on the liquidity of the underlying instrument. A further risk is that adverse movements in the underlying security will require the buyer to post additional margin. CFDs also carry counterparty risk, *i.e.*, the risk that the counterparty to the CFD transaction may be unable or unwilling to make payments or to otherwise honor its financial obligations under the terms of the contract. If the counterparty were to do so, the value of the contract, and of the Interests, may be reduced.

### **Nature of Certain Investments**

There is generally no limitation on the size or operating experience of the companies in which the Registrant may invest on behalf of the Accounts. Some small companies in which the Registrant may invest may lack management depth or the ability to generate internally or obtain externally the funds necessary for growth. Companies with new products or services could sustain significant losses if projected markets do not materialize. Further, such companies may have, or may develop, only a regional market for products or services and may be adversely affected by purely local events. Such companies may be small factors in their industries and may face intense competition from larger companies and entail a greater risk than investment in larger companies.

Entry into a CFD transaction may, in certain circumstances, require the payment of an initial margin and adverse market movements against the underlying stock may require the buyer to make additional margin payments. CFDs may be considered illiquid. To the extent that there is an imperfect correlation between the return on the Registrant's obligation to its

counterparty under the CFDs and the return on related assets in its portfolio, the CFD transaction may increase an Account's financial risk.

### **Investments in Initial Public Offerings**

The Registrant may cause an Account to invest in initial public offerings. Such investments offer the opportunity for significant appreciation; however, they are speculative and involve a high degree of risk. It is characteristic of the initial public offerings market that certain companies may be extremely successful, while a much higher percentage of newly-public companies fail. Thus, the risk of investing in initial public offerings is substantially greater than investing in the stock market as a whole.

### **Investing in Technology Companies.**

Investing in securities and other instruments of technology companies involves substantial risks. These risks include: the fact that certain companies in the portfolios of the Accounts may have limited operating histories; rapidly changing technologies and products which may quickly become obsolete; cyclical patterns in information technology spending which may result in inventory write-offs, cancellation of orders and operating losses; scarcity of management, engineering and marketing personnel with appropriate technological training; the possibility of lawsuits related to technological patents; changing investors' sentiments and preferences with regard to technology sector investments (which are generally perceived as risky) with their resultant effect on the price of underlying securities; and volatility in the markets affecting the prices of technology company securities, which may cause the performance of the Accounts to experience substantial volatility.

### **Investing in Telecommunications Companies.**

Investing in telecommunications companies involves substantial risks. These risks include: rapidly changing technologies and products which may quickly become obsolete; the possibility of damage to or failure of computer and telecommunications equipment, software systems, distribution facilities, and customer service centers; the possibility of unauthorized access to or sabotage of communications networks which may adversely affect market perception of these companies and consequently, adversely affect their business and financial conditions; exposure to significant and frequently changing federal, state, local, and international regulation which may affect the business or operations of these companies; and the possibility of lawsuits related to technological patents. As a result of the foregoing, the net asset value of such Account's portfolio may be negatively affected.

### **Investing in Media Companies**

The Registrant expects to focus a portion of its investment activities in media companies. These companies are sensitive to, among other things, global economic conditions, fluctuations in advertising expenditures (from which media companies derive substantial revenue), seasonal fluctuations, changes in public and consumer tastes and preferences (which are generally viewed as difficult to predict) for products, content, and services, rapidly changing technologies, theft of intellectual property (including lost revenue due to copyright

infringement), retention of key talent and management, merger and acquisition activity, and regulation and other political considerations. As a result of the foregoing, the net asset value of the Accounts' portfolio may be negatively affected.

### **Risks of Investments in Utilities Sector**

The Registrant expects to focus a portion of its investment activities in companies involved in, or supporting, the production and distribution of power and other utilities. These companies are sensitive to fluctuations in fuel supply and demand, interest rates, seasonal fluctuations, special risks of constructing and operating facilities (including nuclear facilities), lack of control over pricing, merger and acquisition activity and regulation. Such fluctuations may, among other things, increase compliance costs and the costs of doing business, and in the past have tended to limit the growth potential of utility companies. Historically, regulations have limited many utility companies to certain geographic areas and to certain lines of business. As a result of the foregoing, the net asset value of the Accounts' portfolio may be negatively affected.

### **Healthcare and Life Science Companies**

Investing in securities and other instruments of healthcare companies involves substantial risks, including but not limited to, the following: certain companies in the portfolio of the Accounts may have limited operating histories; rapidly changing technologies and the obsolescence of products; change in government policies; changing investors' sentiments and preferences with regard to healthcare sector investments (some of which are generally perceived as risky) may have an adverse effect on the price of underlying securities; volatility in the stock markets affecting the prices of healthcare company securities may cause the performance of the Accounts to experience substantial volatility; and most pharmaceutical and biotechnology companies, and many other companies in the healthcare sector, are subject to extensive government regulation. In addition, obtaining governmental approval for new products from governmental agencies can be lengthy, expensive and uncertain.

### **ABS and MBS**

The investment characteristics of asset-backed securities ("ABS") and mortgage-backed securities ("MBS") differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that the principal may be prepaid at any time because the underlying loans or other assets generally may be prepaid at any time. The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to default and foreclosures) occur on loans underlying MBS and ABS will be affected by a variety of factors including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. Generally, mortgage obligors tend to prepay their mortgage loans when prevailing mortgage rates fall below the interest rates on their mortgage loans. Particular investments may experience outright losses, as in the case of an interest only security in an environment of faster actual or anticipated prepayments. Also, particular investments may underperform relative to hedges that may have been constructed for these investments, resulting in a loss.

Mortgage loans on commercial properties underlying MBS are often structured so that a substantial portion of the loan principal is not amortized over the loan term but is payable at maturity and repayment of the loan principal thus often depends upon the future availability of real estate financing from the existing or an alternative lender and/or upon the current value and saleability of the real estate. Therefore, the unavailability of real estate financing may lead to default. Most commercial mortgage loans underlying MBS are effectively non-recourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related MBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of MBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed in lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property.

