

CAPSTONE INVESTMENT ADVISORS, LLC

PART 2A OF FORM ADV: FIRM BROCHURE

7 World Trade Center
250 Greenwich Street, 30th Floor
New York, NY 10007

Contact: (212) 232-1420

www.capstoneco.com

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This brochure provides information about the qualifications and business practices of Capstone Investment Advisors, LLC (“CIA”). If you have any questions about the contents of this brochure, please contact Jeremy Heckerling at (212) 232-1476. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Registration with the SEC does not imply a certain level of skill or training. Additional information about CIA is also available on the SEC’s website at www.adviserinfo.sec.gov.

CIA has included in this brochure references to products such as private investment funds only for the purpose of describing its advisory business. This brochure is not intended as an offer of any of these products, which are privately offered only to qualified investors.

Item 2 – Material Changes

Not applicable. This brochure is the initial brochure for Capstone Investment Advisors, LLC.

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Item 4 – Advisory Business

Capstone Investment Advisors, LLC (“CIA”) is a Delaware limited liability company founded by Paul Britton on March 8, 2007. CIA’s principal owner is Mr. Britton. Capstone Credit Advisors, LLC (“CCA”), a Delaware limited liability company formed on March 10, 2009, is owned and controlled by CIA. CIA and CCA (collectively, the “Capstone Advisers”) are alternative asset management firms, specializing primarily in relative value volatility and structured credit strategies respectively. The Capstone Advisers provide investment management services on a discretionary basis to private open-end investment vehicles (each, a “Fund” and collectively, the “Funds”). The Capstone Advisers may from time to time also provide investment management services on a discretionary basis to one or more separately managed accounts or single investor vehicles that invest in certain of the same investments as the Funds (but generally providing investors the ability to tailor the management of such accounts through investment and risk guidelines and other specialized terms). The Funds currently are organized in master-feeder structures. Although trading generally occurs only at the master fund levels, trading may occur at the intermediate fund and feeder fund levels. Certain of the Funds are organized offshore. All investment and trading decisions on behalf of each Fund are made by the Fund’s applicable Capstone Adviser. Note that as of the date of this filing, CCA is in the process of a transaction that will result in the investment management agreement between CCA and the Credit Fund (as defined herein) being assigned to an independent, third party investment advisor controlled by the portfolio manager of CCA. This transaction is expected to close in the first quarter of 2012.

CIA and CCA share an office and employees. CIA is registered with the Securities and Exchange Commission (the “SEC”) as an investment adviser. CCA is not registered with the SEC. However, all investment advisory activities of CCA are subject to the Investment Advisers Act of 1940, as amended (the “Advisers Act”) and the rules thereunder, and any persons acting on behalf of CCA are subject to the supervision and control of CIA with respect to any such investment advisory activities.

The Capstone Advisers have full discretion in all investment decisions made on behalf of the Funds. Investment advice is provided directly to the Funds according to each Fund’s particular investment objectives and not individually to each Fund’s investors.

CIA UK (as defined below), a London based subsidiary of CIA, serves as discretionary sub-advisor to two Irish trusts (the “Irish Trusts”), the investment objectives and strategies of which are similar to those of the Convexity Fund (as defined below). An employee of CIA is also an employee of CIA UK and in that capacity serves as a portfolio manager to the Irish Trusts on behalf of CIA UK.

As of October 31, 2011, the Capstone Advisers managed approximately \$3,696,300,000 of assets on a discretionary basis.

Item 5 – Fees and Compensation

The Funds

Compensation received by the Capstone Advisers and/or an affiliate for their investment advisory services to the Funds is comprised of management fees based on a percentage of assets under management and performance-based fees or allocations. The fees are deducted directly from the applicable Fund’s account.

Management Fee (Based on Net Assets)

For its investment management services to the Funds, the applicable Capstone Adviser is entitled to receive a management fee (“Management Fee”) at an annual rate (typically 2.0%) of the month-end net asset value (“NAV”) of each Fund investor’s capital account balance or series of shares, as applicable. The Management Fee is generally paid in arrears as of the end of each calendar month. If a Fund investor withdraws on a date other than the calendar month-end, the Management Fee will be prorated for such partial period. Generally, the applicable Capstone Adviser may reduce or waive any Management Fee at any time with respect to certain investors or investments.

