

**Item 1. Cover Page**

**Partner Fund Management, L.P.  
Part 2A of Form ADV  
The Brochure**

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This brochure provides information about the qualifications and business practices of Partner Fund Management, L.P. (“PFM”) and Partner Investment Management, L.P. (“PIM,” together with PFM, the “Advisers,” “we,” “our” or “us”). If you have any questions about the contents of this brochure, please contact our Compliance Department at (415) 281-1000. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about the Advisers and their Affiliated Advisers (as defined herein) is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2            Material Changes**

Since the last annual updating amendment, filed on March 31, 2015, we have made the following material changes to the Brochure:

- The Advisers' amount of regulatory assets under management;
- The launch of a new strategy and related Funds;
- Brian Grossman was made a co-managing partner of the Adviser; and
- Certain other revisions and clarifications, including, certain amendments to Section 5: Direct Expenses of the Funds and Fees of the Administrator.

**Item 3.**

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

Partner Fund Management, L.P. and Partner Investment Management, L.P. are each a Delaware limited partnership with their principal place of business in San Francisco, California. The Advisers serve as investment advisers to private investment funds in which qualified investors invest directly (the “Feeder Funds”). Certain Feeder Funds, in turn, invest substantially all of their assets in Cayman Islands exempted limited partnerships for which PFM serves as investment adviser (the “Master Funds,” and together with the Feeder Funds, the “Funds”), which invest directly in investment instruments. The Advisers may also serve as investment advisers to separately managed accounts (“Managed Accounts”) for sophisticated investors with which the Advisers have entered into investment advisory agreements (together with the Funds, “Clients”). The Advisers receive certain assistance in providing investment advice from their affiliates, Partner Advisory Services, L.P. (“PAS”), a Delaware limited partnership, and Partner Fund Management, Inc. (“PFMI”), a Delaware corporation. PFMI and PAS are referred to herein as the “Affiliated Advisers.” Where applicable, the term “Funds” also includes any Managed Accounts.

PFM has been in the investment advisory business since its inception in September 2004. PIM has been in the investment advisory business since its inception in April 2008. Christopher M. James and Brian Grossman are the principal owners of the Advisers and Affiliated Advisers. As of December 31, 2015, the Advisers had approximately \$6.107 billion of Client regulatory assets under management, all of which are managed on a discretionary basis.

The Advisers manage the Funds on a discretionary basis. The Advisers have broad discretion with respect to the Funds’ investment decisions, selection of brokers, dealers and other counterparties, and the amount of commissions or other compensation to be paid by the Funds. The Advisers provide investment advisory services to the Funds based on the particular investment objectives and strategies described in the relevant Feeder Fund’s Offering Documents (defined below).

Unless otherwise specified herein, all discussions relating to the Advisers relate equally to each of PFM, PIM and the Affiliated Advisers, as applicable. PFMI provides, on an exclusive basis, research and trading services to the Advisers. PAS acts as a sub-advisor to PFM.

**All discussions of the Funds in this brochure, including but not limited to their investments, the strategies used in managing the Funds, the fees, allocations and other costs associated with an investment in the Funds, and conflicts of interest faced by the Advisers and their Affiliated Advisers in connection with management of the Funds are qualified in their entirety by reference to each Fund’s respective confidential offering circular or private offering memorandum (if any) and the governing documents of that Fund (referred to collectively as “Offering Documents”).**

In addition to the Funds, the Advisers may provide investment advisory services to Managed Accounts. These services are generally provided on a discretionary basis, as set forth in a written investment advisory agreement, and generally involve the purchase and sale of securities and other financial instruments by the Managed Account consistent with the its particular investment objectives and strategies.

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

The Advisers do not have a fee schedule. The fees and expenses associated with an investment in the Funds vary, depending on the Fund, and are described in detail in each Feeder Fund's Offering Documents or each Managed Account's investment advisory agreement. The Advisers may, in their discretion, manage other Funds with higher or lower fees, different fee structures, different expense payment arrangements and different withdrawal or redemption rights, than the existing Funds. The fees charged for managing Managed Accounts are negotiable and are described in each Client's investment advisory agreement with the applicable Adviser. In the case of certain Feeder Funds, fees and expenses will generally be charged and allocated at the Master Fund level, if applicable.

### **Direct Expenses of the Funds**

Subject to below, each Fund bears all expenses incidental to its organizational and ongoing operation, which may include, without limitation, (a) all trading costs and expenses (such as, for example, brokerage commissions and charges, expenses relating to short sales, clearing and settlement charges, option premiums and custodial and service fees), (b) interest and commitment fees on loans and debit balances (on margin or otherwise), (c) fees and expenses of investment advisers and independent consultants incurred in investigating and evaluating investment opportunities, (d) fees associated with regular outsourced administration and accounting, and the fees of the independent certified public accountant incurred in connection with the annual audit of the Fund's books and records and preparing the Fund's annual tax return, (e) the costs and expenses of negotiating and entering into contracts and arrangements and making investments (such as brokerage, legal, accounting, appraisal, investment banking and other professional and consulting fees and expenses arising from particular investments and potential investments) and research (such as fees relating to consultants, research products, statistical data, market data and portfolio management services) related to evaluating, making, holding or disposing of investments, (f) costs and expenses associated with regulatory filings of the Fund or the Advisers, the Fund's general partner (if applicable) and their affiliates relating to the Fund (excluding Form PF), (g) income taxes, withholding taxes, transfer taxes and other governmental charges and duties and the costs and expenses of complying with related laws and regulations, including FATCA, (h) fees and charges of custodians, clearing agencies and banks, (i) bookkeeping, recordkeeping, legal, accounting, auditing, tax preparation and all professional, expert and consulting fees and expenses related to the Fund service contracts related to on-line research, portfolio management and quotation services and equipment and the expenses of accounting, bookkeeping, middle office and recordkeeping services of the Administrator or any similar service provider retained by the Advisers or the Fund's general partner (if applicable) to assist it in performing these

services for the Fund), and the fees and expenses of any third-party valuation agent engaged to value illiquid investments, (j) fees, costs and expenses of offering and selling interests or shares and communicating with investors (including, without limitation, the costs of printing and distributing offering materials, subscription materials, reports and notices, legal and accounting fees and expenses and governmental and self-regulatory agency filing fees, costs and expenses), (k) insurance policies as the Advisers or the Fund's general partner (if applicable) consider appropriate, insuring the Fund, the Advisers, the Fund's directors or general partner (as the case may be) in relation to the Fund, (l) proxy voting services, (m) any contingencies for which reserves are determined to be required and (n) the costs of maintaining the Fund's registered office and the costs of maintaining any appropriate registrations (if applicable).

A Feeder Fund typically bears its proportionate share of the costs and expenses of the relevant Master Fund. In the case of the Fund which engages in the "Private Investment" strategy, as described below (the "Private Fund"), investors have varying levels of participation in each ownership series attributable to a portfolio investment, and each such ownership series bears its own costs and expenses. Expenses of a Fund incurred by the Fund's general partner or Adviser, as the case may be, are generally reimbursed by that Fund. If an expense relates to one or more Funds or Clients, the Funds and Clients will generally bear their *pro rata* share of the expense based on their respective net asset values (though not necessarily based on their actual use of the relevant item to which the expense is attributable). In the case of expenses associated with a private investment, the participating Funds and Clients will generally bear their *pro rata* share of the expense based on their respective participation levels in the private investment. In certain cases, expenses may be incurred in connection with a private investment that is ultimately not consummated ("Shared Broken Deal Expense"). The Advisers or the Fund's general partner, as the case may be, will generally seek to allocate Shared Broken Deal Expenses based on the respective Funds' *pro rata* level of expected participation in the broken deal. Expenses and Shared Broken Deal Expenses associated with private investments may be borne in whole or part by a Fund or, where only certain investors would have participated in a private investment, such investors. To the extent a Client invests in an instrument (such as an exchange-traded fund) that charges separate management, trading or administrative expenses, the Client will bear such expenses.