Through the use of trusts and special purpose corporations, various types of assets, primarily automobile and credit card receivables, are securitized in pass-through structures. Through collateralized debt obligations, the Registrant may invest in these and other types of ABS that may be developed in the future. ABS presents certain risks that are not presented by MBS. Primarily, these securities do not have the benefit of the same security interest in the related collateral. There is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor. The collateral supporting ABS is of shorter maturity than mortgage loans and is less likely to experience substantial prepayments. As with MBS, ABS are often backed by a pool of assets representing the obligations of a number of different parties and use credit enhancement techniques such as letters of credit, guarantees or preference rights. The value of an ABS is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement.

### **Farming Industry**

Demand for agricultural commodities such as wheat, corn and soybeans, both for human consumption and as cattle feed, has generally increased with worldwide growth and prosperity. However, there is no guarantee that such trends will continue. Global economic conditions, changing worldwide demand for food, the demand for different forms of bio-energy and governmental or other regulation could have an effect on prices for farm commodities which could have a material adverse effect on the Accounts. Further, farmland involves a number of uncontrollable risks. Severe weather conditions and natural disasters that prevent the planting of a crop or limit crop yields, such as floods, droughts, frosts or earthquakes, fires, or adverse growing conditions, diseases and insect-infestations may reduce the quantity and quality of available commodities and result in increased costs, with adverse financial consequences to the Accounts. Access to sufficient water is also essential for farmland. In certain cases, the farm



may require additional wells from which to obtain water, which in turn require permits prior to drilling such wells.

### **Agricultural Products and Equipment**

The Registrant's investment in agriculture-related assets is subject to, among other risks, government policies that can affect the market for agricultural products and equipment, by influencing interest rates and regulating economic activity. For example, government subsidies, the uncertainty created by policy changes and new government programs could cause a delay in purchases of agricultural equipment and products, and decrease the demand and value of such assets. Similarly, international and multilateral institutions, such as the World Trade Organization, can affect the market for agricultural equipment and products through initiatives for changes in governmental policies and practices regarding agricultural subsidies, tariffs and the production of genetically modified crops.

### **Tail Risk Investments**

The investment programs of the Accounts are highly speculative and entail substantial risks. The Registrant seeks to hedge specifically identified "tail risk" events and/or scenarios. Because these tail risk events and/or scenarios are perceived as having a low probability of occurrence, the Accounts are expected to incur material losses during normal market conditions. There can be no assurance that the "tail risk" events and/or scenarios hedged by the Registrant's investments will occur and/or materialize. Any failure of these events and/or scenarios to occur and/or materialize would likely adversely impact the value of the related investments. In addition, even if these events and/or scenarios do occur or materialize, the investments may not experience gains or adequately hedge against such events and/or scenarios. There may be "tail risk" events and/or scenarios not identified, or identified and not executed, that would adversely impact a generic portfolio and also adversely impact the investments. The Accounts' investment program may utilize such investment techniques as derivatives, option transactions, margin transactions, short sales, limited diversification, leverage and forward contracts, which practices can, in certain circumstances, increase the adverse impact to which the Accounts' portfolio may be subject. Furthermore, the Registrant's investments may be concentrated, complex and risky and, as a result, Limited Partners may experience a total or partial loss of their investment in the Accounts. Ultimately, there can be no assurance that the investment objectives of the Accounts will be achieved or that the investments will not incur a substantial or total loss.

### **Risks of Investments in the Energy, Natural Gas and Oil Industries**

The Registrant focuses its investment activities on behalf of certain of its Accounts in the global energy markets, which are sensitive to, among other things, fluctuations in fuel supply and demand, interest rates, seasonal fluctuations, special risks of constructing and operating facilities, lack of control over pricing, merger and acquisition activity and regulation. The price of energy products has recently been, and may continue to be, volatile and may cause large fluctuations in the value of an Account's assets. Among the factors that can cause volatility and wide fluctuations in the price of certain energy products are: (i) worldwide or regional

demand for energy, which is affected by economic conditions; (ii) the domestic and foreign supply, availability of storage capacity and inventories of gas and oil; (iii) weather conditions, including abnormally mild winter or summer weather, and abnormally harsh winter or summer weather; (iv) availability and adequacy of pipeline and other transportation facilities; (v) U.S. and non-U.S. governmental regulations, tariffs and taxes; (vi) geopolitical conditions in gas or oil producing regions and countries, including the risk of nationalization of the natural gas, oil and related sectors; (vii) the ability of members of the organization of petroleum exporting countries ("OPEC") to agree upon and maintain oil prices and production levels; (viii) the price and availability of alternative fuels; (ix) international and regional trade contracts, (x) labor contracts; and (xi) the impact of energy conservation efforts. The Funds' portfolio may be affected by such factors. In addition, a slow down in the global economy may affect the success of an Account's energy-related activities because it may affect interest rates, availability of credit, inflation rates and currency exchange rates, which in turn may have a negative impact on the price and demand for certain energy products.

The energy industry is subject to comprehensive U.S. Federal, state, local and international laws and regulations. For example, environmental and other governmental laws and regulations have increased the costs to plan, design, drill, install, operate and abandon natural gas and oil wells, while other laws have prevented exploration and drilling of natural gas in certain environmentally sensitive U.S. Federal lands and waters. Additionally, laws favoring the move toward hydro, solar and wind energies may have a negative impact on the price of traditional energy sources such as natural gas because of decreased demand. Regulation of the commodity interests and energy markets is extensive and constantly changing; future regulatory developments are impossible to predict but may significantly and adversely affect an Account. The regulation of commodity interest transactions in the U.S. is a rapidly changing area of law and is subject to ongoing modification by governmental and judicial action. In addition, various national governments have expressed concern regarding the disruptive effects of speculative trading in the energy markets and the need to regulate the derivatives markets in general. The effect of any future regulatory change on the energy markets is impossible to predict, but could be substantial and adverse.