The applicable Capstone Adviser may waive, and generally intends to waive, the Management Fee paid with respect to investments in a Fund by principals, employees and affiliates of the Capstone Adviser.

Performance-Based Compensation

Capstone Fund Services, LLC (“CFS”), an affiliate of CIA and CCA, serves as the general partner or intermediate fund manager, as applicable, of certain of the Funds. In this capacity, CFS is generally entitled to receive a performance fee or allocation of profits (“Performance Compensation”) on either a quarterly or annual basis (and upon withdrawals from a Fund) generally of 20% of the net realized and unrealized appreciation in NAV of the assets under management of each of the Funds.

Certain Funds have different calculations for Performance Compensation, as described in the pertinent offering documents. Additionally, for certain accounts funds or products, Performance Compensation may be determined by reference to net realized and unrealized outperformance relative to a benchmark rather than as a percentage of net appreciation. In some instances, CIA, rather than CFS may receive Performance Compensation in connection with a Fund. Generally, CIA or CFS, as applicable, may reduce or waive any Performance Compensation at any time with respect to certain investors or investments.

A Fund may waive, and each generally intends to waive, its right to Performance Compensation with respect to investments in such Fund by principals, employees and affiliates of the Capstone Adviser. A Fund may modify certain other terms with respect to such investments.

Affiliated Funds

The Capstone Advisers may implement certain of the Funds’ strategies through investments in other investment funds or managed accounts managed by a Capstone Adviser (an “Affiliated Fund”). Fees are charged at either the Fund or the Affiliated Fund level (but not at both). In certain circumstances, if Performance Compensation is charged at the Affiliated Fund level, investors may be subject to Performance Compensation despite the fact that on an aggregate basis the prior losses have yet to be recovered.

Other Types of Fees or Expenses

In addition to the Management Fee and Performance Compensation, the Funds also bear certain costs and expenses of the applicable Capstone Adviser and its affiliates attributable to asset management services and accounting and operational services.

Fund investors bear indirectly the fees and expenses charged to the Funds. These fees vary, but typically include, without limitation, (i) clearing and executing broker fees, (ii) data feed and market data costs (and related software and hardware expenses), (iii) trading, research and risk management costs (and related software and hardware expenses), (iv) exchange membership expenses, (v) interest expenses, (vi) stock loan expenses, (vii) regulatory and self-regulatory fees, (viii) other transactional charges, (ix) expenses relating to cash management, (x) expenses relating to the continuing offering of interests or shares, as applicable, (xi) legal, compliance, audit, accounting, tax and custodial fees and expenses and (xii) fees and expenses of the administrator and consultants engaged by the Funds or by a Capstone Adviser for their benefit.

Certain of the Funds require investors to commit to a lock-up of their investment for a specified time period. Such investors may withdraw their investment prior to the expiration of such lock-up period upon payment of a withdrawal fee assessed against such early withdrawal. Generally, the Board of Directors of the relevant fund (or, the General Partner, as the case may be) may waive or reduce such withdrawal fee to the extent it determines that such Fund will not incur such expenses or that such Fund will not otherwise be materially disadvantaged by such reduction or waiver.

Fund assets are from time to time invested in income-producing cash equivalents or other short-term instruments, including U.S. government and agency securities, money market funds, short-term bond mutual funds, repurchase and reverse repurchase agreements, certificates of deposits, banker’s acceptances and commercial paper. In some

cases, a Fund may pay the money market fund or such other short-term investment vehicle an advisory fee on assets invested in the money market fund or short-term investment vehicle in addition to the fees paid to the pertinent Capstone Adviser.

Fund investors should review all fees charged by the Capstone Advisers, broker-dealers and other third parties to fully understand the total amount of fees to be paid by the Funds. Please also see “Item 12—Brokerage Practices” below.

Variance of Investment Terms

The pertinent Capstone Adviser and/or Fund may from time to time enter into arrangements with certain Fund investors that may provide for terms of investment that are more favorable than the terms described in the relevant Fund offering documents. The Volatility Fund (as defined below) has granted to a strategic investor preferable transparency/reporting and liquidity rights.