The Advisers and general partners generally seek to allocate expenses and Shared Broken Deal Expenses fairly over time among participating Funds, Clients or investors, as the case may be. While we believe that allocation methodologies described above are reasonable, other expense allocation protocols exist that yield different results (for example, certain expenses may be specifically allocated to a Fund or allocated disproportionately across Funds relative to the Funds' net asset values). In the case of certain Funds, the Advisers or general partner may voluntarily reimburse the Fund for certain expenses, including certain Shared Broken Deal Expenses, for a specified period of time or up to a specified amount. The Advisers or general partner may decide to discontinue a voluntarily reimbursement, in whole or part, at any time. PFM may have a conflict of interest in allocating expenses to the Funds or Clients.

### Management Fees

In general, Funds pay the Advisers a management fee calculated and payable quarterly in advance, at an annual rate of between .5% and 2.0% of the applicable Fund's net asset value (without double counting for the master-feeder structure). Certain Funds or investors in particular Funds do not pay a management fee. The management fee varies depending on a number of factors, including, but not limited to, redemption or withdrawal rights, aggregate amounts that an investor has invested in certain groups of Funds and special profit allocations. In certain cases, the management fee is charged on a prorated basis for capital contributions made on a date other than the first day of the quarter. Furthermore, in the case of the Private Fund, the management fee (if any) varies by ownership series, as determined by the Fund's general partner. The management fee is typically calculated at the beginning or end of the period (depending on the Fund). The Advisers generally deduct management fees directly from the applicable Fund's account.

### Fees of the Administrator and the Directors

HedgeServ Limited (the "Administrator") performs certain middle and back office administrative and operational services for the Funds. Each Fund pays the Administrator a fee for its services. The Administrator receives a fee equal to a percentage of the Fund's aggregate net asset value (without double counting for the master-feeder structure) plus out-of-pocket expenses, subject to a monthly minimum. The Administrator receives additional fees for specific services, for example, performing and administering certain functions relating to compliance with applicable anti-money laundering requirements and with the U.S. Foreign Account Tax Compliance Act. In addition, the Administrator receives fees for certain information technology services and tax compliance services and software. Each offshore Feeder Fund pays a fee for the services of its directors.

### Performance-Based Compensation

Certain Funds pay their Adviser or an affiliate of its Adviser performance-based compensation.

An affiliate of the Advisers typically receives from each investor in a Fund an allocation of between 15% and 30% of the net profits (including both realized and unrealized gains and losses) in excess of prior unrecovered losses of that investor (without double counting for the master-feeder structure). For certain Funds, the receipt of performance-based compensation may be subject to a "hurdle" rate that net profits must exceed before an allocation is made. In the case of a Fund that invests a portion of its assets in illiquid investments, the applicable special profit allocation may be calculated separately with respect to sub-capital accounts corresponding to the liquid and illiquid portions of the Fund's portfolio. A general partner of a Fund does not receive a special profit allocation with respect to investments held in illiquid sub-capital accounts until such investments are transferred to a liquid sub-capital account. . Investors that have less frequent withdrawal rights typically are subject to the lower allocation amount. The allocations are typically made annually at the end of the year and upon withdrawals with respect to

the amount withdrawn. Furthermore, in the case of the Private Fund, the performance-based compensation (if any) varies by ownership series, as determined by the Fund's general partner.

Some Funds do not have a special profit allocation, but instead issue options allowing PFM to purchase up to 17.5% or 20% of the shares of the applicable Fund. PFM may exercise the options at the price on the date the Fund granted the options of the shares related to that option, so that PFM effectively receives an equivalent value 17.5% or 20% of the net profits of that Fund during the period from the grant date to the exercise date. Initially, the options are exercisable two or three years after they are issued, and then either biennially or every subsequent three years.

#### Managed Accounts - Fees

The compensation paid by Managed Accounts is negotiable, and generally includes a management fee based on a percentage of the assets in the Managed Account. In general, the management fee for a Managed Account is paid quarterly at the beginning or end of the quarter, depending on the investment advisory agreement between the Managed Account and the Adviser. Managed Account management fees typically are pro-rated for contributions to, and withdrawals from, the Managed Account other than on the first or last day of each calendar quarter. Each Managed Account also typically pays the Adviser an annual performance fee based on a percentage of the net profits of that Managed Account in excess of its unrecouped losses.

#### Valuation

The directors of each offshore Feeder Fund and the general partner of each domestic Feeder Fund are each responsible for determining the net asset value of the applicable Feeder Fund, which is based principally on the value of that Feeder Fund's capital account(s) in the applicable Master Fund. Partner Asset Management, LLC ("PAM"), a Delaware limited liability company and an affiliate of PFM, acts as the general partner of the Master Funds and the domestic Feeder Funds, except for the Master Fund and domestic Feeder Fund that implement the Emerging Growth strategy. For these two Funds, Partner Asset Management HCEG, LLC acts as the general partner. PAM has ultimate authority for determining the value of each respective Master Fund's assets. PAM has delegated to the Administrator the primary responsibility of determining the value of the Fund's investment instruments and calculating the corresponding net asset value of each Fund. The directors of certain offshore Feeder Funds and the general partner of certain domestic Feeder Fund have also engaged a third party valuation agent to assist in valuing certain illiquid investments.

#### Withdrawal

Investors in a Fund (other than a Committed Capital Fund or the Private Fund, each as described below) generally may withdraw or redeem all or part of their investment in that Fund, on 45 or 60 days' advance written notice, as of the last day of a calendar quarter. Investors in a Fund that invests in illiquid instruments may be required to hold the illiquid



portions of their interests in the Fund for an indefinite period of time, and in certain cases such illiquid portion may be held in a separate sub-account or transferred to a separate liquidating fund pending distribution, as further described in the relevant Feeder Fund's Offering Documents. In certain cases, a Fund investor may not withdraw or redeem all or any part of a capital contribution without a withdrawal or redemption fee until a calendar quarter-end that occurs on or after the day before the first anniversary of that capital contribution. Certain investors are subject to withdrawal or redemption fees payable to the Fund of between one percent and five percent of the amount withdrawn or redeemed. Investors in some Funds may only withdraw or redeem a portion of their capital contributions until the calendar quarter-end following the second or third anniversary of the day such capital contribution occurred, and thereafter on each second or third anniversary of that calendar quarter-end. A Fund's general partner may withdraw all or part of its investment in a Fund at any time and without advance notice. Notwithstanding the foregoing, certain Funds do not permit voluntary withdrawals for a certain period of time (each, a "Committed Capital Fund"). A Committed Capital Fund may, however, permit withdrawals upon the occurrence of certain events and an investor may be compelled to withdraw in certain limited circumstances. A Committed Capital Fund's general partner generally may not effect a voluntary withdrawal, except in an amount sufficient to pay federal and state income taxes relating to the receipt of a profit allocation. While investors in the Private Fund generally may withdraw their investment in certain ownership series on 15 days' advance written notice, as of the last day of a calendar quarter, their investments in other ownership series may not be withdrawn until such portfolio investments are liquidated.

#### Differential Business Terms

In general, a Related Party that invests in a Fund will be permitted to withdraw or redeem from such Fund on less notice and more frequently than, and will not be subject to the management fee or performance-based compensation and redemption fees applicable to, other investors in such Fund. "Related Parties" include the Advisers' partners, members, officers, employees and certain immediate family members and affiliates (entities that are controlled by, controlling or under control of any such person) and, subject to the Advisers' discretion, certain former partners, members and employees.