### **Risks of Below Investment-Grade Investments**

The Master Fund may trade in corporate and government debt securities and instruments, which may be unrated or below investment grade. It is likely that many of the debt instruments purchased or sold by the Master Fund may be unrated, and whether or not rated, the debt instrument may have speculative characteristics. The issuers of such instruments may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal. Such instruments are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations and involve major risk exposure to adverse conditions. In addition, an economic recession could severely disrupt the market for most of these securities and may have an adverse impact on the value of such instruments. It is also likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

## **Risks of Investments in Contingent Convertible Securities**

The Master Fund may trade in contingent convertible securities ("CoCos"). CoCos are hybrid securities that are only convertible under certain conditions (for example, the right to convert can only be exercised if the price of the underlying stock is a certain percentage over the conversion price). CoCos may be structured such that upon the occurrence of a specific trigger event, the investor in such security is at risk of a total loss of their investment. In some cases, the principal can be written down to zero and the security is effectively cancelled; in other cases, the principal write-down is temporary and can be written back up. The uncertainty in (i) predicting the triggering events that would require the debt to convert to equity and (ii) measuring the losses the debt holder may suffer as a result of such trigger could result in losses to the Master Fund.

If CoCos held by the Master Fund are called for redemption, the Master Fund will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Furthermore, an issuer could refuse to permit the Master Fund to convert the CoCos into the underlying common stock, despite its obligation to do so. Any of these actions could have an adverse effect on the Master Fund's ability to achieve its investment objective.

## ITEM 9

### DISCIPLINARY INFORMATION

#### A. Criminal or Civil Proceedings

In connection with the administrative proceeding before the SEC described in Item 9B below, the SEC entered a complaint against GLG-LP for alleged violations of Rule 105 of Regulation M of the Securities Exchange Act of 1934 in connection with GLG-LP's short sales ahead of fourteen public offerings. The complaint alleged that, on sixteen occasions from July 2003 through May 2005, GLG-LP realized more than \$2.2 million in four of its managed hedge funds in contravention of Rule 105. Without admitting or denying the allegations in the SEC's complaint, on July 26, 2007, GLG-LP consented to pay a \$500,000 civil money penalty.

In an administrative proceeding described in Item 9B below, the SEC alleged that GLG-LP did not maintain sufficient controls relating to the valuation of Level 3 assets and as a result a private equity asset was overvalued from November 2008 through November 2010, resulting in inflated fee revenue of \$7,766,667 for GLG-LP and GLG Partners, Inc. ("GPI"), and that the overvaluation led to misstatements in GPI's filings with the SEC relating to the period from 2008 through the second quarter of 2010. Without admitting or denying the SEC's allegations, on December 12, 2013, GLG-LP and GPI agreed to each pay a civil money penalty in the amount of \$375,000, as well as to other remedial measures described in Item 9B below.

#### B. Administrative Proceedings Before Regulatory Authorities

In an administrative proceeding, the SEC alleged that GLG-LP violated Rule 105 of Regulation M of the Securities Exchange Act of 1934 in connection with GLG-LP's short sales ahead of fourteen public offerings. The SEC alleged that, on sixteen occasions from July 2003 through May 2005, GLG-LP realized more than \$2.2 million in four of its managed hedge funds in contravention of Rule 105. Without admitting or denying the SEC's findings, on July 26, 2007, GLG-LP agreed to cease and desist from committing or causing any violations and any future violations of Rule 105 and pay disgorgement of \$2,214,180 and prejudgment interest of \$489,455.94.

In an administrative proceeding, the SEC alleged that GLG-LP did not maintain sufficient controls relating to the valuation of Level 3 assets and that, as a result, relevant information relating to the valuation of a single private equity asset was not provided to the Independent Pricing Committee in a timely manner. The SEC alleged that, as a result of the inadequacies of GLG-LP's controls, the private equity asset was overvalued from November 2008 through November 2010, resulting in inflated fee revenue of \$7,766,667 for GLG-LP and GPI, and that the overvaluation led to misstatements in GPI's filings with the SEC relating to the period from 2008 through the second quarter of 2010. Without admitting or denying the SEC's allegations, on December 12, 2013, GLG-LP and GPI consented to the entry of an administrative order and agreed to pay disgorgement of \$7,766,667, plus pre-judgment interest of \$437,679. In

addition, GLG-LP and GPI each agreed to pay a civil money penalty in the amount of \$375,000, as well as to other remedial measures, including the appointment of an external consultant to review the pricing policy and procedures around the valuation of Level 3 assets.

## ITEM 10

### OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

#### A. **Broker-Dealer Registration Status**

The Registrant is not registered as a broker-dealer and does not have any application pending to register with the SEC as a broker-dealer. There are certain management persons of the Registrant which are also registered representatives of a broker-dealer. The Registrant's affiliate, Man Investments Inc. ("MII") is a limited purpose broker-dealer registered with the SEC and a member of Financial Industry Regulatory Authority, Inc. ("FINRA"). MII may act as solicitor, selling agent and/or investor servicing agent for certain Funds for which it may or may not be compensated.

#### B. **Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Adviser Registration Status**

The Registrant is a commodity pool operator, commodity trading advisor and is registered with the Commodity Futures Trading Commission ("CFTC") and a member of the National Futures Association ("NFA").

