

Item 1
COVER PAGE

PART 2A OF FORM ADV: FIRM BROCHURE

SABA CAPITAL MANAGEMENT, L.P.

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This brochure (this "Brochure") provides information about the qualifications and business practices of Saba Capital Management, L.P. (the "Investment Adviser"). If you have any questions about the contents of this Brochure, please contact us at (212) 542-4645 or carl.casler@sabacapital.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.

The Investment Adviser 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 the Investment Adviser also is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2

MATERIAL CHANGES

The Investment Adviser is required to identify and discuss any material changes made to its Brochure since the last annual update. This Brochure is the Investment Adviser's first Form ADV Part 2A submitted to the SEC pursuant to amendments made to certain rules promulgated under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and the form formerly known as Form ADV Part II. The Investment Adviser previously provided to its clients a Form ADV Part II, dated January 27, 2011 (the "Old Part II"), which was used as a basis for certain disclosure provided in this Brochure. Differences between the Old Part II and this Brochure are generally attributable to the new disclosure rules and the new form, and not to any material changes in the qualifications or business practices of the Investment Adviser. Accordingly, there are no material changes to report. If the Investment Adviser makes any material changes to this Brochure, this section will be revised to include a summary of such changes.

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Item 4 ADVISORY BUSINESS

A. General Description of Advisory Firm.

Saba Capital Management, L.P. (the "Investment Adviser"), a Delaware limited partnership, commenced operations in 2009 with an office in New York, New York. Boaz Weinstein is a limited partner of the Investment Adviser and the managing member of Saba Capital Management GP, LLC, the general partner of the Investment Adviser (the "Investment Adviser General Partner"). The Investment Adviser General Partner has ultimate responsibility for the management, operations and the investment decisions made by the Investment Adviser.

B. Description of Advisory Services.

1. **Advisory Services.**

The Investment Adviser serves as the management company with discretionary trading authority to private pooled investment vehicles that are offered to investors on a private placement basis (each, a "Fund" and collectively, the "Funds"). The Funds include: Saba Capital Partners, L.P., a Delaware limited partnership (the "Domestic Fund"), Saba Capital Leveraged Partners, L.P., a Delaware limited partnership (the "Domestic Leveraged Fund"), Saba Capital Tail Hedge Partners, L.P., a Delaware limited partnership (the "Domestic Tail Hedge Fund"), Saba Capital Offshore Fund, Ltd., an exempted company incorporated under the laws of the Cayman Islands (the "Offshore Fund"), Saba Capital Leveraged Offshore Fund, Ltd., an exempted company incorporated under the laws of the Cayman Islands (the "Offshore Leveraged Fund"), Saba Capital Offshore Fund II, Ltd., a Cayman Islands exempted company with one shareholder (the "Offshore Fund II"), Saba Capital Intermediate Fund, Ltd., a Cayman Islands exempted company (the "Intermediate Fund"), Saba Capital Leveraged Intermediate Fund, Ltd., a Cayman Islands exempted company (the "Intermediate Leveraged Fund"), Saba Capital Master Fund, Ltd., a Cayman Islands exempted company (the "Leveraged Master Fund"), Saba Capital Leveraged Master Fund, Ltd., a Cayman Islands exempted company (the "Master Fund"), Saba Capital Master Fund II, Ltd., a Cayman Islands exempted company (the "Master Fund II"), Saba Capital Tail Hedge Ireland Fund plc, an Irish open-end investment company (the "Tail Hedge Irish Fund"), Saba Capital Tail Hedge Master Unit Trust, an Irish domiciled open-ended Qualifying Investor Fund unit trust (the "Tail Hedge Master Fund"). The Domestic Fund, Offshore Fund, Intermediate Fund and Master Fund are collectively referred to herein as the "Flagship Funds". The Domestic Leveraged Fund, Offshore Leveraged Fund, Intermediate Leveraged Fund and Master Leveraged Fund are collectively referred to herein as the "Leveraged Funds". The Domestic Tail Hedge Fund, Tail Hedge Irish Fund and Tail Hedge Master Fund are collectively referred to herein as the "Tail Hedge Funds".

In addition, the Investment Adviser serves as the investment adviser with discretionary trading authority and also provides discretionary advisory services to a separately managed account (the "Managed Account").

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

Saba Capital, LLC, a Delaware limited liability company affiliated with the Investment Adviser (the "General Partner" or the "Special Shareholder"), serves as the general partner of the Domestic Fund, the Domestic Leveraged Fund and Domestic Tail Hedge Fund and the special shareholder to the Intermediate Fund and the Intermediate Leveraged Fund. Saba Capital II, LLC, a Delaware limited liability company affiliated with the Investment Adviser (the "Special Shareholder II"), serves as the special shareholder to the Offshore Fund II.

The interests in the Domestic Fund, the Domestic Leveraged Fund and the Domestic Tail Hedge Fund are offered on a private placement basis, pursuant to Section 3(c)(7) of the Investment Company Act of 1940, as amended (the "Company Act") to persons who are "accredited investors" as defined in Regulation D of the Securities Act of 1933, as amended (the "Securities Act") and "qualified purchasers" as defined under the Company Act, and subject to certain other conditions as set forth in the respective offering memoranda of the Domestic Fund, the Domestic Leveraged Fund and the Domestic Tail Hedge Fund.

Shares in the Offshore Fund, Offshore Leveraged Fund, Offshore Fund II and Tail Hedge Irish Fund are offered on a private placement basis to persons who are not "U.S. Persons," as defined under Regulation S of the Securities Act, and U.S. tax-exempt persons who are "accredited investors" as defined in Regulation D of the Securities Act and "qualified purchasers" as defined under the Company Act, and subject to certain other conditions as set forth in the respective offering memoranda of the Offshore Fund, Offshore Leveraged Fund and Offshore Fund II.

Shares in the Tail Hedge Irish Fund may only be purchased by "Eligible Applicants", namely, Qualifying Investors or Accredited Employees who are not "U.S. Persons," as defined under Regulation S of the Securities Act, and U.S. tax-exempt persons who are "accredited investors" as defined in Regulation D of the Securities Act and "qualified purchasers" as defined under the Company Act. The terms "Qualifying Investor" and "Accredited Employees" each have the meaning required by the Central Bank of Ireland.

The Investment Adviser has full discretionary authority with respect to investment decisions, and its advice with respect to the Funds is made in accordance with the investment objectives and guidelines as set forth in their respective offering memoranda. Similarly, the Investment Adviser's investment decisions and advice with respect to the Managed Account shall be in accordance with a client's investment objectives and guidelines in the client's investment advisory agreement, as well as any written instructions provided by the client to the Investment Adviser.

This Brochure generally includes information about the Investment Adviser 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, and other exemptions of similar import under U.S. state laws and the laws of other jurisdictions where any offering may be made. 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.

2. Investment Strategies and Types of Investments.

Please see Item 8.

C. Availability of Customized Services for Individual Clients.

The Investment Adviser's investment decisions and advice with respect to each Fund are subject to each Fund's investment objectives and guidelines, as set forth in its offering documents. Similarly, the Investment Adviser'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 advisory agreement, as well as any written instructions provided by the client to the Investment Adviser.

D. Wrap Fee Programs.

Not applicable.

E. Assets Under Management.

The Investment Adviser manages approximately \$3,629,600,000 as of August 1, 2011 on a discretionary basis.

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FEES AND COMPENSATION

A. Advisory Fees and Compensation.

The fees applicable to each Fund are set forth in detail in each of the Fund's respective offering documents and the investment advisory agreement of the Managed Account. A summary of the those fees and compensation is provided below.

i. Management Fee.

The Investment Adviser generally is paid an asset based fee of 1.00% to 2.625% annually on assets under management for the Funds, either monthly or quarterly in advance. The Management Fee charged to the Funds and the Managed Account will be prorated for any capital contribution or subscription that is effective other than as of the first day of a month or quarter, as applicable, or for any withdrawal or redemption by that is effective other than as of the last business day of a month or quarter, as applicable. The Class B shares of the Offshore Fund II do not pay any Management Fee. In addition, the Management Fee paid by the Offshore Fund II is subject to reduction or termination following (i) certain dates specified in its offering documents and (ii) after the assets under management of the Investment Adviser reaches a certain threshold.

ii. Incentive Compensation.

The Investment Adviser, General Partner or Special Shareholder share in profits based on the performance of the assets under management for each Fund (other than Offshore Fund II) pursuant to the terms of the relevant Fund agreement. Generally, the Investment Adviser, General Partner or Special Shareholder will receive 15-20% of profits generated at the end of the fiscal year for the relevant Fund (other than the Offshore Fund II), subject, in the case of the Domestic Fund and Intermediate Fund, to a loss carryforward mechanism.