#### Managed Accounts - Termination

In general, a Managed Account may be terminated by providing advance written notice, as provided in the applicable investment advisory agreement. Generally, we refund prepaid but unearned advisory fees to the Managed Account upon termination. Refunds are calculated based on the percentage of the period remaining at the time of termination relative to the total amount of fees prepaid for the period.

#### Waivers

The Advisers, the general partner of a domestic Fund or the directors of an offshore Fund may waive or rebate all or any portion of the management fees or performance-based compensation for any investor in a Fund or Managed Account in any period.

### Eligible Indirect Compensation

The disclosure in this Item 5 along with the disclosure in Item 12 are intended to allow a Client or a Fund investor that is subject to the Employee Retirement Income Security Act of 1974 and that invests in one of the Funds to use the “alternative reporting option” to report the Adviser’s compensation as “eligible indirect compensation” on Schedule C of the plan’s Form 5500 Annual Return/Report of Employee Benefit Plan.

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

The Advisers manage Funds that pay performance-based compensation as described in Item 5. The performance-based compensation provides the Advisers with an incentive to engage in more speculative investment strategies in an effort to maximize gross profits and receive greater compensation. Such fee arrangements also may create an incentive to favor higher paying Funds over others in the allocation of investment opportunities. We have described our investment opportunity allocation practice more specifically in Item 12, Brokerage Practices. The Advisers, however, allocate trades among Funds that pursue different strategies based on the Adviser’s determination of what is appropriate for each Fund. In general, the Advisers seek to allocate trades among Funds within a strategy *pro rata* in accordance with net assets.

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

We provide investment advice to Funds based on the particular investment objectives and strategies described in the applicable Offering Documents. The Advisers may also provide investment advice to Clients investing in Managed Accounts, which may include high net worth individuals, institutions, trusts, endowments and pension plans. The Advisers may manage other Funds or Managed Accounts with different objectives, higher or lower fees and different fee structures than the existing Funds or Managed Accounts.

Generally, the minimum initial investment amounts in the “Diversified” Funds, the “Healthcare” Funds, the “Emerging Growth” Funds and the “Global Long Alpha” Funds, as described below, are \$5,000,000, \$2,000,000, \$2,000,000, and \$5,000,000, respectively. The Oncology Funds do not have a minimum initial investment amount. The general partner of the Private Fund determines the minimum investment in each ownership series with respect to a portfolio investment. The minimum investment amounts for Managed Accounts may vary. Certain Feeder Funds require a minimum initial investment of \$10,000,000 and \$25,000,000. The applicable Fund’s general partner or board of directors may waive these minimums. Other limitations may also apply.

For certain Clients, we may not impose a minimum dollar value of assets, for example, in order to open or maintain a Managed Account or a single investor Fund; however, such Clients generally are expected to be “accredited investors” and “qualified purchasers” as those terms are defined in Rule 501 under the Securities Act and section 2(a)(51) of the Investment Company Act of 1940, as amended (the “Company Act”), respectively.

Clients (other than the Funds) are required to sign an investment advisory agreement that sets forth the terms under which we will provide our services.

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

### Methods of Analysis

The Advisers generally use bottom-up analysis in an attempt to identify transformational changes, trends, investment themes and core investment opportunities across asset classes and geographies. The Advisers may invest in various industries or sectors, including, but not limited to, communications and media, consumer, energy, materials and utilities, financials, healthcare, industrials and technology. Certain strategies focus on specific industries. The Advisers seek to identify out- and under-performing companies across industries or sectors that have the widest expectation gaps relative to consensus. Also, the Advisers engage in top-down macro-economic analysis to identify opportunities, whether on a directional or relative value basis, across a wide range of global markets and investment instruments. The Advisers may consider a variety of factors in seeking to identify attractive investment opportunities, including, but not limited to, economic, political and financial market conditions.

### Investment Strategies

The Advisers invest in and trade a broad range of investment instruments, including, but not limited to, securities, options, exchange-traded funds, futures, currencies, derivatives, debt instruments and other assets that are financial instruments. We take both long and short positions in such investment instruments.

The Advisers seek to use structural parameters that emphasize liquidity and investment flexibility by actively managing each Fund's net and gross exposures. A Fund's net exposure may be long or short. We may invest across the market capitalization spectrum in companies of either a "growth" or "value" nature. Mid- and large-cap "growth" companies may constitute a significant portion of a Fund's investment positions.

Our investment strategies are currently (1) diversified global, known as "Diversified" (2) "Global Long Alpha," which primarily invests in a subset of the Diversified positions, (3) "Healthcare," which primarily invests in the global healthcare industry, (4) "Emerging Growth," which primarily invests in the global healthcare industry in companies that have a growth profile, (5) "Oncology," which invests in the global oncology industry, and (6) "Private Investments," which primarily invests in privately held companies. There are limitations in describing any investment strategy due to its complexity, confidentiality and indefinite nature. We have broad discretion to use different trading or investment techniques in the management of the Funds, based on the particular investment objectives, policies and strategies described in the applicable Fund's Offering Documents. In general, there are no material limitations on the types of investments in which we may invest in on behalf of the Funds, the concentration of a Fund's investments, or the amount of leverage that we may use. Depending on conditions and trends in securities and commodities markets and the economy generally, the Advisers

may pursue different objectives or use alternative techniques that it considers appropriate and in a Fund's interest.

With respect to Clients that are not Funds, the Advisers will invest in investment instruments and employ investment strategies and techniques as agreed with the Client and in accordance with the applicable investment advisory agreement or other documentation.

### Significant Risks

Investing in securities and derivatives involves risk of loss that Clients and Fund investors should be prepared to bear. There can be no assurance that a Fund's objective will be achieved or that the investment strategies or techniques deployed on behalf of a Fund will be successful. Clients and Fund investors must be prepared to lose all or substantially all of their investment. Past performance of a Fund is not indicative of its future performance. The following is a brief summary of some of the significant risks that investors should consider before investing with the Advisers. Not all of these risks will apply equally to each Fund or at any given time.

Investment Strategy Risks. The following risks are associated with the Advisers' investment strategies.

- *Fundamental Analysis.* Fundamental analysis is subject to the risk of inaccurate or incomplete market information, as well as faulty analysis of known information. Also, investor sentiment can lead to a material disconnect between the market price of investments and the prices indicated by fundamental analysis – as in the case of “flights to quality” when the demand for certain risky investment instruments plummets or when technical factors, such as price momentum encouraged by trend following, dominate the market – creating the potential for significant price volatility and potential loss.
- *Model Risk.* We may depend on models to evaluate investment opportunities and certain portfolio risks. These models generally seek to forecast metrics, such as price changes, valuations, performance or exposures, based upon a limited number of factors and inputs. The forecasts generated by these models may differ substantially from actual future realizations. There can be no assurance that the models we use will be effective or will be effectively utilized. Moreover, there can be no assurance that we will be able to continue to develop, maintain and update the models.
- *Hedging.* While intended to limit or reduce investment risk, hedging can also be expected to involve transaction costs and may inherently limit or reduce the potential for profit. Hedges are often imperfectly inversely correlated with the underlying exposure the Advisers seek to hedge and, to the extent that is the case, can subject the relevant Fund to additional risk, if prices involved in the hedging position move against the Fund. The Advisers will not attempt to hedge all market or other risks inherent in a Fund's positions, and will hedge certain risks,

if at all, only partially. Portfolio composition will commonly result in various directional market risks remaining unhedged.