Separately Managed Account Fees

The fees associated with any separately managed account will be negotiated on a case-by-case basis. Such fees generally include a management fee based on a percentage of the value of the assets managed, to be paid on either a monthly or quarterly basis, and a performance-based fee calculated on the amount of profits generated in respect of the account or in relation to a benchmark, to be paid on a quarterly or annual basis or upon a withdrawal from the account.

The Irish Trusts

CIA UK receives from each Irish Trust, in addition to an asset-based management fee, a performance fee (the “Performance Fee”) that is based on the outperformance (if any) of each Irish Trust relative to a benchmark.

Item 6 – Performance Based Compensation and Side-by-Side Management

As stated in “Item 5—Fees and Compensation” above, generally all clients are subject to payment or allocation of performance based compensation.

Certain performance based compensation will be paid upon an accounts’ outperformance of a benchmark. If a Fund experiences losses, but such losses are less than the losses produced with respect to the relevant benchmark’s performance, Performance Compensation may be paid to the Capstone Advisers, despite absolute net losses being incurred with respect to the Fund.

Item 7 – Types of Clients

As described in “Item 4—Advisory Business” above, the Capstone Advisers generally provide investment advice to private investment vehicles, including the Funds. Investment advice is provided directly to the Funds and not individually to the Fund investors. At any time, investors in the Funds generally include institutions (*e.g.* pension plans, endowments, trusts, estates, charitable organizations, foundations, etc.), “fund-of-funds” and high net worth individuals/family offices. Any minimum initial and additional subscription requirements are disclosed in the offering documents for the relevant Fund. Investors will be required to make certain representations when investing in a Fund through the execution of a subscription agreement and other documents. Interests in the Funds are not registered under the Securities Act of 1933 (as amended), and such Funds are not registered under the Investment Company Act of 1940 (as amended). Accordingly, interests in the Funds are offered and sold exclusively to investors satisfying the applicable eligibility and suitability requirements either in private transactions within the United States or in offshore transactions.

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

Methods of Analysis and Investment Strategies

The applicable Capstone Adviser has broad flexibility in selecting the assets traded and the investment strategies implemented by the relevant Fund(s) (within the general investment objective of the relevant Fund(s) as described in the relevant Fund offering document), and subject to any applicable investment guidelines that may be applicable to any investment vehicle). The investment strategies, approaches and techniques pursued by the Funds may evolve over time due to, among other things, the prevailing economic environment, market developments and trends, new regulatory constraints, the emergence of new or enhanced investment products, changing industry practice and technological innovation.

The Volatility Fund

CIA serves as investment manager to funds (organized in a “master-feeder” structure) that focus on volatility arbitrage (together referred to herein as the “Volatility Fund”). The Volatility Fund’s primary objective is to achieve long term capital appreciation that is uncorrelated or negatively correlated with global equity markets. The Volatility Fund attempts to achieve its investment objective primarily through a multi-strategy approach to volatility arbitrage, a strategy that seeks to capitalize on perceived inefficiencies in the pricing of volatility, primarily in (but not limited to) the U.S., European and Asian markets. Currently the Fund’s volatility arbitrage strategy focuses on the equity, fixed income, commodities and foreign exchange markets. The Volatility Fund may also pursue volatility arbitrage opportunities outside of such asset classes and geographical markets. CIA also undertakes non-volatility based strategies, including statistical arbitrage, equity spread trading, event-driven strategies, corporate credit trading and fixed-income relative value. The use of these strategies is intended to create diversification across different market environments. The strategies are expected to have varying degrees of correlation (or negative correlation) to each other, which is intended to enable the Volatility Fund to produce more consistent returns regardless of market conditions. Certain strategies may be leveraged. CIA may implement the Volatility Fund’s strategies through investments in Affiliated Funds.

CIA bases its assessment of implied volatility on a variety of proprietary trading tools. Generally, the volatility trading strategies seek to profit from differences between CIA’s assumption of the theoretical price of an option (mainly dependent on CIA’s implied volatility assumption), the price of the option in the marketplace and CIA’s assessment of how events in the near future are likely to affect the relationship between those two factors. Quantitative methods are also used to validate models and back test trade ideas versus historical market conditions.

Examples of the strategies that may be employed by the Volatility Fund are described briefly below.