With respect to the Offshore Fund II, the Special Shareholder II shares in profits based on the performance of the assets under management pursuant to the terms of the Offshore Fund II agreement. Generally, the Special Shareholder II will receive 12-35% of profits generated, subject to the profits of the relevant class of shares exceeding certain hurdle amounts, benchmark returns and a loss carryforward mechanism applicable to such class of shares. In addition, following the termination of the investment program of the relevant class of shares, such share class will be liquidated and the proceeds from such liquidated shares will be subject to a distribution waterfall. Each distribution waterfall first returns proceeds to the relevant shareholders in the amount of such shareholder's contribution to the Offshore Fund II. Then, proceeds are distributed such that the shareholder receives a rate of return equal to the relevant hurdle amount or benchmark return for such class. Finally, 17% to 35% of the proceeds are distributed to the Special Shareholder II and the remainder to the relevant shareholder.

All management fees and incentive compensation for the Managed Account is subject to negotiation and established pursuant to the account's investment advisory agreement. Generally, the investment advisory agreement is terminable upon receipt by either party from the other of prior written notice of termination and after the expiration of

the specified notice period and the client will be entitled to any unearned prepaid portion of the management fee to the extent possible.

The Investment Adviser and its personnel may invest in one or more of the Funds. The Investment Adviser is not charged incentive compensation and the Investment Adviser's personnel are not charged a management fee or a performance fee by the applicable Funds.

The Investment Adviser or its affiliates reserve the right to waive or impose different fees or otherwise modify the fee arrangements of an existing investor with the consent of such investor. In addition, the Investment Adviser, the Funds and their respective general partners or boards of directors reserve the right to impose different fees on future investors.

Finally, any performance-based fees will be charged in accordance with Section 205 of the Advisers Act and Rule 205-3 thereunder.

B. Payment of Fees.

Fees and compensation paid to the Investment Adviser or its affiliates by the Funds or the Managed Account are generally deducted from the assets of such clients. As discussed above, Management Fees are generally deducted on a quarterly or monthly basis and Incentive Compensation is generally deducted on an annual basis.

C. Additional Fees and Expenses.

Unless noted otherwise, the following is a comprehensive list of expenses that may be charged by the Investment Adviser to one or more (but not necessarily all) of the Funds and the Managed Account. Therefore, a Fund or the Managed Account may bear some or all of the following expenses.

Each client may bear its own expenses and in the case of feeder funds, their pro rata share of intermediate fund's and master fund's expenses, including, without limitation, investment-related expenses whether relating to investments that are consummated or unconsummated (*e.g.*, brokerage commissions, fees and expenses of any counterparty or broker (which shall be at normal commercial rates), due diligence costs, investment banking fees, sourcing or finder's fees (which may include a management fee component and/or a performance fee component), borrowing charges on securities sold short, custodial fees, bank service fees, regulatory expenses (including filing fees and legal expenses relating to filings attributable in whole or in part to such client, clearing and settlement charges, interest expense and investment-related travel and lodging expenses); research-related expenses, including, without limitation, news and quotation equipment and services; fees for data and software providers and other expenses related to the purchase, sale or transmittal of investments; fees for risk management systems and service providers; legal expenses; professional fees (including, without limitation, expenses of consultants and experts); the costs of organizing and maintaining any subsidiaries; costs relating to swaps (and similar agreements); auditing and tax preparation expenses; accounting expenses; costs of printing and mailing reports and notices; market data costs; administration expenses and disbursements (including fees for the provision of middle-office and back-office services) directors' fees; Fund-related insurance expenses (including, without limitation, premium payments of directors' and officers' and Errors and Omissions insurance and for Investment Adviser and GP liability insurance);

organizational and offering expenses; management fees; incentive fees; fees of the Central Bank of Ireland; trustees' fees; registration fees, corporate licensing fees, taxes and other governmental fees; all litigation-related and indemnification expenses; withholding and transfer fees; trademarks; other expenses related to the purchase, monitoring, sale, settlement, custody or transmittal of assets; extraordinary expenses; reasonable transactional charges; and other similar expenses.

D. Prepayment of Fees.

See A.i. above.

E. Additional Compensation and Conflicts of Interest.

Neither the Investment Adviser nor any of its supervised persons accepts compensation (*e.g.*, brokerage commissions) for the sale of securities or other investment products.

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PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

The Investment Adviser and its affiliates accept performance-based fees from every client. As a result, the Investment Adviser and its affiliates do not face the conflicts of interest that may arise when an investment adviser accepts performance-based fees from some clients, but not from other clients.

In the allocation of investment opportunities, performance-based compensation arrangements may also create an incentive to favor accounts from which the Investment Adviser may receive greater performance-based compensation over accounts from which the Investment Adviser may receive less performance-based compensation. The Investment Adviser has adopted allocation policies to ensure that all clients are treated fairly and the Investment Adviser will endeavor to treat each client in a fair and equitable manner.

Item 7
TYPES OF CLIENTS

The Investment Adviser generally provides investment advice to Funds and the Managed Account, as described above.

Item 8

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

The descriptions set forth in this Brochure of specific advisory services that the Investment Adviser offers to clients, and investment strategies pursued and investments made by the Investment Adviser on behalf of its clients, should not be understood to limit in any way the Investment Adviser's investment activities. The Investment Adviser may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that the Investment Adviser considers appropriate, subject to each client's investment objectives and guidelines. The investment strategies the Investment Adviser 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.

A. Methods of Analysis and Investment Strategies.

The Funds are managed in accordance with the investment objectives and guidelines set forth in their respective offering documents. A summary of such investment programs is provided below (which summary is qualified in its entirety by the actual terms and conditions set forth in each Fund's respective offering documents).

i. Flagship Funds

The Flagship Funds' principal investment objective includes taking advantage of relative value opportunities across the capital structure of publicly traded and privately held companies and via long and short positions based on fundamental analysis. The Flagship Funds' focus will be on dislocations in the credit market, and the Flagship Funds will primarily invest in high yield bonds, investment grade bonds, credit default swaps ("CDS"), first and second lien bank loans, equities and derivatives. The Investment Adviser believes the extreme dislocation in the credit markets presents an extraordinary opportunity for the Funds to invest across the capital structure of companies and take advantage of these opportunities.

The Investment Adviser has broad investment discretion in seeking to achieve the Flagship Funds' objectives. The Flagship Funds may invest and trade in a variety of instruments, including, but not limited to, public and private debt issues (such as investment and non-investment grade bonds, secured or unsecured), bank loans (funded or unfunded), trade claims, convertible securities, distressed securities, mezzanine securities, collateralized obligations (such as collateralized loan obligations, collateralized debt obligations, collateralized bond obligations, residential mortgage backed securities and commercial mortgage backed securities), leases, trade claims, synthetic opportunities in sector indices (including, ABX, CMBX and CDX indices), listed and unlisted common and preferred stocks and other equity-related instruments, rights, warrants, put and call options, forward contracts, when-issued securities and other derivatives, including CDSs, baskets of CDSs, total return swaps and index swaps, interest rate swaps, swaptions, futures contracts, and such other financial instruments as the Investment Adviser may deem appropriate from time to time. The Flagship Funds expect to utilize leverage, and their portfolios may include both long and short positions. The Flagship Funds invest globally, with a primary focus in the United States, Canada, the United Kingdom and Western Europe.

The Investment Adviser, on behalf of the Flagship Funds, may invest its excess funds in short term investments, including U.S. Government securities, money market funds, commercial paper, certificates of deposit and bankers' acceptances.

The Investment Adviser's investment team seeks to develop and manage a portfolio comprised primarily of long and short positions in corporate debt, equity and related derivatives and structured securities. A variety of trading strategies will be employed in order to take advantage of credit opportunities. Credit opportunities may include, among other things, mismatches between credit quality and bond yield, a security's price and its realizable claim, the pricing and valuation of securities within the same capital structure, the perceived richness or cheapness of a particular company's securities and the pricing of securities of one company versus another within the same industry. The investment team seeks to invest in securities and other investments that will satisfy the Investment Adviser's investment objectives and generally have investment horizons of one to twelve months.