- *Short Sales.* Short sales have a theoretically unlimited risk of loss as the price of a security sold short increases. Management and stockholders of an issuer may sue short sellers to prevent short sales of the issuer's securities. The Advisers could be subject to such actions, even if they are baseless, and Funds could incur substantial costs defending them. Short selling activities have been subject to increased regulatory scrutiny, including the imposition of restrictions on short selling certain securities and reporting requirements. Regulatory initiatives affecting the financial markets are ongoing and changes in short-selling-related regulations may continue to occur, potentially with little notice. Funds could suffer losses on short-selling activities as a direct or indirect result of those changes, and the Advisers' ability to use short selling as a part of their investment strategies could be limited or made less effective or profitable.
- *Leverage.* The Advisers may employ leverage on behalf of a Fund by borrowing on margin, selling securities short and trading futures, other commodity interests and derivatives. Leverage may increase the possibility for profit, as well as volatility and the risk of loss.
- *Derivatives.* Derivative instruments involve a variety of material risks, including, in some cases, extremely high embedded leverage. Derivatives markets may frequently be characterized by limited liquidity, which can make it difficult as well as costly to close out open positions in order either to realize gains or to limit losses. The pricing relationships between derivatives and the instruments underlying them may not correlate with historical patterns, resulting in unexpected losses.
- *Options.* A Fund may sell covered and uncovered options on securities. To the extent a Fund sells (writes) options and must deliver the underlying securities at the option price, the Fund has a theoretically unlimited risk of loss if the price of the underlying securities increases.
- *Counterparty and Custody Risk.* Counterparties such as brokers, dealers, futures commission merchants, custodians and administrators with which the Advisers do business on behalf of Funds may default on their obligations. For example, a Fund may lose its assets on deposit with a broker if the broker, its clearing broker, an exchange clearing house, or one of its affiliated entities were to declare bankruptcy or become insolvent.
- *Repurchase Agreements.* The Advisers may enter into repurchase agreements or reverse repurchase agreements on behalf of Funds, which can subject the Fund to counterparty credit risks and risks similar to margin trading and leveraging strategies.
- *Non-U.S. Investments* The Advisers may invest and trade on behalf of Funds in

investment instruments issued by non-U.S. companies or governmental entities or denominated or traded in currencies other than U.S. dollars. Those activities can subject the Funds to risks not typically associated with investing in securities and commodity interests in the U.S., such as political risks, economic conditions of the country in which the issuer is located, limitations on foreign investment in any such country, currency exchange risks, withholding taxes, limited information about the issuer, limited liquidity, and limited regulatory.

- *Micro, Small and Medium Capitalization Stocks.* A Fund may hold positions in companies with micro-, small- or medium-sized market capitalizations, which can involve higher risks than investments in stocks of larger companies, including greater volatility and risk of bankruptcy or insolvency.
- *Concentration of Investments.* A Fund's investment portfolio may at times consist of investment instruments issued by relatively few issuers. Concentration of the portfolio in a particular industry or small number of issuers may materially increase the portfolio's risk: a loss in any one position or downturn in any one industry could reduce performance materially.
- *Illiquid Investments.* A Fund may hold positions that are or become illiquid, in which case the Fund may not be able to sell such positions. Investing in illiquid instruments involves a high degree of business and financial risk and can result in substantial or complete losses. Certain Funds can devote all or a substantial portion of their portfolios to illiquid investments, and such Funds will generally allocate such illiquid investments to separate sub-accounts existing at the time of each illiquid investment. Therefore, investors that invest in such Funds at different times may have disproportionate ownership interests and may not have illiquid sub-accounts for all of the same illiquid instruments. As a result, investors that invest in such a Fund at different times may have highly disproportionate returns on their investments during any given time period (for example, during any month, quarter or year).
- *Restricted Securities and PIPEs.* A Fund may invest in restricted securities not traded in public markets or subject to long holding periods. These securities may be difficult or impossible to sell at prices comparable to the market prices of similar publicly-traded securities and may never become publicly traded. Certain Funds may acquire securities through PIPE (private investment in public equity) financings. In a PIPE transaction, a Fund typically purchases unregistered equity securities of a class of securities that is publicly traded and receives registration rights with respect to the unregistered securities that it purchases. The securities are not publicly tradable when the Fund purchases them, however, and they may never become publicly tradable.
- *Private Investments.* Private investments in the private equity of companies at various stages in their development involve a high degree of business and financial risk. Private companies with limited operating histories may require substantial additional capital to support expansion or to achieve or maintain a

competitive position, may produce substantial variations in operating results from period to period or may operate at a loss. Such companies may face intense competition, including competition from companies with greater financial resources, more extensive development, more extensive intellectual property development and protection, better marketing and service capabilities and a larger number of management and technical personnel. The Advisers will rely on each portfolio company's management to operate that company on a day-to-day basis, and management of the portfolio company may not operate successfully. Although the Advisers may seek protective provisions in connection with private investments, to the extent a Fund takes minority positions in companies in which it invests, the Advisers may not be in a position to exercise control over the management of such companies, and, accordingly, may have a limited ability to protect the Fund's position in such companies. To the extent a Fund holds a controlling stake in, or is deemed an affiliate of a company, it may be subject to certain restrictions which could affect both the liquidity of the Fund's investment and the Fund's ability to liquidate its investment without adversely impacting the investment's price. The use of leverage by the private companies may increase the exposure of such companies to adverse economic factors such as downturns in the economy or deterioration in the condition of such companies or their respective industries. In the event any such company cannot generate adequate cash flow to meet debt service or operating expenses, a Fund may suffer a partial or total loss of capital invested in the company, which, depending on the size of the Fund's investments, could adversely affect the return on the capital of the Fund. In such cases, the Investment Adviser will rely on the company's existing management and board of directors, which may include representation of other financial investors with whom the Partnership is not affiliated and whose interests may conflict with the Partnership's interests.

- *Third-party Involvement.* A Fund may co-invest with third parties through capital rounds relating to private companies. Third-party involvement with an investment may involve risks not present in investments where a third party is not involved and may negatively impact the returns of such investment if, for example, the third-party co-venturer has financial difficulties or has economic or business interests or goals that are inconsistent with those of the Fund.
- *Economic Conditions and Concerns Regarding Governmental Instability.* Changes in economic conditions can have material adverse effects on a Fund's investment performance. Volatile global financial markets may lead to significant losses. Also, a government's actions or inactions responding to these conditions could lead to negative consequences for a Fund. For example, uncertainty about a government's ability to service its sovereign debt obligations, policy decisions and financial support programs, sequestration of governmental functions, and/or changes in the structure of multi-national organizations (for example, the abandonment of the E.U. by a particular member state) or a government's currency (for example, the abandonment of the Euro by a particular member state) could severally disrupt global markets and have potentially material adverse effects on our Funds.

- *Market Conditions and Disruptions; Interconnected Markets.* Developments and disruptions in financial and securities markets generally can significantly affect the prospects of companies in which a Fund invests, the Advisers' ability to assess those prospects and a Fund's ability to adapt its portfolio and market exposures. Market disruptions could cause a Fund to incur major losses, particularly if they cause historical pricing relationships to become materially distorted or previously liquid positions to become illiquid. Market disruptions can result in otherwise historically low-risk strategies performing with unexpected volatility and risk.
- General Risks for Clients and Fund Investors. The following general risks apply to investors in both separately Managed Accounts and Funds.
- *Valuation.* Where third-party pricing information for a position is not available, or where the Advisers consider market-based pricing information not to be indicative of a position's value, the Advisers may assign a different value. As a result, values reflected in financial reports and used in determining withdrawal proceeds, fees and performance-based compensation might not accurately reflect the amounts the Fund could obtain (or would be required to pay as to some types of derivatives positions) if it were to try to sell the security (or close the position).
- *Trading Errors.* The Advisers place orders on a Fund's or Managed Account's behalf to buy, sell and otherwise trade in investment with Transacting Parties (as defined below), and may make errors in doing so. Trade errors are not errors in judgment, strategy, market analysis, economic outlook, etc., but rather errors in implementing specific trades. Trade errors can occur in part because trading processes can be very complex and can vary for different types of investment instruments and different markets. The Advisers may determine to reimburse a Fund for a loss resulting from a trade error. In the case of certain Funds, the Advisers may net losses and gains that resulted from trade errors that occurred during the same period to determine the amount to be reimbursed to that Fund. There can be no assurance that, if a trade error of significant magnitude were to occur, the Advisers' assets would be adequate to provide that reimbursement. Some Funds may be responsible for any such losses or gains that resulted from trade errors. For such Funds, the General Partner, the Advisers and their affiliates generally will not bear the cost of any trade error or reimburse the Fund for resulting costs or losses unless it results from the Adviser's or its affiliate's breach of fiduciary duty, gross negligence, willful misconduct or fraud.
- *Substantial Assets Under Management.* The Advisers have substantial assets under management. It can become more difficult to find attractive investment opportunities as the amount of assets an investment adviser must invest increases. In addition, with greater assets to invest, it may become increasingly difficult for the Advisers to make investments large enough to be meaningful to Funds' overall portfolios.
- *Trade Sequencing.* Funds that deploy different investment strategies may trade in the same investment instruments of an issuer. In such situations, one set of Funds