#### C. **Material Relationships or Arrangements with Industry Participants**

The Registrant is affiliated with GLG Partners International Limited, an investment adviser registered with the SEC and authorized and regulated by the Financial Services Authority in the United Kingdom. The Registrant is also affiliated with GLG-LP, an investment adviser registered with the SEC and authorized and regulated by the Financial Services Authority in the United Kingdom. The Registrant is also affiliated with GLG Partners Hong Kong Limited, an investment adviser licensed by the Hong Kong Securities and Futures Commission. Furthermore, the Registrant is affiliated with and under common ownership with: (i) GLG Ore Hill LLC, an investment adviser registered with the SEC; (ii) Man Investments (USA) Corp., an investment adviser registered with the SEC and commodity pool operator registered with the Commodity Futures Trading Commission ("CFTC") and a member of the National Futures Association ("NFA"), (iii) FRM Investments (USA) LLC, an investment adviser registered with the SEC and commodity pool operator registered with the CFTC and a member of the NFA, and (iv) Man Investments Inc., a limited purpose broker dealer registered with the SEC and member of the Financial Industry Regulatory Authority, Inc. which provides marketing and placement agent services. FRM Investments (USA) LLC may, on behalf of its clients and/or funds, invest in the Funds advised by the Registrant or its affiliates. Nevertheless, FRM Investments (USA) LLC undergoes the same due diligence process for investments it considers in Funds advised by the Registrant as it would for unaffiliated funds.

The Registrant, its affiliates and its personnel serve as investment advisers and investment managers to multiple pooled investment vehicles and managed accounts. The Registrant, its affiliates and its personnel may take action or give advice with respect to certain clients and accounts that differs from the advice given to other clients and accounts. The Registrant, its affiliates and its personnel will devote as much time to the activities of each client or account as they deem necessary and appropriate and the amount of time devoted to different clients and accounts may vary.

**D. Material Conflicts of Interest Relating to Other Investment Advisers**

The Registrant does not recommend or select other investment advisers for its clients.

## ITEM 11

### CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

#### A. Code of Ethics

Potential and actual conflicts of interest may arise from the activities described herein. The Registrant has established policies and procedures to monitor and to the extent possible resolve conflicts and will endeavor to resolve conflicts with respect to investment opportunities in a manner it deems equitable to the extent possible under the prevailing facts and circumstances.

The Registrant strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. Accordingly, the Registrant has adopted a Code of Ethics pursuant to the Advisers Act that is applicable to all of the Registrant's employees. The Code of Ethics contains policies and procedures that, among other things:

- Require employees to observe fiduciary duties owed to clients;
- Prohibit employees from taking personal advantage of opportunities belonging to clients;
- Prohibit trading on the basis of material nonpublic information;
- Place limitations on personal trading by employees and impose pre-clearance and reporting obligations with respect to such trading (except for US open-ended mutual funds, US Treasury securities, or other investments listed in the Code of Ethics);
- Impose limitations on the giving or receiving of gifts and entertainment;
- Restrict employees' outside business activities;
- Require pre-clearance on political contributions; and
- Prohibit disclosure by employees of confidential information of the Registrant and its clients.

The Registrant's employees are also subject to the prohibition on trading on the basis of material nonpublic information and to the limitations and pre-clearance requirements on personal trading. Employee personal trades in securities covered by the Code of Ethics are monitored by the Chief Compliance Officer, or designee and governed by the procedures set forth in the Code of Ethics. Employees may from time to time have proprietary investments in which clients advised or sub-advised by the Registrant also take a position, may trade and invest



simultaneously with such clients, and may take investment positions that are different from or opposite to the positions taken by such clients. In general, all personal securities transactions (except for US open-ended mutual funds, US Treasury securities, or other permitted investments listed in the Code of Ethics) are subject to pre-clearance by the Chief Compliance Officer, or designee. A copy of the Registrant's Code of Ethics is available to clients and prospective clients upon request.

Furthermore, the Registrant has adopted procedures to prevent and detect misuse of material nonpublic information. Specifically, the Registrant's procedures prohibit any employee from trading, either personally or on behalf of others (such as client accounts advised or sub-advised by the Registrant), while in possession of material, nonpublic information, and prohibit employees from communicating material, nonpublic information to others in violation of the law.

From time to time, as part of its business activities, the Registrant may come into possession of non-public information concerning specific issuers. Under applicable laws and the Registrant's procedures, this may limit the Registrant's flexibility to buy or sell securities of such issuers.

Related persons and personnel of the Registrant and its affiliates (the "Advisory Affiliates") may invest in or have a financial interest in the Funds and may not invest in all such Funds. It is expected that the size of these investments or the financial interest will change over time. Potential conflicts may arise due to the fact that the Advisory Affiliates may have investments or financial interests in some Funds but not in others or may have different levels of investments or financial interests in various Funds, and because the Funds may pay different levels of fees.

In addition, certain Advisory Affiliates may from time to time make personal investments in securities or financial instruments which may be appropriate for, may be held by, or may fall within client investment guidelines. Such Advisory Affiliates may buy, sell, or hold securities or other financial instruments for their own accounts while entering into different investment decisions for one or more clients. These activities may adversely affect the prices and availability of securities or financial instruments held by or potentially considered for one or more clients.

From time to time, the Registrant or Advisory Affiliates may form and manage additional pooled investment vehicles and advise other client accounts with similar or different investment strategies as the Funds or managed accounts currently advised or sub-advised by the Registrant. It may be appropriate for more than one Fund or managed account advised by the Registrant to trade in the same securities at the same time. The Registrant has policies and procedures regarding such trades.

**B. Securities that the Investment Adviser or a Related Person Has a Material Financial Interest.**

**1. Cross Transactions and Principal Transactions**

The Registrant or GLG-LP may effect cross transactions on behalf of clients (including clients advised by GLG-LP) in connection with portfolio rebalancing or other situations such as cash flow events, among others. Such cross transactions may be arranged through a broker and effected at an independently verifiable current price where such can be ascertained. For cross trades involving non-exchange listed securities, to the extent possible, quotes are obtained from different brokers. Commissions may or may not be charged in cross trades. A determination will be made as to whether a cross transaction is appropriate for a given client or in a given transaction and in accordance with any client or regulatory restrictions. Each cross transaction will be performed consistently with the Registrant's policies and procedures.