Investments may include bank loans and public and 144A senior and subordinated debt offerings, bridge loans, private debt offerings, trade claims, convertible securities, common and preferred stock, warrants and other equity-related instruments. The Investment Adviser, on behalf of the Flagship Funds, may also purchase and write options. In addition, derivative instruments, including credit default swaps, options, swaps, swaptions, futures and forwards may be used for hedging and as investment opportunities. Obligations may or may not be secured. Securities may be traded on exchanges or over the counter or acquired in private placements. In addition to U.S. securities, the Flagship Funds may invest in securities and other investments issued by non-U.S. governments and companies domiciled in other countries. The Flagship Funds will only engage in futures trading after satisfying any applicable regulatory requirements relating to commodity pool operators and commodity trading advisors.

Each investment will be subject to review and assessment of both relative and absolute value by a committee of the principals of the Investment Adviser (the "Investment Committee"). The investment team's strategy emphasizes the use of extensive fundamental research of investment opportunities employing, among other items, due diligence procedures, relative value comparisons, analysis of business and industry fundamentals as well as detailed covenant analysis. Portfolio concentrations are to be limited from the perspective of individual security size and industry concentration.

ii. Leveraged Funds

The Leveraged Funds will generally invest in a substantially similar investment portfolio as the Flagship Funds, except that its notional leverage will generally be 1.5 times that of the Flagship Funds. On a position by position basis, the Leveraged Funds will seek to achieve, to the extent practicable, gross long and short exposures that are approximately 50% larger, as calculated at the Leveraged Master Fund level, than those of the Flagship Funds (on a capital adjusted basis); however, such percentage may vary because of changes in the gross long and short exposures of the Flagship Funds relative to those of the Leveraged Master Fund, as well as other factors.

ii. Tail Hedge Funds

The Tail Hedge Funds' principal investment objective includes the provision of a cost effective "tail hedge" with potentially strong absolute returns during periods of market stress and dislocation. A "tail hedge" is designed to hedge against the tail risk posed by events that, while rare, can significantly and adversely affect markets. Investors in the Tail Hedge Funds should be aware that because the Tail Hedge Funds are designed to provide a hedge against periods of market stress and dislocation, the Tail Hedge Funds are expected to incur losses during normal market conditions. To effect their investment objectives the Tail Hedge Irish Fund and the Domestic Tail Hedge Fund each invests all of their investable assets in the Tail Hedge Master Fund. The Tail Hedge Master Fund will invest primarily in credit default swaps ("CDS") on a portfolio of low spread investment grade bonds. In addition, the Tail Hedge Master Fund may purchase equity puts and other equity derivatives, CDS on credit indices, CDS on high yield bonds, CDS on bank loans ("LCDS") or sell short physical bonds and buy and sell equity index futures. The Investment Adviser believes that by using proprietary filters and blending fundamental credit analysis with trade analytics, it can effect portfolio selection strategies which will, in addition to establishing an effective tail hedge, generate alpha relative to the Standard & Poor's U.S. Investment Grade (IG) CDS Index.

The Investment Adviser believes that there can be extended periods where spread levels of corporate bonds are not supported by the underlying company and macro fundamentals which suggest a widening of spreads is more likely than a tightening.

The Investment Adviser has broad investment discretion in seeking to achieve the Tail Hedge Funds' objectives. The Investment Adviser, on behalf of the Tail Hedge Master Fund may invest and trade in a variety of instruments, including, but not limited to, public and private debt issues (such as investment and non-investment grade bonds, secured or unsecured), synthetic opportunities in sector indices (including, ABX, CMBX and CDX indices and indices based on residential mortgage-backed securities ("RMBS") and commercial mortgage-backed securities ("CMBS")), equity-related instruments, put options, short call options, straddles, forward contracts, including CDSs, baskets of CDSs, asset-backed securities ("ABS"), total return swaps and index swaps, interest rate swaps, swaptions, futures contracts and such other financial instruments as the Fund may deem appropriate from time to time. The Tail Hedge Master Fund's portfolios may include both long and short positions in the foregoing securities, although the focus is on short positions. The Tail Hedge Master Fund invests globally, with a primary focus in the United States, Canada, the United Kingdom and Western Europe. The Investment Adviser expect to utilize leverage.

The Investment Adviser, on behalf of the Tail Hedge Master Fund, may invest its excess funds in short term investments, including U.S. Government securities, money market funds, commercial paper, certificates of deposit and bankers' acceptances.

The Investment Adviser's investment team seeks to develop and manage a portfolio comprised primarily of short positions in corporate debt, equity and related derivatives and structured securities, although, the Investment Adviser may invest in long positions as well. The investment team seeks to invest in securities and other investments that will satisfy the investment objectives of the Tail Hedge Funds and generally have investment horizons of one to twelve months.

Investments may include derivative instruments, including CDS, options, swaps, swaptions, futures and forwards, public and 144A senior and subordinated debt offerings, convertible securities, common and preferred stock, warrants and other equity-related instruments. The Investment Adviser, on behalf of the Tail Hedge Master Fund, may also purchase and write options. Obligations may or may not be secured. Securities may be traded on exchanges or over the counter or acquired in private placements. In addition to U.S. securities, the Investment Adviser, on behalf of the Tail Hedge Master Fund, may invest in securities and other investments issued by non-U.S. governments and companies domiciled in other countries. The Investment Adviser, on behalf of the Tail Hedge Master Fund, will only engage in futures trading after satisfying any applicable regulatory requirements relating to commodity pool operators and commodity trading advisors.

Each investment will be subject to review and assessment of both relative and absolute value by a committee of the principals of the Investment Adviser (the "Investment Committee"). The investment team's strategy emphasizes the use of analytical models and extensive fundamental research of investment opportunities employing, among other items, due diligence procedures, relative value comparisons, analysis of business and industry fundamentals as well as detailed covenant analysis. Portfolio concentrations are to be limited from the perspective of individual security size and industry concentration.

iii. Offshore Fund II

The Offshore Fund II pursues two investment strategies: one substantially similar to that of the Flagship Funds and one substantially similar to that of the Tail Hedge Funds.

iv. Managed Account

The Managed Account is managed in accordance with the investment objectives and guidelines set forth in the investment advisory agreement entered into between the beneficial owner of the Managed Account and the Investment Adviser. In summary, the investment strategy of the Managed Account is similar to that of the investment strategy of the Flagship Funds, subject to investment restrictions in the investment advisory agreement (this summary is qualified in its entirety by the actual terms and conditions set forth in the investment advisory agreement entered into between the beneficial owner of the Managed Account and the Investment Adviser).

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 the clients advised by the Investment Adviser. These risk factors include only those risks the Investment Adviser believes to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by the Investment Adviser.

The risks set forth herein with respect to the Funds are also applicable to the Managed Account and may be applicable to other private investment fund or managed account managed by the Investment Adviser in the future to the extent the investment program overlaps with that of the Funds.

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

Global Market Investments. The Investment Adviser, on behalf of the Funds, may invest in the debt or other securities and instruments of issuers located outside the United States. In addition to business uncertainties, such investments may be affected by political, social and economic uncertainty affecting a country or region. Many financial markets are not as developed or as efficient as those in the United States, and as a result, liquidity may be reduced and price volatility may be higher. The legal and regulatory environment may also be different, particularly as to bankruptcy and reorganization. Financial accounting standards and practices may differ, and there may be less publicly available information in respect of such companies.

The values and relative yields of investments in the securities markets of different countries, and their associated risks, are expected to change independently of each other. Income received by the Funds from sources within some countries may be reduced by withholding and other taxes imposed by such countries.

The Funds may be subject to additional risks which include possible adverse political and economic developments and possible adoption of governmental restrictions which might adversely affect the payment of principal and interest to investors located outside the country of the issuer, whether from currency blockage or otherwise. Furthermore, some of the securities may be subject to brokerage taxes levied by governments, which has the effect of increasing the cost of such investment and reducing the realized gain or increasing the realized loss on such securities at the time of sale. While the Investment Adviser will take these factors into consideration in making investment decisions for the Funds, no assurance can be given that the Funds will be able to fully avoid these risks.

In addition, economic problems in a single country are increasingly affecting other markets and economies. A continuation of this trend could adversely affect global economic conditions and world markets and, in turn, could adversely affect the Funds' performance.