may begin trading the investment instruments of an issuer before the other set of Funds begins trading in those investment instruments. The differences in timing of the trades may result from the timing of approval by one of the portfolio managers, liquidity, different risk profiles of the investment strategies and other factors. As a result of the differences in trading, one set of Funds may benefit from the subsequent trading by the other set of Funds.

- *Different Terms for Different Investors.* We may provide certain Fund investors or Clients with more frequent or detailed reports, special fee arrangements, redemption rights and other preferential terms that are not provided to other Fund investors or Clients. Investors in different ownership series of the Private Fund will be subject to different terms with respect to such ownership series.
- *Other Accounts.* The Advisers and their affiliates may spend time on activities that compete with the management of certain Funds without accountability to the Clients or Fund investors. Other activities may include investing for other Clients and for the Advisers' and their affiliates' own accounts. If we receive better compensation and other benefits from other activities, there may be an incentive to allocate more time to those other activities. These factors could influence us not to make investments on a Fund's behalf even if such investments would benefit the Fund. The Advisers may buy or sell or decide not to buy or sell securities for Funds that the Advisers or their affiliates own.
- *Master-Feeder Structure.* Some Feeder Funds invest through a "master-feeder" structure. This creates risks associated with investing in any non-U.S. security. Changes in U.S. tax law, Cayman Islands tax law or any tax treaty between the U.S. and the Cayman Islands also may adversely affect the Fund's investment in the Master Fund. The pooling in a Master Fund of a Feeder Fund's assets with those of other Feeder Funds could also, under some circumstances, create pressure for the Advisers to manage the Master Fund's portfolio in ways that are less advantageous to the Feeder Fund than if the Feeder Fund pursued its investment activities independently. Separately, withdrawals from a Master Fund as a result of withdrawals or redemptions from other Feeder Funds could affect the Master Fund's investment activities.
- *No Separate Counsel.* The attorneys who represent us or our principals do not represent Clients or Fund investors. Clients and Fund investors must hire their own counsel for legal advice and representation.
- *Anti-Money Laundering.* In order to comply with applicable anti-money laundering laws, the Advisers, a Fund's general partner and/or the Administrator may request information from an investor in order to process a subscription, withdrawal, or redemption request and may refuse to accept or remit all or a portion of proceeds (that is, they may "freeze" the proceeds) until satisfactory information has been provided. An investor will be liable for losses related to actions taken in an effort to comply with anti-money laundering regulations relating to that Fund.

- *Inside Information; Substantial Positions.* We may receive material nonpublic information about or relating to an issuer or investment instruments. Under various securities laws (or the Advisers' internal policies), this could restrict the Advisers' ability to cause a Fund to buy or sell investment instruments of an issuer for substantial periods when doing so could generate a profit or avoid a loss. If a Fund were to acquire more than certain percentages of the outstanding securities of some companies (determined, under certain circumstances, in combination with amounts held by other Funds), the Advisers and/or the Fund could become subject to public reporting requirements and, in some cases, legal and regulatory limits on disposition of those securities. Limits of those kinds could prevent such Fund from disposing of those securities when it otherwise would or at favorable prices.
- *Regulatory Risks.* Federal, state and international governments may increase regulation of investment advisers, private investment funds, securities and derivatives, which may increase the time and resources that we must devote to regulatory compliance, to the detriment of investment activities.
- *Securities Laws.* The Advisers are not registered with the SEC as broker-dealers or with the Commodity Futures Trading Commission as commodity pool operators. The equity interests in the Funds are not registered under the Securities Act, and the Funds are not registered investment companies under the Company Act. We do not believe that any of these registrations are required because exemptions are available under applicable law. Compliance with these regulations may result in increased burdens for the Advisers, which may divert their attention from managing Fund portfolios or could result in increased costs for Funds. If a regulatory authority deems that any of these registrations is required, the Advisers and any Fund could be subject to expensive legal action and potential termination. In addition, investors in the Funds do not have certain regulatory protection that they would have if these registrations were in place.
- *Fund Dissolution; Investor Expulsion.* A Fund may dissolve or expel any investor at any time, even if such actions adversely affect one or more Fund investors; provided, that in the case of a Committed Capital Fund, an investor generally may only be expelled for certain legal or regulatory reasons.
- *Limited Liquidity; Suspending Withdrawals and Redemptions.* A market does not exist for Fund interests nor is a market expected to develop. It may be difficult or impossible to transfer any Fund interests, even in an emergency. An investor may dispose of its Fund interests only through periodic withdrawals, which are subject to substantial restrictions, except with respect to certain Funds that hold substantial investments in illiquid instruments, in which case the relevant portion of such instruments may be transferred to a separate liquidating fund pending distribution, and in the case of Committed Capital Funds, as described below. The investor(s) requesting withdrawal will bear the risk of any decline in the value of the Fund interests during the period from the date of notice of withdrawal until the effective withdrawal date. The Fund's board of directors or general

partner, as applicable, generally has the power to suspend, limit and compel withdrawals. Notwithstanding the foregoing, an investor in a Committed Capital Fund generally may not voluntarily dispose of its Fund interests prior to such Fund's termination, at which time the Fund's capital will be returned to investors. As described above, investors in the Private Fund may not withdraw their investment in certain ownership series until the applicable portfolio investments are liquidated.

- *Redemptions and Withdrawals.* A Fund may not be able to generate cash necessary to satisfy investor withdrawals or redemptions. Substantial withdrawals or redemptions in a short period could force the Advisers to liquidate investments rapidly, which may depress the value of those investments, and may so reduce the size of a Fund such that it cannot generate returns or reduce losses.
- *Reserves.* A Fund may establish a reserve for contingencies if considered appropriate. Investors may not withdraw or redeem assets covered by that reserve until it is lifted.
- *No Distributions.* The Funds generally intend to reinvest substantially all income and gain and do not intend to make distributions. Therefore, a Fund investor may have taxable income from a Fund without a cash distribution to pay the related taxes. However, as Committed Capital Funds (and certain ownership series of the Private Fund) generally do not permit voluntary withdrawals, such Funds will distribute their capital to investors upon termination.
- *Adverse Tax Consequences.* Our activities could cause adverse tax consequences to Clients and Fund investors, including liability for interest and penalties. The Advisers do not generally pursue optimization of tax effects as a material objective. However, the Advisers may refrain from making certain types of investments on behalf of a Fund which could have significant adverse tax effects for some investors (e.g., investments that could cause it to be considered to be engaged in a trade or business in the U.S.). The Advisers may also consider the potential tax impact on some investors of the timing of transactions (for example, whether disposing of a security or closing a position at a particular time could have a different tax effect than disposing or closing somewhat sooner or somewhat later). The tax implications of timing may benefit certain investors, including the Advisers and their affiliates, and not others, and in some cases could adversely affect an investor.
- *Operational Risks.* We are highly dependent on information systems and technology. Any failure, deterioration or erroneous operation of these systems or technology due to human error, data transmission failures or other causes could materially disrupt our operations. A disaster or a disruption in the infrastructure that supports our business, including a disruption involving electronic communications or other services that we, or third parties with which we do business, use or affecting one of our offices or facilities, may affect our ability to continue to manage Funds' investments without interruption. Although we and

our Affiliated Advisers have back-up facilities for our information systems as well as technology and business continuity programs in place, there can be no assurance that these will be sufficient to mitigate the harm that may result from such a disaster or infrastructure disruption. In addition, insurance and other safeguards might only partially mitigate the effects of such a disaster or disruption.