To the extent that such cross transactions may be viewed as principal transactions due to the ownership interest in a client by the Registrant or its personnel, the Registrant will comply with the requirements of Section 206(3) of the Advisers Act, including that the Registrant will notify the applicable client (or an independent representative of the client) in writing of the transaction and obtain the client's consent (or the consent of an independent representative of the client).

**2. Allocation of Investment Opportunities**

The Registrant may provide discretionary advisory or sub-advisory investment advice and/or management services to multiple client accounts that may seek to invest in the same investment opportunities. In addition, GLG-LP may provide investment advice to multiple client accounts advised by it that may seek to invest in the same investment opportunities as the Registrant's clients. This will create potential conflicts and potential differences among client accounts, particularly where there is limited availability or limited liquidity for those investments. The Registrant and GLG-LP have developed policies and procedures that provide that investment opportunities will be allocated and purchase and sale decisions will be made among these client accounts in a manner that is considered to be reasonable and equitable over time and in a manner that is consistent with each client's investment objectives and guidelines.

The Registrant may determine that an investment opportunity or particular purchases or sales are appropriate for one or more client accounts, but not for other clients, or are appropriate for or available to certain clients but in different sizes, terms, or timing than is appropriate for others. The Registrant will make allocations for client accounts of such investments with reference to numerous factors including, without limitation, the Registrant's perception of the appropriate risks and rewards for each client account, investment objectives and guidelines of each client account, leverage of each client account, the liquidity of the account at the time of the investment and on a going-forward basis, risk parameters for each client account, regulatory restrictions affecting the client, and such other factors as are relevant in the judgment of the Registrant or GLG-LP. Although allocating orders among client accounts may create potential conflicts of interest because of the interests of the Registrant or its employees or

because the Registrant may receive greater fees or compensation from one client account over another, the Registrant will not make allocation decisions based on such interests or greater fees or compensation. Allocation among accounts in any particular circumstance may be more or less advantageous to any one account. In addition, transactions in investments by multiple client accounts may have the effect of diluting or otherwise impairing the values, prices or investment strategies of an individual client, particularly, but not limited to, in small capitalization, emerging market, or less liquid strategies. Therefore, the amount, timing, structuring, or terms of an investment by some clients may differ from, and performance may be lower than, investments and performance of other clients.

In addition, the Registrant may acquire securities or other financial instruments of an issuer for one client that are senior or junior to securities or financial instruments of the same issuer held by, or acquired for, another client (*e.g.*, one client may acquire senior debt while another client may acquire subordinated debt). The Registrant recognizes that conflicts may arise under such circumstances and will endeavor to treat all clients fairly and equitably.

**C. Investing in Securities that the Investment Adviser or a Related Person Recommends to Clients**

The Code of Ethics places restrictions on personal trades by employees, including that they disclose their personal securities holdings and transactions to the Registrant on a periodic basis, and requires that employees pre-clear certain types of personal securities transactions. Generally, and subject to certain exceptions, the Registrant's employees may not engage in personal securities trading without pre-clearance. Accordingly, under certain circumstances, the Registrant, its affiliates and its employees may invest on behalf of themselves in securities and other instruments that would be appropriate for, held by, or may fall within the investment guidelines of clients.

The Registrant, its affiliates and its employees may give advice or take action for their own accounts that may differ from, conflict with or be adverse to advice given or action taken for clients. These activities may adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more clients. Potential conflicts also may arise due to the fact that the Registrant and its personnel may have investments in some Funds but not in others or may have different levels of investments in the various Funds.

The Registrant has established policies and procedures to monitor and resolve conflicts with respect to investment opportunities in a manner it deems fair and equitable, including the restrictions placed on personal trading in the Code of Ethics, as described above, and regular monitoring of employee transactions and trading patterns for actual or perceived conflicts of interest, including those conflicts that may arise as a result of personal trades in the same or similar securities made at or about the same time as client trades.

The Registrant may invest on behalf of its clients in the securities of Man Group plc, the ultimate owner of the Registrant.

**D. Conflicts of Interest Created by Contemporaneous Trading**

The Registrant manages investments on behalf of a number of clients. Certain clients have investment programs that are similar to or overlap and may, therefore, participate with each other in investments. It is the policy of the Registrant to allocate investment opportunities among all clients fairly, to the extent practical and in accordance with each client's applicable investment strategies, over a period of time. The Registrant will have no obligation to purchase or sell a security for, enter into a transaction on behalf of, or provide an investment opportunity to any client solely because the Registrant purchases or sells the same security for, enters into a transaction on behalf of, or provides an opportunity to any client if, in its reasonable opinion, such security, transaction or investment opportunity does not appear to be suitable, practical or desirable for the client.

Allocations of initial public offerings or other limited offerings ("Limited Offering") by the Registrant or GLG-LP will be made in a fair and equitable manner among clients (which may also include clients advised by GLG-LP). Allocations will be made among accounts eligible to participate in a Limited Offering taking into account factors such as long term investment horizons, investment objectives and guidelines, different levels of investment for different strategies, the overall portfolio composition for each account, and such other relevant factors. Eligibility to participate in a Limited Offering may include but is not limited to consideration of the following factors: (i) clients whose investment guidelines explicitly prohibit such investment, (ii) "restricted persons" under the FINRA New Issues Rule 5130 or an executive officer or director of a public company or a covered non-public company, or a person materially supported by such an executive officer or director, as contemplated under FINRA New Issues Rule 5131, (iii) in accordance with FINRA Rule, (iv) suitability requirements, (v) account turnover guidelines, and (vi) available investable capital.