Emerging Market Investments. Certain markets in which the Funds may invest may be regarded as emerging or developing markets. In emerging and developing markets, there is often less government supervision and regulation of business and industry practices, stock exchanges, over-the-counter markets, brokers, dealers, counterparties and issuers than in other more established markets. Any regulatory supervision which is in place may be subject to manipulation or control. Some emerging and developing market countries do not have mature legal systems comparable to those of more developed countries. Moreover, the process of legal and regulatory reform may not be proceeding at the same pace as market developments, which could result in investment risk. Legislation to safeguard the rights of private ownership may not yet be in place in certain areas, and there may be the risk of conflict among local, regional and national requirements. In certain cases, the laws and

regulations governing investments in financial instruments may not exist or may be subject to inconsistent or arbitrary appreciation or interpretation. Both the independence of judicial systems and their immunity from economic, political or nationalistic influences remain largely untested in many countries. The Funds may also encounter difficulties in pursuing legal remedies or in obtaining and enforcing judgments in non-U.S. courts. Due to the foregoing risks and complications, the costs associated with investments in emerging market securities generally are higher than for securities of issuers based in developed countries.

Currency Risks. The Funds' investments that are denominated in a foreign currency are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. The Investment Adviser may try to hedge these risks by investing directly in foreign currencies, buying and selling forward foreign currency exchange contracts and buying and selling options on foreign currencies, but there can be no assurance such strategies will be effective.

Contingent Liabilities. From time to time the Funds may incur contingent liabilities in connection with an investment. For example, the Funds may enter into agreements pursuant to which they agree to assume responsibility for default risk presented by a third-party, and may, on the other hand, enter into agreements through which third-parties offer default protection to the Funds.

Short Selling. The Investment Adviser, on behalf of the Funds, will engage in short sales and, with respect to the Tail Hedge Master Fund, intends to be net short. Short selling involves selling securities which are not owned by the short seller 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 a decline in market price to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which the Investment Adviser, on behalf of the Funds, engages in short sales will depend upon the Investment Adviser's 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 Funds of buying those securities to cover the short position. There can be no assurance that the Funds will be able to maintain the ability to borrow securities sold short. In such cases, the Funds 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 a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. It may also be impossible for the Funds to borrow securities at the most desirable time to make a short sale, particularly in illiquid securities markets.

If the prices of securities sold short increase, the Funds will likely be required to provide additional funds or collateral to maintain the short positions. This could require the Investment Adviser, on behalf of such Funds, to liquidate other investments to provide additional margin, and those liquidations might not be at favorable prices. A short sale involves 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 Funds of buying

those securities to cover the short position or resulting in the inability of the Funds to cover the short position.

The Investment Adviser, on behalf of the Funds, may make "short sales against-the-box," in which it will sell short securities the Funds own or have the right to obtain without payment of additional consideration. If the Investment Adviser, on behalf of the Funds, makes a short sale against-the-box, the Funds will be required to set aside securities equivalent in kind and amount to the securities sold short (or securities convertible or exchangeable into those securities) and will be required to hold those securities while the short sale is outstanding. The Funds will incur transaction costs, including interest expense, in connection with opening, maintaining and closing short sales against-the-box.

Maintenance of a Short Exposure. The investment strategy utilized by the Tail Hedge Funds involves the purchase of CDS protection on low spread investment grade bonds, equity puts and other equity derivatives, CDS on credit indices, CDS on high yield bonds, CDS on bank loans or selling short physical bonds and equity index futures – positions which may lose value over time in the event that credit spreads narrow or are unchanged. Selling short physical bonds and purchasing CDS protection results in negative carry with respect to such positions and thus, even with credit spreads unchanged, the Tail Hedge Master Fund may lose value in the event that the price of the securities do not move in such a way as to offset the negative carry. In a spread tightening environment, a shareholder may lose all or part of its investment in the Tail Hedge Funds. Losses will be higher with higher leverage and tighter spreads.

Narrowing Credit Spreads. With respect to the Tail Hedge Funds, the Investment Adviser 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 Tail Hedge Funds of buying securities to cover the short position or resulting in the inability of the Tail Hedge Funds to cover the short position.

Forward Trading. 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. 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 market traded by the Funds due to unusual 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 Investment Adviser would otherwise recommend, to the possible detriment of the Funds. Market illiquidity or disruption could result in major losses to the Funds.

Hedging Transactions. The Investment Adviser, on behalf of the Funds, may utilize financial instruments, both for investment purposes and for risk management purposes

in order to (i) protect against possible changes in the market value of the Funds' investment portfolios resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect the Funds' unrealized gains in the value of the Funds' investment portfolios; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in the Funds' portfolios; (v) hedge the interest rate or currency exchange rate on any of the Funds' liabilities or assets; (vi) protect against any increase in the price of any securities the Funds anticipate purchasing at a later date or (vii) for any other reason that the Investment Adviser deems appropriate.

The success of the Funds' hedging strategies will depend, in part, upon the Investment Adviser's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the portfolio investments being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the Funds' hedging strategies will also be subject to the Investment Adviser's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While the Funds may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Funds than if they had not engaged in such hedging transactions. For a variety of reasons, the Investment Adviser may not seek to establish a perfect correlation between the hedging instruments utilized and the portfolio holdings being hedged. Such an imperfect correlation may prevent the Funds from achieving the intended hedge or expose the Funds to risk of loss. The Investment Adviser may not hedge against a particular risk because it does not regard the probability of the risk occurring to be sufficiently high as to justify the cost of the hedge, or because it does not foresee the occurrence of the risk. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the Funds' portfolio holdings.

Leverage Risks. The use of leverage will, in certain instances, enable the Funds to achieve a higher rate of return than would be otherwise possible. Leverage may take the form of, without limitation, any of the financial instruments described herein, including derivative instruments which are inherently leveraged and trading in products with embedded leverage such as options, short sales, swaps and forwards. The instruments and borrowings utilized by the Funds to leverage investments may be collateralized by the Funds' portfolios.

The use of leverage will magnify the volatility of changes in the value of the investments of the Funds. Accordingly, any event which adversely affects the value of an investment would be magnified to the extent the investment is leveraged. The cumulative effect of the use of leverage by the Funds in a market that moves adversely to their investments could result in substantial losses to the Funds, which would be greater than if the Funds were not leveraged.

While leverage increases the buying power of the Funds and presents opportunities for increasing total returns, it has the effect of potentially increasing losses as well. For example, funds borrowed for leveraging will be subject to interest, transaction and other costs, and other types of leverage also involve transaction and other costs. Any such costs may or may not be recovered by the return on the Funds' portfolios. Leverage will increase the investment return of the Funds if an investment purchased with or utilizing leverage earns a greater return than the cost to the Funds of such leverage. The use of

leverage will decrease the investment return if the Funds fail to recover the cost of such leverage.

Portfolio Divergence. Although, other than the difference in leverage, the Leveraged Funds' portfolio is expected to be substantially similar to that of the Flagship Funds', there may be divergences between the two portfolios. These divergences may result from legal, tax, accounting, regulatory and other similar considerations and restrictions. For example, the Leveraged Fund may not invest in certain positions held by the Flagship Funds prior to the formation of the Leveraged Funds. The Investment Adviser at its sole discretion, may periodically rebalance the portfolios of the Leveraged Funds and the Flagship Funds, but is under no obligation to do so. The Investment Manager may take into account, when making a determination regarding rebalancing, legal and regulatory considerations, transaction costs, considerations relating to disposal of investments, and other considerations.

Divergences in the portfolios may be material and may impact the relative performance of the Leveraged Funds' portfolio versus the portfolio of the Flagship Funds.

Counterparty Risk. Some of the markets in which the Investment Adviser, on behalf of the Funds, may effect transactions are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes the Funds 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 Funds to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Funds have concentrated their transactions with a single or small group of counterparties. The Funds are not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. The lack of a complete and "foolproof" evaluation of the financial capabilities of the Funds' counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Funds.

Counterparty Insolvency. The Funds' assets may be held in one or more accounts maintained for the Funds by counterparties, including their prime brokers. There is a risk that any of such counterparties could become insolvent. In September 2008, Lehman Brothers Holdings Inc., a major investment bank based in the United States, filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. While none of its U.S. broker-dealer subsidiaries was included in the Chapter 11 filing and all of its U.S. registered broker-dealer subsidiaries currently continue to operate, certain of Lehman Brothers subsidiaries, including Lehman Brothers International (Europe) ("LBIE") have been placed under the administration chartered to wind down their respective business. To date, it is uncertain what percentage of the assets custodied with LBIE by its trading counterparties (including hedge funds) will ultimately be recovered and when. The insolvency of the Funds' counterparties is likely to impair the operational capabilities or the assets of the Funds. Although the Investment Adviser regularly monitors the financial condition of the counterparties it uses, if one or more of the Funds' counterparties were to become insolvent or the subject of liquidation proceedings in the United States (either under the Securities Investor Protection Act or the United States Bankruptcy Code), there exists the risk that the recovery of the Funds' 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 Funds may use counterparties located in various jurisdictions outside the United States like LBIE. 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 the Fund'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 the Funds and their assets. Investors should assume that the insolvency of any counterparty would result in a loss to the Funds, which could be material.