We rely on third-party service providers for certain aspects of our business, including certain financial operations of the Funds and Managed Accounts. Any interruption or deterioration in the performance of these third parties could impair the quality of the Funds' or Managed Accounts' operations and negatively impact our investment strategies.

- *Cybersecurity Breaches.* Each of the Advisers and the Funds are subject to risks associated with a breach in its cybersecurity. Cybersecurity is a generic term used to describe the technology, processes and practices designed to protect networks, systems, computers, programs and data from "hacking" by other computer users, other unauthorized access and the resulting damage and disruption of hardware and software systems, loss or corruption of data as well as misappropriation of confidential information. If a cybersecurity breach occurs, the Advisers or Funds may incur substantial costs, including those associated with: forensic analysis of the origin and scope of the breach; increased and upgraded cybersecurity; investment losses from sabotaged trading systems; identity theft; unauthorized use of proprietary information; litigation; adverse investor reaction; the dissemination of confidential and proprietary information; and reputational damage. Any such breach could expose the Fund, the Advisers and their respective affiliates to civil liability as well as regulatory inquiry and/or action. In addition, any such breach could cause substantial redemptions from a Fund.
- *Human Error.* The decision-making of the Advisers' personnel will have a significant impact on the performance of the Funds. The Advisers' personnel will be responsible for implementing and modifying the strategies and models used to make investment decisions on behalf of our Funds. In some cases, the Advisers' personnel may input data or make investments manually. All such actions and decisions are subject to human error, which could have a material adverse effect on the performance of our Funds.
- *Risk Management.* We actively take risk on behalf of our Funds, directly exposing our Funds to potential loss under a wide variety of market conditions. We employ risk management procedures to identify, measure and monitor risks associated with investment activities. These risk management processes are intended to assist us in our investment decision-making process and to identify certain risks that we may choose to hedge or otherwise mitigate. However, the risk management processes may fail to identify or anticipate a wide variety of risks that may adversely affect our Funds, potentially exposing Funds to material unanticipated losses. We may employ certain quantitative based strategies as risk management tools.

The above is only a summary of some of the significant risks that a Client or Fund investor may encounter. Prospective investors should carefully review the applicable Offering Documents or investment adviser agreement, in the case of a Managed Account, and consult with their professional advisers before deciding whether to invest. A prospective investor should discuss with the Advisers' representatives any questions that such prospective investor may have before opening a Managed Account or investing in a Fund.

## **Item 9. Disciplinary Information**

We do not believe that there have been any legal or disciplinary events that are material to a Client's or prospective Client's evaluation of our advisory business or the integrity of our management.

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

### General

PFM, PIM and their Affiliated Advisers are affiliated and share offices with one another. Each is registered as an investment adviser with the SEC (PIM and the Affiliated Advisers are "Relying Advisers"). The Advisers provide services to different types of Clients and may pursue different investment strategies. PFM receives investment sub-advisory services from PAS. The Advisers and the Affiliated Advisers maintain joint compliance policies and procedures. PFMI is also a wholly owned subsidiary of PFM. The Affiliated Advisers provide investment advisory services to the Advisers in connection with their management of the Clients.

### Goldman Sachs Asset Management International

Investment funds managed by Goldman Sachs Asset Management International, an affiliate of the Goldman Sachs Group, Inc. ("Goldman"), hold a passive, non-controlling, minority revenue share interest in PIM, PAS, and PAM. None of these investment funds, Goldman or any of their affiliates has any rights over the management or policies of PIM, PAS and PAM, or their affiliates or has any right to vote any of their interests in PIM, PAS and PAM, or any of their affiliates and, therefore, each disclaims control of PIM, PAS and PAM, and their affiliates. These investment funds have been granted consent rights with respect to the ability of PIM, PAS, PAM to undertake certain significant, non-ordinary course activities in the future. These activities do not include portfolio management activities.

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

### Code of Ethics

The Advisers have adopted a business code of conduct and personal investment policies in furtherance of their commitment to conduct their businesses in accordance with applicable laws. Among other things, the code requires individuals to comply with

applicable laws and to avoid conflicts of interest that could compel one to act in a manner that is inconsistent with the interests of the Advisers and their Clients. The code requires employees to report any violation or suspected violation of the code, Advisers' compliance policies and procedures or applicable law promptly to the Chief Compliance Officer.

#### Personal Investment Policies

The Advisers' personal investment policies permit employees to invest for their personal accounts, subject to certain guidelines and restrictions. All personal securities transactions by employees, certain family members and other accounts in which supervised persons have a financial interest must be conducted in accordance with the requirements of our personal investment policies. Among other things, our policies require that certain personal securities transactions by employees be approved in advance by our Compliance Department. Certain personal securities transactions are subject to a minimum holding period. Employees must report certain personal securities holdings upon commencement of employment (or otherwise upon becoming subject to the personal investment policies) and periodically thereafter, and arrange for certain duplicate confirmations and account statements to be sent to our Compliance Department.

Clients and Fund investors, including prospective Clients and Fund investors, may obtain a copy of the Adviser's business code of conduct and personal investment policies by contacting our Compliance Department at (415) 281-1000.

#### Principal and Cross Transactions

The Advisers may effect cross trades between or among Funds (*i.e.*, causing one or more Funds to sell investment instruments to one or more other Funds). In effecting such cross trades, the Advisers seek to reduce the transaction costs to Funds of such account adjustments. All such cross trades will be consistent with the investment objectives and policies of each Fund involved in the trades and applicable law.

The Advisers do not typically enter into principal transactions with Funds. To the extent permitted by applicable law and with the consent of the Funds, at times, the general partner and the Advisers may enter into a "principal transaction." A "principal transaction" is a purchase from or sale to a Fund of an investment instrument by Adviser or any of its affiliates.

Certain Funds have engaged an independent fund representative (the "Independent Fund Representative"). The Independent Fund Representative provides a mechanism for the Advisers to obtain the informed consent of the Fund to a transaction if an Adviser believes such consent is required under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), or otherwise advisable for a particular transaction. When providing consent, the Independent Fund Representative acts as the representative and agent of the Fund. Arthur F. Bell, Jr. & Associates, L.L.C., Certified Public Accountants, serve as the Independent Fund Representative for certain Funds and is independent of the Advisers. The Independent Fund Representative does not make investment recommendations or

comment on the merits of the Adviser's investment recommendations. In reviewing a transaction, the Independent Fund Representative may rely on information provided by the Advisers or, at the request of the Advisers, one or more independent third parties (including financial advisors and consultants). The Independent Fund Representative approves a transaction if the Independent Fund Representative determines that the terms of the transaction are consistent with terms that would reasonably be expected in a comparable transaction between unrelated parties.

A Fund may replace its Independent Fund Representative in the future with a person or entity the Fund chooses.

### Conflicts of Interest

Because we manage more than one Fund, there may be conflicts of interest related to the time devoted to managing any one Fund or the allocation of investment opportunities among all Funds that we manage. We select investments for each Fund based solely on investment considerations for that Fund. Different Funds have different investment strategies, investment guidelines, restrictions and expected levels of trading. We may buy or sell a security for one Fund but not for another, or may buy (or sell) a security for one Fund while simultaneously selling (or buying) the same security for another Fund. The Advisers may give advice to a Fund or take an action on behalf of a Fund that differs from the advice given or the timing or nature of an action taken on behalf of another Fund. We are not obligated to acquire for any Fund any security that another Fund may also acquire if, in the Adviser's absolute discretion, it is not practical or desirable to do so.