- Event Volatility – seeks to identify inefficiencies in implied volatility in connection with specific corporate or micro- or macro-economic events. CIA seeks to identify inefficiencies that may arise out of an increase in supply and/or demand of short duration derivatives and uncertainty surrounding the event itself. CIA employs its proprietary models to attempt to identify these opportunities through historical data analysis and the use of proprietary forecasting tools.
- Relative Value Volatility – a long/short volatility strategy that aims to take advantage of perceived deviations in the fair value of implied volatility of options on specific underlying products relative to the universe of option underlyings. CIA may base its trading view with respect to such inefficiencies on fundamental or technical data.
- Dispersion Trading – attempts to take advantage of perceived inefficiencies between the pricing of volatility of an index (as evidenced in the options markets for that index) and the price of implied volatility of the options on the underlying securities of that index. It is a way of expressing a view on the correlation of volatilities.
- Volatility Spreads – a long/short strategy with regard to the volatility of “benchmarks” such as indices and baskets, government interest rate securities and commodity benchmarks. This strategy seeks to take advantage of volatility fluctuations due to supply and demand imbalances, anticipating that levels will revert to means.

- Fixed Income Relative Value Arbitrage – strategies that seek to take advantage of deviations from fair value in sovereign bonds, inflation-linked bonds, interest rate swaps and the implied volatilities of each of these. CIA uses proprietary models, historical, technical, and fundamental data to formulate its trading views in the fixed income space.
- Corporate Credit Trading – includes corporate fixed income investing, tender arbitrage, corporate basis trading and capital structure arbitrage. These strategies may be hedged buy-and-hold strategies, event-driven strategies, or mean reversion arbitrage strategies.
- Statistical Arbitrage – uses quantitative, automated, data-intensive procedures to generate portfolios of positions held both long and short, generally for short periods of time. The models generate out-of-sample forecasts for returns on all stocks in the portfolio and then a portfolio optimization procedure calculates the optimal portfolio and corresponding hedging strategies.
- Spread Trading – a strategy based upon trading short-term spread inefficiencies between highly correlated products that occur during volatile periods in the market.
- Event-Driven Strategies – merger arbitrage, or “risk arbitrage,” is a highly specialized investment discipline that seeks to profit from the successful completion of proposed mergers, acquisitions, leveraged buyouts and other forms of corporate takeover transactions. “Special situations” investing generally involves the purchase and sale of securities of companies that are the subject of corporate reorganizations, stock placements, spin-offs or other significant corporate events or transactions. Generally, “special situations” are deep value investments arrived at through fundamental, bottom-up research.

The Credit Fund

CCA serves as investment manager to Funds (organized in a “master-feeder” structure) that focus on investing in structured credit investments (together referred to herein as the “Credit Fund”). The Credit Fund’s primary objective is long-term capital appreciation, which it attempts to achieve primarily through investing in structured credit investments, as well as through other complementary strategies. The Credit Fund pursues its investment opportunities primarily in the U.S. markets, but may also look to the European, Asian and other markets. Currently, the Credit Fund focuses on the distressed structured credit markets, with a particular focus on residential mortgage-backed securities (“RMBS”), commercial mortgage-backed securities (“CMBS”), other asset-backed securities (“ABS”) and collateralized debt obligations (“CDOs”). CCA may seek to expand the Credit Fund’s investment universe to include corporate distressed debt and capital structure arbitrage, as well as synthetic CDO investing.

In seeking its distressed credit investments, the Credit Fund undertakes various trading strategies based on a fundamental analysis approach, which involves seeking attractive investments by estimating the risk-adjusted value of an investment (both a security and its likely hedge) if held to maturity. CCA attempts to find investments with significant upside and seeks to limit downside exposure. This often entails estimating many inputs to the valuation and creating various models, as necessary, including models to determine factors such as prepayment or refinancing rates, default rates, severities, loan modifications, or property price appreciation rates. CCA analyzes each underlying loan, receivable or other asset underlying each instrument, and ultimately, when applicable, the collateral securing those assets. Leverage is expected generally to remain low, but will vary by trading strategy and over time. Portfolio turnover will generally remain infrequent, but may vary with each trading strategy. However, CCA reserves the right to trade opportunistically and on a higher volume and shorter term if it believes that circumstances warrant such trading. Hedges are employed in many situations.