Selection of Brokers. The Investment Adviser may be subject to conflicts of interest relating to its selection of brokers on behalf of the Funds. Transactions for the Funds will be allocated to brokers on the basis of, among other things, best execution and in consideration of a broker's ability to effect the transactions, its facilities, reliability and financial responsibility, as well as the provision or payment by the broker of the costs of research and research-related services. In addition, brokers may provide other services that are beneficial to the Investment Adviser, but not necessarily beneficial to the Funds, including, without limitation, capital introduction, marketing assistance, consulting with respect to technology, operations or equipment, and other services or items. Such services and items may influence the Investment Adviser's selection of brokers.

C. Risks Associated With Particular Types of Securities.

Debt Securities Generally. The Investment Adviser, on behalf of the Funds, expects to invest in private and government debt securities and instruments. The Investment Adviser, on behalf of the Funds, may invest in debt instruments that are unrated, and whether or not rated, the debt instruments 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.

Distressed Securities. The Investment Adviser, on behalf of the Funds, 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. It is anticipated that certain debt instruments purchased by the Investment Adviser for the Funds will be non-performing and possibly in 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 the loans. 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 frequently may 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 the Funds' investments in any instrument, and a significant portion of the obligations and securities in which the Funds invest 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 Investment Adviser will correctly evaluate the value of the assets underlying the Funds' investments or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which the Funds invest, the Funds may lose its entire investment, may be required to accept cash or securities with a value less than the Funds' original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Funds' investments may not compensate the investors 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 Fund of the security in respect to which such distribution was made.

In certain transactions, the Funds 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.

High Yield Securities. The Investment Adviser, on behalf of the Funds, may invest in bonds or other fixed income securities, including without limitation "higher yielding" (including non-investment grade) debt securities. Such securities are generally not exchange traded and, as a result, these financial instruments trade in the over-the-counter marketplace, which is less transparent and has wider bid/ask spreads than the exchange-traded marketplace. In addition, the Investment Adviser, on behalf of the Funds, may invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. Also, the market for credit spreads is often inefficient and illiquid, making it difficult to accurately calculate discounting spreads for valuing financial instruments. High yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. High yield securities are generally more volatile and may or may not be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured by substantially all of the issuer's assets. High yield securities may also not be protected by financial covenants or limitations on additional indebtedness.

The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities which react primarily to fluctuations in the general level of interest rates, and tend

to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities are often highly leveraged and may not have available to them more traditional methods of financing. It is possible that a major economic recession could severely disrupt the market for such securities and may have an adverse impact on the value of such securities. In addition, it is possible 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 of such securities.

Bank Loans. The Funds' investment programs may include investments in significant amounts of bank loans and participations. These obligations are subject to unique risks, including, without limitation: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of the Funds to directly enforce their rights with respect to participations. In analyzing each bank loan or participation, the Investment Adviser attempts to compare the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by the Funds.

Second Lien Loans. The Investment Adviser, on behalf of the Funds, may invest in loans that are secured by a second lien on assets. Second lien loans have been a developed market for a relatively short period of time, and there is limited historical data on the performance of second lien loans in adverse economic circumstances. In addition, second lien loan products are subject to intercreditor arrangements with the holders of first lien indebtedness, pursuant to which the second lien holders have waived many of the rights of a secured creditor, and some rights of unsecured creditors, including rights in bankruptcy which can materially affect recoveries. While there is broad market acceptance of some second lien intercreditor terms, no clear market standard has developed for certain other material intercreditor terms for second lien loan products. This variation in key intercreditor terms may result in dissimilar recoveries across otherwise similarly situated second lien loans in insolvency or distressed situations. While uncertainty of recovery in an insolvency or distressed situation is inherent in all debt instruments, second lien loan products carry more risks than certain other debt products.

In August 2007, the market for many loan products, including second lien loans, contracted significantly which made virtually all leveraged loan products, particularly second lien loan products, less liquid or illiquid. Many participants ceased underwriting and purchasing certain second lien loan products. Such illiquidity may continue to persist with respect to loans, and second lien loans in particular, and the depth of the market for second lien loans may contract further.

Bankruptcy Claims. The Investment Adviser, on behalf of the Funds, may invest in bankruptcy claims which are amounts owed to creditors of companies in financial difficulty. Bankruptcy claims are illiquid and generally do not pay interest and there can be no guarantee that the debtor will ever be able to satisfy the obligation on the bankruptcy claim. The markets in bankruptcy claims are not generally regulated by U.S. securities laws or the SEC. Because bankruptcy claims are frequently unsecured, holders of such claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding. In addition, under certain circumstances, payments and distributions may be

reclaimed if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

Equitable Subordination. Under common law principles that in some cases form the basis for lender liability claims, if a lender (a) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (d) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called "equitable subordination"). The Investment Adviser, on behalf of the Funds, does not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the nature of the debt obligations, the Funds may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the issuer should be equitably subordinated.

Credit Default Swaps. The Investment Adviser, on behalf of the Funds, may invest in credit default swaps. A credit default swap is a contract between two parties which transfers the risk of loss if a company fails to pay principal or interest on time or files for bankruptcy. In essence, an institution which owns corporate debt instruments can purchase a limited form of default protection by entering into a credit default swap with another bank, broker-dealer or financial intermediary. Upon an event of default, the swap may be terminated in one of two ways: (i) by the purchaser of credit protection delivering the referenced instrument to the swap counterparty and receiving a payment of par value, or (ii) by the parties pairing off payments, with the purchaser of the protection receiving a payment equal to the par value of the reference security less the price at which the reference security trades subsequent to default. The first way is the more common form of credit default swap termination.

In the manner described above, credit default swaps can be used to hedge a portion of the default risk on a single corporate bond or a portfolio of bonds. Credit default swaps can be used to implement the Investment Adviser's view that a particular credit, or group of credits, will experience credit improvement. In the case of expected credit improvement, the Funds may sell credit default protection in which they receive a premium to take on the risk. In such an instance, the obligation of the Funds to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. The Funds may also "purchase" credit default protection even in the case in which they do not own the referenced instrument if, in the judgment of the Investment Adviser, there is a high likelihood of credit deterioration.

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. Swap transactions dependent upon credit events are priced incorporating many variables including the pricing and volatility of the common stock, potential loss upon default and the shape of the U.S. Treasury Yield curve, among other factors. As such, there are many factors upon which market participants may have divergent views. The Investment Adviser may also enter into credit default swap transactions, even if

the credit outlook is positive, if it believes that participants in the marketplace have incorrectly valued the components which determine the value of a swap.

Index or Index Options. The Investment Adviser, on behalf of the Funds, may also purchase and sell indices as well as call and put options on indices, whether or not stock indices listed on securities exchanges or traded in the over-the-counter market. An index or index option fluctuates with changes in the market values of the securities included in the index. Because the value of an index or index option depends upon movements in the level of the index rather than the price of a particular instrument, whether the Funds will realize gains or losses from the purchase or writing of options on indices depends upon movements in the level of instrument prices in the instrument market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular instruments.

Collateralized Debt Obligations. The Investment Adviser, on behalf of the Funds, may invest in CDOs and similar structured debt products (collectively, "CDO Securities"). CDO Securities in which the Funds invest will be backed by certain fixed income securities, such as asset-backed securities, CDO Securities, corporate leveraged loans, credit default swaps and other derivatives. CDO Securities are instruments representing interests in pools, the underlying asset classes of which include bonds, debentures, syndicated loans, and private placement debt and are limited-recourse obligations of the issuer thereof payable solely from the underlying securities in the portfolio of such issuer. CDO Securities are subject to various risks including the following credit, liquidity, interest rate and other risks:

(i) *Limited Diversification.* CDOs may invest in concentrated portfolios of assets. The concentration of an underlying portfolio in any one obligor would subject the holder of the related CDO Securities to a greater degree of risk with respect to defaults by such obligor and the concentration of a portfolio in any one industry would subject the holder of the related CDOs to a greater degree of risk with respect to economic downturns relating to such industry or region.

(ii) *Leverage Risk.* The Funds' investments in CDOs involves significant leverage. Leverage is embedded in all classes of a CDO other than the most senior tranche. While the leverage presents opportunities for increasing the Funds' total returns, it has the effect of potentially increasing losses as well.