## ITEM 12

### BROKERAGE PRACTICES

#### A. **Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions**

The Registrant will place orders for the execution of transactions for client accounts in accordance with its best execution policies, which take into account a number of factors including, among other things, commission rates (and other transactional charges), the broker's financial strength, ability to commit capital, stability and responsibility, reputation, reliability, overall past performance of services, research capability and coverage, responsiveness to the Registrant as well as means of communication, quality of recommendations, deal calendar, ability to execute trades based on the characteristics of a particular trade, technology and trading systems, trading activity in a particular security, block trading and block positioning capabilities, nature and frequency of sales coverage, net price, depth of available services, arbitrage operations, bond capability and options operations, investment banking coverage, capacity of syndicate operations, the availability of stocks to borrow for short trades, willingness to execute related or unrelated difficult transactions, order of call, back office, processing and special execution capabilities, efficiency and speed of execution, and error resolution. Accordingly, transactions will not always be executed at the lowest available price or commission.

The Registrant does not adhere to any rigid formulas in selecting brokers, but weighs a combination of factors. There is, however, no formulaic correlation between this evaluation and the allocations of brokerage for client accounts advised or sub-advised by the Registrant. Because of the range of factors considered by the Registrant, it is possible that the Registrant's clients may pay brokerage commissions in excess of that which another broker might have charged for effecting the same transaction. Nevertheless, the Registrant will make a good faith determination that the amount of commission is reasonable in relation to the value of the products and services received, the broker's execution ability, and other factors.

##### 1. **Research and Other Soft Dollar Benefits**

The Registrant may select brokers that furnish the Registrant and/or personnel, directly or through correspondent relationships with third parties, research, or other products or services (collectively, "Products and/or Services"). In selecting brokers to execute transactions, the Registrant need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost.

In selecting brokers, the Registrant may also take into account the value of one or more Products and/or Services, either provided by the broker, or paid for by the broker (either by direct or reimbursement payments (in whatever form) or by commissions, mark-ups or credits or by any other means). The Registrant will use reasonable efforts to ensure that the Products and/or Services are related to the execution of trades; related to the provision of research; or will

reasonably assist the Registrant in the provision of services to its clients on whose behalf orders are being executed. The Registrant intends that its use of Products and/or Services will comply with the "safe harbor" of Section 28(e) of the Securities Exchange Act of 1934 (as amended).

In the last year, research services provided by broker-dealers has generally included information on the economy, industries, groups of securities, individual companies, statistical information, accounting and tax law interpretations, political developments, legal developments affecting portfolio securities, technical market action, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis, and analysis of corporate responsibility issues. Such research services are received primarily in the form of written reports, telephone contacts, and personal meetings with security analysts. In addition, such research services may be provided in the form of access to various computer-generated data, computer hardware and software, and meetings arranged with corporate and industry spokespersons, economists, academicians, and government representatives. In some cases, research services are generated by third parties but are provided to the Registrant by or through broker-dealers.

The Registrant's clients may be deemed to be paying for such Products and/or Services with "soft" or commission dollars. The extent to which commission rates or net prices charged by brokers reflect the value of Products and/or Services cannot be readily determined. Although the Registrant believes that a client may benefit from the Products and/or Services obtained with commissions generated by trades made by the client, the client may not benefit from all of the services paid for in this manner. The relationships with brokerage firms that provide Products and/or Services to the Registrant may influence the Registrant's judgment in allocating brokerage business and create a potential conflict of interest in using the services of those brokers to execute the client's brokerage transactions. The Registrant may have an incentive to select or recommend a broker-dealer based on the Registrant's interest in receiving research or other Products and/or Services, rather than on the Registrant's clients' interest in receiving the most favorable execution.

The Registrant may execute securities transactions with multiple executing brokers, including the various prime brokers appointed for the Funds. Many of these brokers provide the Registrant with access to proprietary research reports (such as standard investment research) which may be used for any or all accounts. To the best of the Registrant's knowledge, these and other Products and/or Services are generally made available to all institutional investors doing business with such brokers. These bundled services are made available on an unsolicited basis and without regard to the rates of commissions paid by the Registrant's clients or the volume of business the Registrant directs to such brokers. Since these products and/or services are merely made available by brokers as part of a bundled business package to the Registrant, who may or may not use them, it is the Registrant's understanding that such brokers do not set discrete prices for such products and/or services. Accordingly, the Registrant does not separately compensate such brokers for the provision of such services.

Products and/or Services obtained by the Registrant may be used in servicing any or all of the clients advised by the Registrant. In addition, some Products and/or Services may not necessarily be used in whole or in part by the Registrant in managing the client account that

generated the commissions used to pay for such Products and/or Services. The Registrant does not seek to allocate soft dollar benefits to client accounts in proportion to the soft dollar credits the client accounts generate. Furthermore, other clients may receive the benefit, including disproportionate benefits, economies of scale or price discounts in connection with Products and/or Services that may be provided to a client.

As described above, there may be circumstances whereby the Registrant utilizes the investment management and/or trading capabilities of GLG-LP in providing services to certain clients. In these circumstances, commissions paid by such clients may be used by GLG-LP to obtain Products and/or Services which may be used in servicing any and all clients advised by GLG-LP and clients of the Registrant, including or excluding the clients that paid such commissions.

If a product or service obtained provides both research and non-research assistance to the Registrant (i.e., a "mixed use item"), the Registrant will make a good faith effort to determine the relative proportion of the product or service used to assist the Registrant in carrying out its investment decision making responsibilities, and the relative proportion used for administrative or other non-research purposes. The proportionate amount of the product or service that is used to assist the Registrant in carrying out its investment decision making responsibilities will be paid through brokerage commissions generated by client transactions; the proportionate amount attributable to administrative or other non-research purposes will be paid for by the Registrant from its own resources. In making good faith allocations of costs between administrative benefits and research and brokerage services, a conflict of interest may exist by reason of the Registrant's allocation of the costs of such benefits and services between those that primarily benefit the Registrant and those that primarily benefit clients.