CCA may invest a portion of the Credit Fund’s assets in investments that are not liquid, readily marketable or capable of ready valuation (“Designated Investments”). Such Designated Investments are expected to be not greater than approximately 5% of the Fund’s NAV, determined at the time of any such investment. Investments may also be classified as Designated Investments after the time of initial investment. Investments that are not classified as Designated Investments will not necessarily be liquid, and it is expected that a significant portion of the Credit Fund’s investment portfolio will be of limited liquidity.

The following are brief descriptions of the strategies that the Credit Fund employs.

- Buy-and-Hold – generally entails entering into an attractive investment based on fundamental analysis, with the assumption that the investment will be held to maturity.
- Capital Structure Arbitrage – involves trades in which the risks of two instruments derive from the same underlying credit or collateral pool where, in CCA’s estimation, one instrument is cheap relative to the other or where CCA expects certain events to occur that will result in one asset changing in value more than the other.
- Relative Value – involves entering into spread trades in instruments with some performance correlation where instruments with better value can be hedged with instruments of lesser value.
- Documentation Arbitrage – involves identifying deals with particularly complicated legal structures and undertaking detailed review of the deal documentation to find any particular risks or opportunities present that might be unappreciated or overlooked by most market participants.
- Activist Investing – generally entails working to influence noteholder voting outcomes to effect the passage of deal amendments, teaming up with other interested parties to influence noteholder actions and actively monitoring servicer and manager performance to ensure compliance with the deal terms. CCA’s activist strategies do not necessarily require or involve taking a control position in any security or creditor committee.

The Convexity Fund

CIA serves as investment manager to Funds (organized in a “master-feeder” structure) that, as a primary objective, provide “tail-risk protection” or “tail-risk hedging” with respect generally to global-equity, fixed-income and commodities market risks (together referred to herein as the “Convexity Fund”). Generally, this means investing a certain amount of “insurance premium” seeking to generate outsized returns in the event of a severe market correction or crash (a “Convexity Event”). The Convexity Fund has two main objectives. The first objective is, upon the occurrence of a Convexity Event, to achieve a convex, non-linear payoff: a return profile that exhibits increasingly accelerating returns relative to the market correction. “Tail-risk” can be thought of as the risk of a rare and extreme move skewed to the downside that would have significant adverse impact on a traditional investment portfolio.

The second objective is to limit the total annual fixed payments by the Convexity Fund on its investments to a pre-determined percentage of the NAV per share (the “Annual Premium Percentage,” or “APP”), determined at the beginning of each year so as to be the total budget for the Convexity Fund each year in implementing its strategies. Because the pricing of derivatives to which the Convexity Fund is a party is expected to vary over time, there can be no assurances that the Convexity Fund will not be required to pay significantly more than the APP in any year.

CIA intends to effectuate the Convexity Fund’s objective by holding a portfolio of derivative instruments that are intended to produce a convex payoff profile. The Convexity Fund employs various trading techniques, including trading options and futures and short selling. First, CIA will formulate and develop general trade types designed to produce payoffs that best serve the objective of the Convexity Fund – its tactics and tactical methods, as described below. Second, CIA’s proprietary models will regularly review the universe of tactics to determine the optimal portfolio to be held by the Convexity Fund at any given time. This process will seek to identify instruments with a relatively low cost of carry relative to the convexity of their return profile across U.S., European and Asian equity derivatives markets. Finally, once the models have reduced the possible investment universe to the tactics that provide what it determines deliver the best risk-reward at any given time, CIA makes the qualitative determination as to the allocation among such tactics. As indicated above, the Convexity Fund employs different tactics. “Tactics” are tactical methods applied to specific derivative products, underlyings and expiries. Representative examples of tactics may include “one-month straddle on S&P 500 delta neutral,” “one-month straddle on Nikkei delta neutral,” “three-month S&P 500 Variance delta neutral” and “six-month S&P 500 Variance delta neutral.”

Examples of the types of tactical methods that the Convexity Fund may employ are described briefly below. Many of the tactics will be based on these more general tactical methods.