(iii) *Risks of Investment Focus.* The value of the CDO Securities owned by the Funds generally will fluctuate with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CDO ("CDO Collateral"), general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates.

(iv) *Interest Rate Mismatch.* CDOs are subject to significant interest rate risk. Some of the CDO Collateral of an issuer of a CDO bears interest at a fixed rate, while the CDO Security typically bears interest at a floating rate. As a result, there could be a floating/fixed rate mismatch between such CDO Security and the CDO Collateral.

(v) *Lower Credit Quality Securities.* There are no restrictions on the credit quality of the investments of the Funds. CDO Securities in which the Funds may invest may be deemed by rating agencies to have substantial vulnerability to default in payment of interest and/or principal. In general, the ratings of nationally recognized rating organizations represent the opinions of such agencies as to the quality of securities that they rate. Such ratings are relative and subjective; they are not guarantees of performance or absolute standards of credit quality and do not evaluate the market value risk of the securities. It is also possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events.

(vi) *Liquidity of Markets.* At times, the fixed income markets have in the past experienced significant falloffs in liquidity. While such events may sometimes be attributable to changes in interest rates or other factors, the cause is not always apparent. During such periods of market illiquidity, a CDO may not be able to sell assets in its portfolio or may only be able to do so at unfavorable prices. Such "liquidity risk" could adversely impact the value of the Funds' portfolios, and may be difficult or impossible to hedge against.

Risks Associated with Residential Mortgage-Backed Securities. The Investment Adviser, on behalf of the Funds, may invest in residential mortgage-backed securities ("RMBS"). Holders of RMBS bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represents interests in pools of residential mortgage loans secured by one- to four-family residential mortgage loans. Such loans may be prepaid at any time. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity. The rate of defaults and losses on residential mortgages will be affected by a number of factors, including general economic conditions, conditions in the area where the mortgaged property is located, the borrower's equity in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited. Residential mortgage loans may be more susceptible to geographic risks relating to an area in which the collateral is concentrated, such as adverse economic conditions, adverse events affecting industries located in such area and natural hazards affecting such area, than would be the case for a pool of mortgage loans having more diverse property locations.

Residential mortgage loans in an issue of RMBS may be subject to various federal and state laws, public policies and principles of equity that protect consumers which, among other things, may regulate interest rates and other fees, require certain disclosures, require licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer credit information and regulate debt collection practices. Violation of such laws, public policies and principles may limit the servicer's ability to collect all or part of the principal or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it, or subject the servicer to damages and sanctions. Any such violation could also result in cash flow delays and losses on the related issue of RMBS.

It is not expected that RMBS will be guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on RMBS will depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans.

Risks Associated with Commercial Mortgage-Backed Securities. The Investment Adviser, on behalf of the Funds, may invest in commercial mortgage-backed securities ("CMBS") and other mortgage-backed securities, including subordinated tranches of such securities. The value of CMBS will be influenced by factors affecting the value of the underlying real estate portfolio, and by the terms and payment histories of such CMBS.

Some or all of the CMBS contemplated to be acquired by the Funds may not be rated, or may be rated lower than investment-grade securities, by one or more nationally recognized statistical rating organizations. Lower-rated or unrated CMBS, so-called "B-pieces," in which the Funds intend to invest have speculative characteristics and can involve substantial financial risks as a result. The prices of lower credit quality securities have been found to be less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic or real estate market conditions or individual issuer concerns. Securities rated lower than "B" by rating organizations may be regarded as having extremely poor prospects of attaining any real investment standing and may be in default. Existing credit support and the owner's equity in the property may be insufficient to protect the Funds from loss.

The Funds may acquire subordinated tranches of CMBS issuances. In general, subordinated tranches of CMBS are entitled to receive repayment of principal only after all principal payments have been made on more senior tranches and have subordinated rights as to receipt of interest distributions. Such subordinated tranches are subject to a greater risk of nonpayment than senior tranches of CMBS or CMBS backed by third-party credit enhancement. As investors in subordinated CMBS, the Funds will be first among debt holders to bear the risk of loss from delinquencies and defaults experienced on the collateral. In addition, an active secondary market for such subordinated securities is not as well developed as the market for other mortgage-backed securities. Accordingly, such subordinated CMBS may have limited marketability and there can be no assurance that a more efficient secondary market will develop.

The value of CMBS and other mortgage-backed securities in which the Funds may invest generally will have an inverse relationship with interest rates. Accordingly, if interest rates rise the value of such securities will decline. In addition, to the extent that the mortgage loans which underlie specific mortgage-backed securities are prepayable, the value of such mortgage securities may be negatively affected by increasing prepayments, which generally occur when interest rates decline. Typically, commercial mortgage loans are not prepayable or are subject to prepayment penalties or interest rate adjustments while most residential mortgage loans may be prepaid at any time without penalty.

ABS. Asset-backed securities ("ABS") use trusts and special purpose corporations to securitize various types of assets, primarily automobile and credit card receivables. The Investment Adviser, on behalf of the Funds, may invest, either directly or indirectly, through CDOs, in these and other types of ABS that may be developed in the future.

ABS present certain risks that are not presented by mortgage-backed securities. Primarily, these financial instruments do not have the benefit of security interest in collateral. Credit card receivables, for example, are generally unsecured and the debtors are entitled to the protection of a number of state and federal consumer laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby

reducing the balance due. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related ABS. In addition, because of the large number of entities involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the ABS may not have a proper security interest in all of the obligations backing such ABS. Therefore, 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 mortgage-backed securities, 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.

Illiquid Investments. The Investment Adviser, on behalf of the Funds, may invest in securities, bank debt and other claims, and other assets, which are subject to legal or other restrictions on transfer or for which no liquid market exists. The market prices, if any, for such investments tend to be volatile and may not be readily ascertainable, and the Funds may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. These investments will not necessarily be designated as "Special Investments." The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. The Funds may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. An investment in the Funds is suitable only for certain sophisticated investors who do not require immediate liquidity for their investments.

Special Investments. The Investment Adviser, on behalf of the Funds may invest part of the Funds' assets in investments that the Investment Adviser believes either lack a readily assessable market value or should be held until the resolution of a special event or circumstances (i.e., Special Investments). Shares corresponding to a new Special Investment will not be issued to a shareholder to the extent that the issuance of such shares would cause the aggregate Net Asset Value of such shares issued to such shareholder to exceed the Special Investment Limit (as defined below) with respect to such shareholder. A "Special Investment Limit" is equal to 15% of the Net Asset Value of a shareholder's shares (including, for these purposes, the fair value of a shareholder's shares associated with such Special Investment. Notwithstanding the foregoing, such shareholder will be issued shares in connection with any investment that the Investment Adviser determines is a follow-up investment to a Special Investment in which such shareholder has an interest. The Special Investment Limit will be measured each time shares corresponding to a new Special Investment are issued. The Funds may not be able to readily dispose of Special Investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time.

Special Investments and other assets and liabilities for which no such market prices are available will generally be carried on the books of the Funds at fair value (which may be cost) as reasonably determined by the Investment Adviser. There is no guarantee that fair value will represent the value that will be realized by the Funds on the eventual disposition of the investment or that would, in fact, be realized upon an immediate disposition of the investment. A redeeming shareholder with an interest in a Special Investment will not receive any amount in respect of such interest until the related Special Investment is realized or deemed realized.

Investors having no interest in a Special Investment could have the value of their investment negatively impacted by losses relating to such Special Investment that exceed its value (e.g., if leverage is used to acquire the Special Investment and the amount owed to the creditor exceeds the value of the investment).

Convertible Securities. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. A convertible security entitles its holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics in that they generally (i) have higher yields than common stocks, but lower yields than comparable non-convertible securities, (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases.

The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security's investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases as the convertible security approaches maturity.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by the Funds is called for redemption, the Funds 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. Any of these actions could have an adverse effect on the Funds' ability to achieve their investment objective.

Derivative Investments. The prices of derivative instruments, including futures and options, are highly volatile. Payments made pursuant to swap agreements may also be highly volatile. Price movements of futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the commodities underlying them. In addition, the Funds' assets are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses or counterparties.

The Investment Adviser, on behalf of the Funds, may buy or sell (write) both call options and put options, and when it writes options, it may do so on a "covered" or an "uncovered" basis. A call option is "covered" when the writer owns securities of the same class and amount as those to which the call option applies. A put option is covered when the writer has an open short position in securities of the relevant class and amount. The Funds' option transactions may be part of a hedging strategy (*i.e.*, offsetting the risk involved in another securities position) or a form of leverage, in which the Funds have the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be substantial, depending on the circumstances.