Consistent with the foregoing, the Registrant will seek best execution when it has discretionary authority to select brokers. From time to time, the Registrant may use "step-out" trade mechanisms to effect brokerage transactions, including but not limited to comply with client instructions (e.g. approved brokers list or directed brokerage arrangements). A step-out trade allows for execution through one broker who steps out all or a portion of the trade in favor of the other broker. The commission is charged by the other broker, or clearing broker and the executing broker receives compensation only for the portion of the trade that was not stepped-out, as applicable.

GLG-LP assists the Registrant in the management and processing of commission sharing arrangements. GLG-LP has entered into a number of global commission sharing agreements with brokers to facilitate the payments for Products and/or Services that are provided to the Registrant and/or GLG-LP by third party providers of Products and/or Services including other brokers and vendors.

## **2. Brokerage for Client Referrals**

As discussed above, subject to best execution, the Registrant may consider, among other things, capital introduction and marketing assistance with respect to investors in the Funds in selecting or recommending broker-dealers for the Funds.

### 3. **Directed Brokerage**

The Registrant may recommend brokers to be used by client accounts. In making these recommendations, the Registrant will generally take into account the factors and considerations discussed above. In addition, the Registrant may select brokers in accordance with a client's instructions (e.g., approved brokers list or directed brokerage arrangements). In these circumstances, it shall be the client's responsibility for evaluating such brokers. The Registrant will seek to obtain best execution while complying with the client's instructions to the extent possible.

### B. **Order Aggregation**

The Registrant may, but is not required to, aggregate orders for its clients (including the Funds or together with GLG-LP other clients or accounts advised by GLG-LP) if, in the Registrant's reasonable judgment, such aggregation is reasonably likely to result in an overall economic benefit to the client and such other accounts or entities based on an evaluation that they will be benefited by relatively better purchase or sale prices, lower commission expenses or beneficial timing of transactions, or a combination of these and other factors. It should be noted that only trades that the trader is aware of at the time such trader is placing an order will be aggregated. There may be times where more than one trader is placing an order for the same security and such orders are not aggregated. In many instances, the purchase or sale of financial instruments for a client account will be effected simultaneously with the purchase or sale of similar financial instruments for other client accounts. When an aggregated order is filled through multiple trades at different prices on the same day, each participating client account will typically receive an average price with transaction costs allocated pro-rata based on the size of each client's participation in the order (or actual allocation such as in the case of a partial fill) as determined by the Registrant. It should be noted that aggregated transactions may be made at slightly different prices, due to the volume of financial instruments purchased or sold. In the event of a partial fill, allocations will generally be made *pro rata* based on the initial order, but may be modified on a basis that the Registrant deems to be appropriate, including for example, in order to avoid odd lots or *de minimis* allocations among other factors. It should be noted that on some occasions, aggregating orders may work to the client's disadvantage. Clients with specific instructions (e.g. approved brokers list or directed brokerage arrangements) may not be included in aggregated trades.

### C. **Trade Error Policy**

In the event that the Registrant or GLG-LP experiences an error with respect to trades made on behalf of clients, the Registrant or GLG-LP will correct such error in accordance with its policies and procedures. If the Registrant or GLG-LP, in its sole discretion determines that a client should be reimbursed as a result of a trade error caused by the Registrant or GLG-LP, interest will generally not be paid on such losses.



## ITEM 13

### REVIEW OF ACCOUNTS

#### A. **Frequency and Nature of Review of Client Accounts or Financial Plans**

The Registrant's portfolio management team, including portfolio managers, research analysts, and traders, are primarily responsible for reviewing accounts of the clients and do so individually or in a group, depending upon account needs and market conditions. The portfolio management team, individually or in a group, perform daily, weekly, or monthly reviews of all accounts as they deem appropriate or as otherwise required. Reviews may be undertaken because of changes in market conditions; change of security positions; changes in investment objectives or policies; capital inflows/outflows; and other reasons. Various matters may be discussed during such reviews, (*e.g.*, performance of accounts in connection with investment objectives, portfolio construction, risk/reward, security positions, and investment opportunities).

#### B. **Factors Prompting Review of Client Accounts Other than a Periodic Review**

A review of a client account may be triggered by changes in market conditions; change of security positions; changes in investment objectives or policies; capital inflows/outflows; and other reasons.

#### C. **Content and Frequency of Account Reports to Clients**

In connection with the GLG Funds, transaction information is reported on a daily basis to GLG-LP. For other clients, the requirements for frequency and content of reports will be set forth in the documents for each client account.

Investors in the Funds generally receive estimated and final monthly statements, as applicable, generally showing account values, changes in account values, account activity, asset allocation, currency exposure and performance. Investors in the Funds also generally receive audited financial statements prepared within 120 days of the applicable Fund's fiscal year end.

While all investors generally receive similar information, to the extent an investor receives additional information (that other investors have not received), which is in addition to information provided in a Fund's regular reports to investors, such information may provide such investor with greater insight into the Fund's activities. This may enhance such investor's ability to make investment decisions with respect to the Fund and possibly affect such investor's decision to request a redemption from the Fund.

## ITEM 14

### CLIENT REFERRALS AND OTHER COMPENSATION

#### A. Economic Benefits for Providing Services to Clients

The Registrant does not receive economic benefits from non-clients for providing investment advice and other advisory services.

#### B. Compensation to Non-Supervised Persons for Client Referrals

From time to time, Registrant or its affiliates may engage affiliated and non-affiliated entities, including SEC-registered broker-dealers, to solicit investors or act as selling agent, marketing consultant or investor services agent for a Fund, for which such parties receive compensation. Such compensation generally may be an upfront selling commission, a percentage of the management fees and/or performance-based compensation earned by Registrant or an Adviser or any of their affiliates based on investments by such investors, ongoing services compensation, a fixed amount or other agreed upon compensation. The Registrant or its affiliates may benefit from the arrangements where clients are referred directly to it and/or investors are referred directly to a Fund, since the management fees are generally based upon a percentage of such client's assets under management. Thus the more assets Registrant or its affiliates has under management, the higher the management fee income. If applicable, any such arrangement with a third-party placement agent will comply with Rule 206(4)-3 under the Advisers Act.