- Skew Trading. “Skew” refers to the tendency of implied volatilities of options on a given underlying asset and a given expiration date to increase as the strike price declines. CIA’s skew trading strategy aims to identify combinations of options on a single underlying and a single expiry date that are mispriced based on incorrect skew assumptions. This tactical method is intended to make the greatest return in the event of rapid decline in the price in the underlying. Tactics using this methodology may include (without limitation) different indices, different term structures and combinations of skew trades with other methods.
- Upside Call Ratio on the “VIX” Index. VIX is the ticker symbol for the Chicago Board Options Exchange (“CBOE”) Market Volatility Index. The VIX is highly negatively correlated with the S&P 500. Generally, options on the VIX provide investors the opportunity to benefit from this negative correlation in the event of market distress, benefiting as well from the leverage inherent in the option. A call ratio is combination options comprised of multiple short positions for each long position in options on the same underlying on the same expiration date such that the proceeds of the short position finance the cost of the short positions, while (in theory) the long positions provide convexity. CIA believes that purchasing call ratios on the VIX can offer a high degree of convexity for a low cost of carry.
- Long Variance Swap and Short At-the-Money Straddle, Delta Neutral. A “variance swap” is an instrument that provides an investor exposure to the variance (volatility-squared) of an underlying asset such as an index or stock. Generally, purchasing a variance swap is equivalent to being long variance. A straddle is a combination of a long put and long call option on the same underlying at the same expiry. The purpose is to be long movement of the underlying, up or down – *i.e.*, long volatility. “Delta neutral” means that the combination is hedged so that there is no exposure to the movement of the underlying, only to the changing values of the “Greeks” of the option positions. CIA finds that this tactical method is capable of producing many of the characteristics targeted by the Convexity Fund. It can be expected to have a convex payoff and benefits from volatility of volatility, which itself increases when the market is more volatile. The cost associated with this strategy can best be represented by the volatility spread between the two products. The variance swap will usually trade at a premium to the straddle, but at times the spread compresses enough to provide a very compelling risk reward for a long tail strategy.

Material Risks of the Capstone Advisers’ Strategies

The strategies employed by the Capstone Advisers involve risk of loss that clients and Fund investors should be prepared to bear. The following is a summary of some of the material risks associated with the strategies expected to account for a significant portion of the Funds’ investments. This summary does not attempt to describe all of the risks associated with an investment in a Fund. Although no summary can fully describe all of the risks associated with such an investment, the Confidential Information Memorandum or other offering document for each Fund contains a more complete description of the risks associated with an investment in that Fund.

The Funds

Risk of Inadequate Quantitative Models. The Capstone Advisers’ trading will be highly model driven and materially subject to possible flaws in the models. As market dynamics shift over time, a previously highly successful model often becomes outdated or inaccurate, perhaps without the relevant Capstone Adviser’s recognizing that fact before substantial losses are incurred. In particular, a Fund may incur major losses in the event of disrupted markets and other extraordinary events that cause the relevant pricing models to generate prices that deviate from the market. There can be no assurance that the Capstone Advisers will be successful in continuing to develop and maintain effective quantitative models.

Leverage Risk. The use of leverage increases the amount of both profits and losses on investments in proportion to the degree of leverage utilized. Transactions in options, futures and swaps are inherently and at times substantially

leveraged. The Volatility Fund does not currently employ a considerable amount of leverage in its trading strategy, but reserves the right to do so. The Credit Fund's use of leverage is expected generally to be low, but will vary by trading strategy and over time. Leverage is not a material component of the Convexity Fund's strategy, but the instruments employed by the Convexity Fund are themselves inherently highly levered. There is no limit on the amount of leverage that may be employed by the Convexity Fund, and it may become highly leveraged.

Risk Related to Investing in Derivatives. The prices of derivative instruments, including financial and commodity futures and options, are highly volatile. Because of the low margin deposits normally required in derivatives trading, an extremely high degree of leverage is typical of a derivatives trading account. Payments made pursuant to swap agreements may also be highly volatile. Like other leveraged investments, a futures transaction may result in losses in excess of the amount invested. In addition, the pertinent Fund's assets are also subject to the risk of the failure of any of the exchanges on which its positions trade or of its clearinghouses or counterparties.

Over-the-counter ("OTC") swap, forward and option contracts are not traded on exchanges and are not standardized. These markets can experience periods of illiquidity, sometimes of significant duration. Market illiquidity or disruption could result in major losses to the Fund. Such OTC derivative transactions also, subject a Fund to counterparty risk.