In general, without taking into account other positions or transactions the Funds may enter into, the principal risks involved in options trading can be described as follows: When the Funds buy an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the price of the underlying security in the case of a put, could result in a total loss of the Funds' investment in the option (including commissions). The Funds could mitigate those losses by selling short, or buying puts on, the securities for which they hold call options, or by taking a long position (*e.g.*, by buying the securities or buying calls on them) in securities for which they hold put options.

When the Funds sell (write) an option, the risk can be substantially greater than when they buy an option. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. The risk is theoretically unlimited unless the option is "covered". If it is covered, the Funds would forego the opportunity for profit on the underlying security should the market price of the security rise above the exercise price. If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction costs) would provide profit that would reduce or offset any loss the Funds might suffer as a result of owning the security.

Swaps and certain options and other customized instruments are subject to the risk of non-performance by the swap counterparty, including risks relating to the creditworthiness of the swap counterparty, market risk, liquidity risk and operations risk.

Item 9
DISCIPLINARY INFORMATION

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of the Investment Adviser's advisory business or the integrity of the Investment Adviser's management.

Item 10
OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

A. Broker-Dealer Registration Status.

The Investment Adviser and its management persons are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

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

The Investment Adviser and its management persons are not registered as, and do not have any application to register as, futures commission merchants, commodity pool operators, commodity trading advisors or associated persons of the foregoing entities.

C. Material Relationships or Arrangements with Industry Participants.

The Investment Adviser, its personnel and its affiliates, including Saba Capital, LLC, Saba Capital II, LLC and Saba Capital Management (Ireland) Limited, serve as investment advisers, management companies and/or general partners to multiple clients.

The Investment Adviser will devote as much of its time to the activities of each of the Funds and the Managed Account as it deems necessary and appropriate. The Investment Adviser is not restricted from forming additional investment funds, from entering into other investment advisory relationships or from engaging in other business activities, even though such activities may be in competition with existing Funds and/or the Managed Account and may involve substantial time and resources of the Investment Adviser. These activities could be viewed as creating a conflict of interest in that the time and effort of the members and partners of the Investment Adviser and its officers and employees will not be devoted exclusively to the business of the existing Funds and the Managed Account but will be allocated between the business of the existing Funds and the Managed Account and the management of the monies of other advisees of the Investment Adviser.

From time to time employees of the Investment Adviser may serve as directors or advisory board members of portfolio companies or other entities. In connection with such services, the Investment Adviser may receive directors' fees or other similar compensation attributable to such employees' services. Such amounts are not expected to be material.

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

The Investment Adviser 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.

The Investment Adviser strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. In seeking to meet these standards, the Investment Adviser has adopted a Code of Ethics (the "Code"). The Code incorporates the following general principles that all employees are expected to uphold: employees must at all times place the interests of clients first; all personal securities transactions must be conducted in a manner consistent with the Code and any actual or potential conflicts of interest or any abuse of an employee's position of trust and responsibility must be avoided; employees must not take any inappropriate advantage of their positions; information concerning the identity of securities and financial circumstances of the Funds and the Managed Account, including the Funds' and Managed Account's investors, must be kept confidential; and independence in the investment decision-making process must be maintained at all times.

Clients may request a copy of the Code by contacting the Investment Adviser at the address or telephone number listed on the first page of this document.

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

1. Cross Trades

The Investment Adviser may determine that it would be in the best interests of certain clients to transfer a security from one client to another (each such transfer, a "Cross Trade") for a variety of reasons, including, without limitation, tax purposes, liquidity purposes, or to reduce transaction costs that may arise in an open market transaction. If the Investment Adviser decides to engage in a Cross Trade, the Investment Adviser will determine that the trade is in the best interests of each client involved in it and take steps to ensure that the transaction is consistent with the duty to obtain best execution for each of those clients.

The Investment Adviser generally executes Cross Trades with the assistance of a broker-dealer who executes and books the transaction at the close of the market on the day of the transaction. Alternatively, a Cross Trade between two clients may occur as an "internal cross", where the Investment Adviser instructs the custodian for the clients to book the transaction at the price determined in accordance with the Investment Adviser's valuation policy. If the Investment Adviser effects an internal cross, the Investment Adviser will not receive any fee in connection with the completion of the transaction.

2. Principal Transactions

To the extent that Cross Trades may be viewed as principal transactions due to the ownership interest in a client by the Investment Adviser or its personnel, the Investment Adviser will comply with the requirements of Section 206(3) of the Advisers Act, including that any such transactions will be considered on behalf of investors and approved or

disapproved by (i) an advisory board comprised of representatives of investors in the clients or (ii) a committee consisting of one or more persons selected by the Investment Adviser (or its affiliate), and any valuation approved by such a committee will be determined by an independent third party that has appropriate experience in providing such valuations.

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

The Code also places restrictions on personal trades by employees, including that they disclose their personal securities holdings and transactions to the Investment Adviser on a periodic basis. Investment Adviser's partners, officers and employees may from time to time make personal investments in securities or instruments in which Investment Adviser may invest the Funds' and/or the Managed Account's assets. Investment Adviser's personnel may hold securities or other instruments for their own accounts while entering into investment decisions involving the same securities or other instruments for one or more Funds and/or the Managed Account. The Investment Adviser's personnel require prior pre-approval for all personal securities transactions, may not trade in the same securities or instruments as a Fund or the Managed Account if the Fund or the Managed Account currently has an investment in such securities or instruments or is currently considering an investment in such security or instrument, and personnel are required to hold all personal securities transactions for a minimum of thirty days. In addition, the Investment Adviser's personnel may also invest in eligible Funds of its or their choosing and are not required to invest in all Funds. It is expected that, if such investments are made, the size of these investments will change over time. Neither the Investment Adviser nor its personnel are required to keep any minimum investment in any of the Funds, however, the Investment Adviser is required to provide investors with notice if certain of the Investment Adviser's personnel redeem or withdraw capital in excess of certain amounts as described in the applicable offering memorandum.

The Investment Adviser 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, 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.

D. Conflicts of Interest Created by Contemporaneous Trading.

It is the policy of the Investment Adviser to allocate investment opportunities fairly and equitably. This means that such opportunities will be allocated among the Managed Account or those Funds for which participation in the respective opportunity is considered appropriate, taking into account, among other considerations: (a) whether the risk-return profile of the proposed investment is consistent with the account's objectives, whether such objectives are considered (i) solely in light of the specific investment under consideration or (ii) in the context of the portfolio's overall holdings; (b) the potential for the proposed investment to create an imbalance in the account's portfolio; (c) liquidity requirements of the account; (d) potentially adverse tax consequences; (e) regulatory restrictions that would or could limit an account's ability to participate in a proposed investment; and (f) the need to re-size risk in the account's portfolio. Such considerations

may result in allocations among the Funds and Managed Account on other than a *pari passu* basis.

From time to time, the Investment Adviser and/or one or more of its affiliates may come into possession of material, non-public information, and such information may limit the ability of a Fund or Managed Account to buy and sell investments. The Investment Adviser will not be free to act upon any such information. Due to these restrictions and/or contractual restrictions imposed on any affiliate of the Investment Adviser, the Funds and Managed Account may not be able to participate in opportunities that they otherwise might have participated in and may not be able to sell an investment that they otherwise might have sold.

The Investment Adviser may purchase or sell securities on its own behalf or on behalf of the Managed Account or Funds which may differ from those purchased or sold for other Funds or the Managed Account, even though the investment objectives may be the same or similar. For example, one Fund or the Managed Account may own senior debt of a portfolio company while another Fund or the Managed Account owns junior debt in the same portfolio company. It is possible that the activities or strategies used for one account could conflict with the activities and strategies employed in managing the assets of another account and affect the prices and availability of the securities and instruments in which a Fund or the Managed Account invests. For example, in a situation where a Fund invests in senior debt securities of a company in which another Fund holds or is contemporaneously acquiring junior debt securities, questions may arise as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced. Decisions about what action should be taken in a troubled situation, including whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring, raise conflicts of interest. If additional capital is necessary as a result of financial or other difficulties, one Fund or the Managed Account may or may not provide such additional capital as each determines in their sole discretion. One Fund or the Managed Account may have an interest in structuring debt securities and instruments that have financial terms (such as interest rates, repayment terms, seniority, covenants and events of default) that are more restrictive than the terms that such other Fund or the Managed Account would seek to negotiate. The Investment Adviser will seek to resolve such conflicts of interest in a fair and equitable manner.