The Advisers and the Related Parties also may participate in investment opportunities that otherwise may be considered investment opportunities for the Funds. In some cases, the Funds may not participate in these investment opportunities.

The terms that govern any Fund may be more advantageous than those generally applicable to another Fund, and the terms that apply to a particular investor in a Fund account may be more advantageous than those generally applicable to other investors in that Fund. For example, some investors may receive the following terms and conditions that do not apply to other investors: a reduction, rebate or waiver of management fees, performance-based fees or allocations or withdrawal fees to be paid by the investors (or other terms); rights to receive reports from the Fund on a more frequent basis or that include information not provided to other Fund investors (including, without limitation, more detailed information regarding portfolio positions); special rights to make future investments in the Funds, other Funds or Managed Accounts; and such other rights as may be negotiated by those persons. Also, if an investor in a Fund also has a Managed Account that uses an investment strategy that is similar to that of the Fund, that investor may use its knowledge of the portfolio in that Managed Account to decide if and when to make an additional investment or redeem capital from the Fund. Such investments or redemptions could occur at times when other investors would have made similar decisions had they had similar transparency.

Different Funds have different portfolio managers. Each portfolio manager works separately to achieve the investment objectives of the Funds he manages. As a result, different portfolio managers may make different investment decisions about the same security, use different levels of leverage or take more or less concentrated positions in a particular security. The differences will likely result in different returns for Funds in the different accounts. The Funds managed by one portfolio manager may underperform the Funds managed by the other portfolio manager.

#### Economic Interests of the Advisers' Personnel

We and our employees will have different economic interests in different Funds and, accordingly, may have incentives to favor certain Funds over other Funds or cause investments to be made, managed or realized in seeking the interests of such other Funds. Certain of the Funds may have substantial investment, directly or indirectly, by our personnel or Related Parties. Additionally, portfolio managers and other employees receive different compensation with respect to different Funds. The personal investments and compensation structure may cause an employee to favor one Fund over another.

We have discretion in determining which investments are made by the Funds, sold to others or made by us or our affiliates, with or without the participation of any other person. The Advisers or their affiliates may be able to obtain more favorable terms in connection with some investments if the Funds do not participate. Therefore, we may be influenced to cause a Fund not to make such investments even though participation might benefit that Fund. Performance compensation we and our affiliates receive from one Fund may get a more favorable tax treatment than that from another Fund. Related Parties may also make any investment, whether or not in competition with a Fund or in a manner that would limit or eliminate a Fund's opportunity to make the same or similar investment, without any accountability to that Fund.

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

#### Brokerage Practices

The Advisers have complete discretion to select the brokers, dealers and other financial intermediaries and counterparties ("Transacting Parties") used to effect transactions on behalf of the Funds, and may select or recommend the selection of Transacting Parties as provided in its contracts with its other Funds. In selecting or recommending Transacting Parties to effect transactions, we may cause a Fund to enter into arrangements pursuant to which the Fund pays transaction costs in an amount greater than would be incurred if another Transacting Party were used. We are not required to solicit competitive bids or seek the lowest available commission or transaction costs.

In determining what Transacting Party to transact with, the Advisers consider various factors, such as for example, quoted prices, liquidity, commissions and other execution or operational fees, research, general market commentary, economic information, portfolio strategy advice, industry and company commentary, technical data, recommendations, general reports, quotations and other market data or information, arrangement of



meetings with the management of companies, on-line pricing, execution capabilities, including the ability to execute transactions with appropriate levels of confidentiality, willingness to commit capital, trading and block positioning capabilities, quality of the operational infrastructure and frequency of operational errors or difficulties, error resolution, the adequacy of its trading infrastructure, technology, capital, quality and timing of investment opportunities presented to the Advisers or other brokerage and research services that may benefit the Advisers and its affiliates.

Certain Funds may select their own Transacting Parties through which to clear and hold their investments. The Advisers may also cause a Fund to effect transactions with a Transacting Party that refers prospective Fund investors and Funds to the Adviser.

The Funds' positions may involve significant turnover, potentially resulting in substantial brokerage, custodial and other transaction expenses and fees.

#### Use of Soft Dollars and Commission Sharing Arrangements (CSAs)

At times, the Advisers may cause the Transacting Party executing a transaction for a Fund to share the commission for that transaction with another Transacting Party that provides "research" or "brokerage" services and products to the Advisers. When it does so, it is said to be paying for those products and services with "soft dollars." The services received from Transacting Parties and paid for by that Fund may be used by the Advisers and their affiliates, including in servicing other Funds, and certain of such services may not be used to benefit the Fund paying the commission at all. The Advisers may receive soft dollars on principal as well as agency transactions with Transacting Parties.

The Advisers of the Funds are authorized to use soft dollars for a wide range of services and products and do not limit soft dollar activities to those that are protected by the Section 28(e) safe harbor. However, the Advisers seek to use soft dollars only to obtain services and products that constitute "research" and "brokerage" services within the safe harbor created by Section 28(e) of the 1934 Act. The Advisers may acquire, among others, the following types of "research" from Transacting Parties: written or oral analyses and reports on or other information about particular companies or industries; economic surveys and analyses; recommendations as to specific securities; commentary about an industry or company; financial and industry publications; portfolio evaluation services; financial database software and services; computerized news, pricing and statistical services; analytical software and services; proxy analysis services and systems; quotation services; conferences and seminars; and other products or services that may enhance the Advisers' investment decision-making. The Advisers may use soft dollars to acquire "brokerage" services and products (beyond "actual" execution) that include software used for such things as communicating orders and settlement related information electronically to executing Transacting Parties, post-trade matching of trade information, communicating allocation instructions, and other clearance and settlement functions.

Section 28(e) of the 1934 Act provides that the Advisers will not breach a fiduciary duty they may owe to a Fund if it uses soft dollars only to acquire services and products that

constitute “research” and “brokerage” services and products (as those terms are interpreted by the SEC) and if it meets certain other conditions and requirements. Among those other conditions, the Advisers must determine that commissions paid are reasonable in light of the value of the “brokerage” and “research” services and products acquired. Section 28(e) protects an investment adviser’s use of one client’s soft dollars for research and brokerage services and products even when those services or products benefit other clients. Laws and regulations in other countries, such as the United Kingdom, take similar, but not identical approaches to the use of soft dollars by investment advisers subject to their regulation and could restrict or prohibit the Advisers’ uses that are protected by Section 28(e) if the Advisers were subject to them.

In acquiring services or products with soft dollars, the Advisers have a conflict of interest: they have an incentive to cause a Fund to pay higher compensation or brokerage fees, to use different Transacting Parties and to effect more transactions than it might otherwise do, possibly at a Fund’s expense. The Advisers may use products and services acquired with one Fund’s soft dollars in managing other Funds, and vice versa, and may use those soft dollars to acquire products and services that the Advisers use primarily or even exclusively in managing other Funds. Some of those other Funds may use a Fund’s soft dollars even if they do not generate any commissions. Moreover, if other Funds use most or all of the soft dollars generated by their trades for their own purposes, one Fund’s soft dollars would be used disproportionately to purchase products or services that the Advisers use to service the Advisers’ other Funds.