A Fund may make investments in credit default swaps, total rate of return swaps or other credit derivatives. Credit derivatives are a relatively recent development in the financial markets and entail certain legal, tax and market uncertainties. There is currently little or no case law or litigation characterizing these instruments, interpreting their provisions or characterizing their tax treatment. In addition, additional regulations and laws may apply to these instruments that have not yet been applied.

The Volatility Fund and the Credit Fund

Risks Related to Investing in High-Yield Debt Securities and Lower Rated Loans. High-yield debt securities will have greater credit and liquidity risk than investment grade obligations. Risks of high-yield debt securities may include, *e.g.*: (i) limited liquidity and secondary market support, (ii) substantial market place volatility, (iii) subordination to the prior claims of banks and other senior lenders, (iv) the operation of mandatory sinking fund or call/redemption provisions during periods of declining interest rates, (v) the possibility that earnings of the high-yield debt security issuer may be insufficient to meet its debt service and (vi) the declining creditworthiness and potential for insolvency of the issuer of such high-yield debt securities during periods of rising interest rates and/or economic downturn.

The Volatility Fund and the Convexity Fund

Risks Related to Options Trading. Trading volatility is one of the most complex of all financial strategies and requires significant quantitative and mathematical resources and capabilities. The pricing of options involves a wide variety of factors—including the variability of interest rates, the time to expiration, the price of the underlying, the volatility of the underlying and general market sentiment. There can be no assurance that CIA will correctly value the Volatility Fund's or the Convexity Fund's options positions or that the market will, in fact, revert to theoretical values; consequently, substantial losses could be incurred by the Fund.

- *Risks Related to the Pricing of Volatility of Options.* Options are often quoted in terms of implied volatility. If CIA incorrectly assesses market volatility, CIA will misprice the options which it trades, which may result in significant losses.
- *Risks Related to the Time Value of Options.* Longer-dated options tend to be far less liquid than near-term options. Certain trades which CIA may execute for the Volatility Fund and/or the Convexity Fund will value longer-dated options, which carry material incremental liquidity risk.
- *"Pin Risk".* Concentrated equity option positions become more risky at expiration if the underlying is trading at or near the strike price. This results in a difficult portfolio management environment. Similarly,

if an option closes right at strike, a Fund could lose the entire premium on the option and possibly additional money on its hedge.

- *Interest Rate Risk.* Prevailing interest rates are a principal component of options pricing. Consequently, unexpected changes in interest rates can result in the Volatility Fund and/or the Convexity Fund incurring significant losses.

Risk of Market Stagnation. To the extent that the strategies implemented by the Volatility Fund and the Convexity Fund depend on changes in volatility, in periods of trendless, stagnant markets and/or deflation, these strategies have materially diminished prospects for profitability.

Risks of Short Selling. The Volatility Fund and the Convexity Fund generally plan to engage in short-selling as part of their investment program. However, short selling, and especially short-selling on margin, is a risky strategy, and an unhedged short sale theoretically involves unlimited risk.

Portfolio Turnover Rate May Result in Additional Costs. The turnover rate of the Volatility Fund's and the Convexity Fund's investment portfolio is expected to be significant, involving substantial brokerage commissions, fees and other transaction costs. The Volatility Fund and the Convexity Fund will bear such costs.

Transaction Volume and Market Liquidity May Impair Performance. A decline in cash flows into the capital markets or a slowdown in investment activity in the capital markets, as well as other factors, may cause a decline in transaction volumes in the option markets. The Volatility Fund's and the Convexity Fund's investment activities may be affected materially by transaction volumes in the option markets. Higher market volume typically provides greater opportunities to engage in revenue-generating transactions and narrower bid/offer spreads. Therefore, a decline in transaction volumes may result in the Fund incurring significant losses.

Global Market Risks and Emerging Market Risks. The Volatility Fund and the Convexity Fund will invest primarily in U.S. markets, and also in European and Asian markets, but may invest on a more global basis in both developed and, from time to time, emerging markets. In doing so, the Fund is subject to currency exchange-rate risk; the possible imposition of withholding, income or excise taxes; the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and little or potentially biased government supervision and regulation; and economic and political risks, including expropriation, currency exchange control and potential restrictions on foreign investment and repatriation of capital. Emerging markets present unusual risks, including government instability; political risk; lack of or less than transparent priority; the imposition of currency controls; expropriation risk; and the application of various laws and regulations. Volatility-related strategies in emerging markets are subject to unusual risks due to the uncertainty of such countries' legal regimes and procedures as well as the risk of other market participants having better access to relevant market information.