Item 12 BROKERAGE PRACTICES

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

As noted previously, the Investment Adviser has full discretionary authority to manage the Funds and Managed Account, including authority to make decisions with respect to which securities are bought and sold, the amount and price of those securities, the brokers or dealers to be used for a particular transaction, and commissions or markups and markdowns paid. The Investment Adviser's authority is limited by its own internal policies and procedures and each Fund's and/or Managed Account's investment guidelines.

Subject to the considerations described below, the selection of a broker (including a prime broker) to execute transactions, provide financing and securities on loan, hold cash and short balances and provide other services may be influenced by, among other things, the provision by the broker of the following: capital introduction, marketing assistance and consulting services with respect to technology, operations, equipment and office space.

1. Research and Other Soft Dollar Benefits.

Portfolio transactions are allocated to brokers in consideration of best execution taking into account such factors as price, transaction costs, a broker's ability to effect the transactions, its facilities, reliability and financial responsibility, commitment of capital, access to company management, access to deal flow, as well as other factors that are deemed appropriate to consider under the circumstances. Accordingly, the commission rates (or dealer markups and markdowns arising in connection with riskless principal transactions) charged to the Funds or Managed Account by brokers in the foregoing circumstances may be higher than those charged by other brokers who may not offer such services. In addition, the Investment Adviser may allocate portfolio transactions to brokers based upon the provision or payment by the broker of the costs of brokerage and research services which are of benefit to the Funds, Managed Account and the Investment Adviser. Although currently the Investment Adviser does not enter into soft dollar arrangements with broker-dealers, if the Investment Adviser chooses to use commission or "soft" dollars (or dealer markups and markdowns arising in connection with riskless principal transactions) to acquire brokerage and research services in the future, such soft dollar arrangements will come within the safe harbor for the use of soft dollars provided under Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended, as described below. Consistent with Section 28(e), eligible research or brokerage products or services obtained with soft dollars generated by one or more Fund or Managed Account may be used by the Investment Adviser to service one or more other Funds and/or the Managed Account, including clients that may not have paid for the soft dollar benefits. The Investment Adviser may not seek to allocate soft dollar benefits to client accounts in proportion to the soft dollar credits the client accounts generate. Where a product or service obtained with soft dollars provides both research and non-research assistance to the Investment Adviser (*i.e.*, a "mixed use" item), the Investment Adviser will make a good faith allocation of the cost which may be paid for with soft dollars. 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 Investment Adviser's allocation of the costs of

such benefits and services between those that primarily benefit the Investment Adviser and those that primarily benefit the Funds and/or Managed Account.

2. Brokerage for Client Referrals.

Neither the Investment Adviser nor any related person receives client referrals from any broker-dealer or third party. However, as discussed above, subject to best execution, the Investment Adviser 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 Investment Adviser does not recommend, request or require that a client direct the Investment Adviser to execute transactions through a specified broker-dealer.

B. Order Aggregation.

It is the policy of the Investment Adviser to allocate investment opportunities fairly and equitably. This means that such opportunities will be allocated among the Managed Account or the Funds for which participation in the respective opportunity is considered appropriate, taking into account, among other considerations: (a) whether the risk-return profile of the proposed investment is consistent with the account's objectives, whether such objectives are considered (i) solely in light of the specific investment under consideration or (ii) in the context of the portfolio's overall holdings; (b) the potential for the proposed investment to create an imbalance in the account's portfolio; (c) liquidity requirements of the account; (d) potentially adverse tax consequences; (e) regulatory restrictions that would or could limit an account's ability to participate in a proposed investment; and (f) the need to re-size risk in the account's portfolio. Such considerations may result in allocations among the Funds and Managed Account on other than a *pari passu* basis.

Orders may be combined for all such accounts, and if any order is not filled at the same price, they may be allocated on an average price basis. Similarly, if an order on behalf of more than one account cannot be fully executed under prevailing market conditions, securities may be allocated among the different accounts on a basis which the Investment Adviser considers equitable.

Item 13
REVIEW OF ACCOUNTS

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

The Investment Adviser performs various daily, weekly, monthly, quarterly and periodic reviews of each client's portfolio. Such reviews are conducted by the members of the Investment Adviser's Management Committee, portfolio managers and research associates.

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

A review of a client account may be triggered by any unusual activity or special circumstances.

C. Content and Frequency of Account Reports to Clients.

Investors in the Funds receive weekly and monthly performance estimates and a monthly and/or weekly report from the Investment Adviser documenting the performance of their Fund, along with a monthly report of selected risk attributions of the Fund, although the Investment Adviser may provide certain investors with information on a more frequent and detailed basis if agreed to by the Investment Adviser. Information also may be available through the administrator's password protected website. In addition, the Investment Adviser issues investors tax reports and audited financial statements concerning their respective Funds within 90-120 days of the end of a Fund's fiscal year. The beneficial owners of the Tail Hedge Funds receive account statements at least quarterly from the Tail Hedge Funds' qualified custodians and are urged to carefully review these account statements and compare these account statements to the account statements received from the Investment Adviser. In addition, with respect to the Tail Hedge Funds, the Investment Adviser has entered into a written agreement with an independent public accountant to conduct an annual surprise verification examination, as required by the Custody Rule.

A review of a client account may be triggered by any unusual activity or special circumstances.

Item 14
CLIENT REFERRALS AND OTHER COMPENSATION

Economic Benefits for Providing Services to Clients.

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

Compensation to Non-Supervised Persons for Client Referrals.

Neither the Investment Adviser nor any related person directly or indirectly compensates any person who is not a supervised person, including placement agents, for client referrals. The Investment Adviser does not currently utilize third-party placement agents. If the Investment Adviser elects to utilize such placement agents in the future, the Investment Adviser will disclose that such placement agents may receive compensation for referring investors to the Funds or the Managed Account.

Item 15

CUSTODY

The Investment Adviser is deemed to have custody of client funds and securities because it has the authority to obtain client funds or securities, for example, by deducting advisory fees from a client's account or otherwise withdrawing funds from a client's account. Account statements related to the clients are sent by qualified custodians to the Investment Adviser.

The Investment Adviser 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. The beneficial owners of the Tail Hedge Funds receive account statements at least quarterly from the Tail Hedge Funds' qualified custodians and are urged to carefully review these account statements and compare these account statements to the account statements received from the Investment Adviser. In addition, with respect to the Tail Hedge Funds, the Investment Adviser has entered into a written agreement with an independent public accountant to conduct an annual surprise verification examination, as required by the Custody Rule.

Item 16
INVESTMENT DISCRETION

The Investment Adviser serves as the management company with discretionary trading authority to each Fund. In addition, the Investment Adviser serves as the investment adviser with discretionary trading authority and also provides discretionary advisory services for the Managed Account.

The Investment Adviser's investment decisions and advice with respect to each Fund are subject to each Fund's investment objectives and guidelines, as set forth in its offering documents. Similarly, the Investment Adviser'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 advisory agreement, as well as any written instructions provided by the client to the Investment Adviser.

Item 17
VOTING CLIENT SECURITIES

The Securities and Exchange Commission adopted Rule 206(4)-6 under the Investment Advisers Act of 1940, which requires registered investment advisers that exercise voting authority over client securities to implement proxy voting policies. In compliance with such rules, the Investment Adviser has adopted proxy voting policies and procedures (the "Policies"). The general policy is to vote proxy proposals, amendments, consents or resolutions relating to client securities, including interests in private investment funds, if any (collectively, "proxies"), in a manner that serves the best interests of the Funds and Managed Account, as determined by the Investment Adviser in its discretion, taking into account the following factors: (i) the impact on the value of the investments; (ii) the anticipated associated costs and benefits; (iii) the continued or increased availability of portfolio information; and (iv) industry and business practices. In limited circumstances, the Investment Adviser may refrain from voting proxies where the Investment Adviser believes that voting would be inappropriate taking into consideration the cost of voting the proxy and the anticipated benefit to the Funds and Managed Account. Conflicts of interest may arise between the interests of the Investment Adviser and the interests of clients. If the Investment Adviser determines it may have a conflict (or may be perceived to have a conflict) when voting proxies, the Investment Adviser will vote in accordance with the Policies. A copy of the policies and the proxy voting record relating to a client of the Investment Adviser may be obtained by clients upon request.

Item 18
FINANCIAL INFORMATION

The Investment Adviser 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.