#### Prime Brokers and Custodians

We have selected and retained prime brokers and custodians for the Funds. The prime brokerage agreements entered into by and among the Advisers, the Funds and prime brokers contain provisions that limit each prime broker’s liabilities to that Fund and under which that Fund must indemnify that prime broker. The Advisers may replace a prime broker or appoint additional prime brokers and custodians at any time. Some of the factors that the Advisers consider when selecting a prime broker may include price, clearance, settlement, error resolution, order of call, offering to the Advisers electronic access to data regarding its Funds’ accounts, the availability of stocks to borrow for short sale transactions, custody, recordkeeping, reputation, financial strength and stability and similar services and other matters involved in the receipt of prime brokerage services generally. Certain prime brokers also provide us with certain ancillary services, such as administrative services, capital introduction services, consulting services, portfolio reporting and access to electronic communications networks. Although many prime brokers provide similar services to investment advisers in exchange for brokerage, custody and clearance fees and other charges, if we did not receive these services from the prime brokers, we would be required to pay for all or some portion of them. The Advisers are not required to direct a particular number of trades to any prime broker or to continue to use any prime broker as a Fund’s custodian, but the Advisers may have an incentive to do so based on the prime broker’s prior and continued services. A Fund may also maintain some of its assets at a bank or similar institution.

To the extent that we direct portfolio transactions to a prime broker, an account may be deemed to be paying for the trading, research and administrative services that prime brokers provide with “soft” or commission dollars. Any such administrative assistance may not fall within the safe harbor provided by Section 28(e).

#### Goldman Sachs Asset Management International

As noted above, investment funds managed by Goldman Sachs Asset Management International, an affiliate of Goldman, hold a passive, non-controlling, minority revenue share interest in PIM, PAS and PAM. Goldman is a global, full-service investment banking, broker-dealer and financial services organization. To the extent permitted by the Advisers Act and other law, as applicable, we have caused and expect to cause Funds to enter into investment instruments or other investment transactions in which an affiliate of Goldman (a “Goldman Affiliate”) acts on a principal or agency basis or otherwise provides services under which the Goldman Affiliate is compensated (including as executing or clearing broker (including prime broker), dealer, futures commission merchant, counterparty, agent, lender, or otherwise), and a Goldman Affiliate may retain all such compensation, commissions, fees or profits in connection therewith. For example, a Goldman Affiliate may serve and receive compensation and profit as broker or dealer in an equity or debt securities transaction, derivative counterparty, futures commission merchant or other back or middle office service provider. Furthermore, a Goldman Affiliate currently serves as certain Funds’ Independent Fund Representative. In addition, we may cause an account to trade investment instruments with Transacting Parties that are not Goldman Affiliates, but for which a Goldman Affiliate acts as a market maker or which is executed on the floor of an exchange or is matched without our knowledge with an order from Goldman or its clients, or in connection with which a Goldman Affiliate receives compensation through its role as a lead underwriter, manager, lender or agent in a syndicate. To the extent permitted by the Advisers Act and other law, as applicable, the Advisers may cause a Fund to invest in investment instruments issued, sponsored or underwritten by a Goldman Affiliate (or entities under its control). Entering into transactions with a Goldman Affiliate in which Goldman or such Goldman Affiliate directly or indirectly financially benefits, or which result in other potential commercial advantages to Goldman or such Goldman Affiliate, may give rise to conflicts of interest with respect to our exercise of investment discretion and brokerage discretion.

#### Allocation of Investment Opportunities

We use reasonable efforts to allocate investment opportunities (including new issues) in a manner that we believe is equitable over time among Funds, but there can be no assurance that a Fund will participate in any particular investment opportunity or on an equal or *pro rata* basis with any other Fund or Related Party. With respect to new issues, we will generally allocate investment opportunities among Funds with similar investment objectives. In determining how to allocate investment opportunities among Funds, we may consider, among other things: (a) investment objectives, time horizons or strategies; (b) current portfolio holdings and weightings, (c) tax considerations or regulatory implications, (d) the amount of available working capital or risk characteristics or levels for a Fund, (e) financing or legal constraints, (f) excessive costs relating to a Fund’s

investment strategies or working capital and (g) other considerations, including any Fund-specific investment guidelines or restrictions. We may allocate investment opportunities based on pre-defined allocation procedures. As a result, we may determine that certain investment opportunities are appropriate for certain Funds and not others. Furthermore, while limited investment opportunities, such as private investments, will generally be allocated among Funds and Clients in accordance with the foregoing, a Fund may offer certain investors—but not others—the option of participating in a particular private investment and such investors may include Related Parties.

#### Trade Aggregation

The Advisers determine the aggregation and allocation methodologies used. The Advisers may execute a single transaction and allocate portions of the executed trade among participating Funds. Although the Advisers anticipate that, overall, aggregating orders will benefit the participating Funds, aggregating orders may disadvantage a particular Fund. Conversely, not aggregating orders may disadvantage an account. In accordance with applicable regulations, the Advisers may allocate futures transactions made pursuant to investment strategies for certain accounts (including accounts in which we or our affiliates have an interest) after execution. These allocations will be made so that Funds are treated reasonably and non-preferentially over time.

#### Trading Errors

As described above, the Advisers may make errors when placing orders on a Fund's or Managed Account's behalf to buy, sell and otherwise trade with Transacting Parties.

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

Christopher M. James, the Chief Investment Officer of the Adviser, is the principal portfolio manager of Funds that deploy the “Diversified” and “Global Long Alpha” investment strategies.

Brian D. Grossman is the portfolio manager of Funds that deploy the “Emerging Growth”, “Healthcare” and “Oncology” strategies.

Mr. Grossman and Mr. James are co-managing partners of the Adviser and co-portfolio managers of the Fund that deploys the “Private Investment” strategy.

Each portfolio manager is responsible for continuously reviewing the Funds that he manages. Among other factors, performance, liquidity, exposures, allocation, cash management, tax considerations, market prospects and individual issue prospects are considered. Particular attention may be given to changes in company earnings, industry outlook, macro outlook and price levels.

We provide Fund investors with monthly reporting information and annual audited financial statements.

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

Other than the previously described services that the Advisers may receive from a Transacting Party, the Advisers do not directly compensate any person for Client referrals. The Advisers may use a placement agent for Fund investor referrals.

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

Pursuant to Rule 206(4)-2 of the Advisers Act and the SEC's related guidance, the funds and securities of the Funds are generally held by qualified custodians. Those custodians are not affiliates of the Advisers. Fund investors receive annual financial statements audited by an independent public accounting firm for the Funds in which the investors have invested. We urge Fund Investors to carefully review such statements.

The audited financial statements will be prepared in accordance with generally accepted accounting principles and distributed within 120 days of the Fund's fiscal year-end.

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

The Advisers exercise discretion in managing the Funds and Managed Accounts. Also, such discretion is based on the particular Fund's or Managed Account's investment objectives, policies and strategies disclosed in its Offering Documents or described in the investment advisory agreement with the Client.

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

The Advisers exercise sole discretion in casting proxy votes for the Funds. We have adopted a proxy voting policy intended to satisfy the requirements of Rule 206(4)-6 of the Advisers Act. The following is a summary of the key provisions:

- We will seek to vote proxies on a best efforts basis and when doing so, in the best interest of our Clients.
- We have retained a third-party service provider to provide research, recommendations, voting and record-keeping services with respect to Clients' securities for which we have proxy voting authority.
- While we may assess each proxy on a case-by-case basis, we will generally vote with management in situations where the third-party service provider and management recommendations are alike.
- We may choose not to vote if doing so would be costly or impractical or we otherwise deem it unnecessary or unwarranted for any other reason.
- If we identify that a material conflict of interest exists with respect to a proxy, we will seek to not place our interests ahead of our Clients' in voting such proxy.

Managed Account Clients may obtain a copy of our proxy voting policy and information on how we voted its securities holdings by contacting our Compliance Department at (415) 281-1000.

**Item 18. Financial Information**

The Advisers do not believe that there is any information required by this item.

**Item 19. Requirements for State-Registered Advisers**

The Advisers do not believe that there is any information required by this item.