MII, an affiliate of Registrant, acts as the selling agent and/or investor servicing agent for certain Funds. Registrant may pay a portion of its fees to MII for its services. MII may also may receive compensation directly from a Fund. In addition, MII has entered into agreements with other broker-dealers and certain financial advisers to solicit interests in Funds and/or to provide ongoing investor services and account maintenance services to investors. Each such broker-dealer and financial adviser generally receives compensation based on the aggregate value of outstanding interests held by investors that receive services from such persons, fixed amounts or other agreed upon compensation. Such compensation generally will be paid by MII from the fees that it receives from a Fund, Registrant or an Adviser.

## **ITEM 15**

### **CUSTODY**

The Registrant is subject to Rule 206(4)-2 under the Advisers Act (the "Custody Rule"). However, it is not required to comply (or is deemed to have complied) with certain requirements of the Custody Rule with respect to each Fund because it complies with the provisions of the so-called "Pooled Vehicle Annual Audit Exception", which, among other things, requires that each Fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that each Fund distribute its audited financial statements to all investors within 120 days of the end of its fiscal year.

For the Registrant's clients that are investment management companies or managed accounts, the Registrant does not have custody of the assets held by such accounts.

## **ITEM 16**

### **INVESTMENT DISCRETION**

In general, the Registrant provides discretionary advisory or sub-advisory investment advice and/or management services to its clients. As such, the Registrant has discretion regarding all decisions and is authorized to determine and direct execution of portfolio transactions within each client's specified investment objectives, restrictions and policies. However, the Registrant's discretion is subject to limits imposed on the investment manager as described in the applicable offering document in the case of the Funds, as applicable, and investment management agreements or other relevant documents with each client advised or sub-advised by the Registrant. The Registrant utilizes the investment management and/or trading capabilities of GLG-LP in providing services to certain clients. In such circumstances, GLG-LP places orders on behalf of such clients (together with its own clients), and allocates trades, in the manner described in Item 11 herein. Accordingly, for purposes of the responses to Item 11, references to the Registrant shall be deemed to include GLG-LP to the extent that GLG-LP provides investment management and/or trading capabilities with respect to clients of the Registrant.

## ITEM 17

### VOTING CLIENT SECURITIES

Registrant has adopted policies and procedures to ensure that any proxy voted on behalf of its clients is voted in a manner which is in the best interests of such clients.

Where proxy votes may be voted for clients at Registrant's or the Portfolio Manager's discretion, where Registrant has been specifically instructed by a client to vote proxies or where Registrant is required to vote a proxy for a client (each a "Proxy Client"), such proxies will be evaluated and voted in the best interest of the relevant Proxy Client(s) with the goal of increasing the overall economic value of the investment. It should be noted that there may be times whereby Portfolio Managers invest in the same securities/assets while managing different investment strategies and/or client accounts; accordingly, it may be appropriate in certain cases that such securities/assets are voted differently across different investment strategies and/or client accounts, based on their respective investment thesis and other portfolio considerations.

With respect to any ERISA clients for which Registrant is an investment manager, Registrant will act prudently and solely in the interest of the participants and beneficiaries of such ERISA client. Registrant will only vote proxies on securities currently held by clients. Proxies received for securities that are loaned will generally not be voted.

Registrant will endeavour to identify material conflicts of interest, if any, which may arise between Registrant and one or more issuers of clients' portfolio securities, with respect to votes proposed by and/or affecting such issuer(s), in order to ensure that all votes are voted in the overall best interest of clients. Registrant has established a Proxy Voting Committee to be responsible for resolving proxy voting issues when deemed necessary; making proxy voting decisions where a material conflict of interest may exist; monitoring compliance with the Global Proxy Voting Policy; and setting new and/or modifying existing policy.

Registrant has appointed, and will appoint from time to time, one or more proxy voting service companies, to provide it with proxy voting services for certain Proxy Clients. Where applicable, Registrant will generally vote proxies for the relevant Proxy Clients in accordance with the relevant proxy voting service company's proxy voting guidelines, unless otherwise specifically instructed to vote otherwise by the Portfolio Manager or such Proxy Client.

Such guidelines generally provide that (i) when the view of the company's management is favourable, Registrant will generally support current management initiatives with exceptions as noted below and (ii) when the view is that changes to the management structure would probably increase shareholder value, Registrant will not necessarily support current management initiatives. Exceptions in supporting current management initiatives may include:

- Where there is a clear conflict between management and shareholder interests, the Proxy Voting Guidelines may call to elect to vote against management.
- In general, the Proxy Voting Guidelines will call to oppose proposals that act to entrench management.
- In some instances, even though Registrant may support management, there may be corporate governance issues that, in spite of management objections, Registrant believes should be subject to shareholder approval.

Furthermore, with respect to certain proxy issues including, but not limited to, option re-pricing and the terms and conditions of members of the Board of Directors, Registrant may choose to vote on a case-by-case basis, which may be different from the recommendations set forth in relevant proxy voting guidelines. Nevertheless, in voting proxies, Registrant will take into account what is the overall best economic interest of its Proxy Clients. Registrant will maintain documentation memorializing the decision to vote a proxy in a manner different from what is stated in the relevant proxy voting guidelines.

Registrant may abstain from voting a proxy when it is determined that the cost of voting the proxy exceeds the expected benefit to the client. Documentation will be maintained of all proxies that are not voted for Proxy Clients and the reasons therefor where Registrant has been instructed by the Proxy Client to vote.

Upon request, clients may receive a copy of Registrant's Global Proxy Voting Policy and/or information regarding the manner in which securities held in their account were voted by contacting Registrant at 1(212) 649-6800.

### **Class Actions**

Registrant will generally not participate in class actions unless otherwise agreed to between Registrant and client as specifically stated in the client's investment management agreement.

## **ITEM 18**

### **FINANCIAL INFORMATION**

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