The Volatility Fund

Statistical Arbitrage Techniques May be Subject to Correlation Risks. While CIA will utilize proprietary models to build its statistical arbitrage portfolios, it is possible that other statistical arbitrage funds' own proprietary models will generate very similar portfolios, so that buying and selling by the Volatility Fund will coincide with buying and selling activities by such other funds. This circumstance could produce exaggerated movements in the prices of the stocks in the portfolio that were not anticipated by the models, resulting in losses to the Volatility Fund.

Dispersion Strategy Risk of Mismatched Performance of Related Positions. Pursuant to a "dispersion" strategy, the Volatility Fund may buy and sell ETFs, futures and/or index and ETF options to hedge the Fund's other holdings or positions. Certain of the Volatility Fund's positions may underperform the other positions to which they relate, which could result in losses.

Certain of the Fund's Assets will be Illiquid. The Volatility Fund may invest and trade in illiquid and restricted, as well as thinly-traded, instruments. The Volatility Fund may only be able to liquidate these positions, if at all, at disadvantageous prices and hence may be required to hold such instruments despite adverse price movements.

The Credit Fund

Risks Related to Improper Analysis of Deal Documentation. In reviewing deal documentation to find particular risks and opportunities that might be unappreciated or overlooked by other market participants, it is possible that CCA may misinterpret certain provisions or miscalculate opportunities believed to be present, given the complex nature of the deals. Even if correctly interpreted, the Credit Fund may be unable to enforce its rights with respect to such provisions, or may be precluded from doing so, by court intervention.

Risks Related to Directional Investing. The Credit Fund's investments focus on taking positions in credit assets which CCA believes are incorrectly valued and holding such positions until such time (if any) as market value and "true" value converge. Often these future price movements will be determined by unanticipated factors, and CCA's analysis of known factors may prove inaccurate, in each case potentially leading to substantial losses.

Risks Related to Relative Value Trading Strategies. The Credit Fund's relative value strategies are subject to the risks of disruptions in historical price relationships, the restricted availability of credit and the obsolescence or inaccuracy of its or third-party valuation models. Market disruptions and/or counterparty defaults may also force the Credit Fund prematurely to close out one or more positions. A major component of relative value trading involves spreads between two or more positions. Such positions entail a substantial risk that the price differential could change unfavorably and, due to the leveraged nature of the Credit Fund's trading, result in increased losses.

Prepayment Risks Related to Mortgage-Backed Securities and Asset-Backed Securities. MBS and ABS may be adversely affected by changes in prepayments in any interest rate environment. The adverse effects of prepayments may impact the Credit Fund's portfolio in two ways: (i) particular investments may experience outright losses or (ii) particular investments may underperform relative to hedges that CCA may have constructed for these investments, resulting in a loss to the Fund's overall portfolio.

Risks Related to Investing in CDOs and Related Investments. The market values of CDOs tend to be more sensitive to changes in market or economic conditions than other securities. The lack of an established, liquid secondary market for CDOs may have an adverse effect on the market value of CDOs and will make it difficult to dispose of such CDOs at market or near market prices. Recently, the market for CDOs has experienced a rapid decline in liquidity.

Risks Related to Residential Mortgage-Backed Securities. Holders of RMBS bear various risks, including credit, market, interest rate, prepayment, structural and legal risks. Non-performing loans may require a substantial amount of workout negotiations and/or restructuring. Foreclosure of a defaulted residential mortgage loan may be a lengthy and difficult process, and the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

Risks Related to the Residential Mortgage Market. Beginning in 2007, delinquencies, defaults and losses on residential mortgage loans have increased and may continue to increase, which may affect the performance of RMBS. The continued decline and/or flattening of housing prices and appraisal values in many states has resulted in additional increases in delinquencies and losses on RMBS generally and may result in additional increases in delinquencies and losses on residential mortgage loans generally.

Risks Related to Commercial Mortgage-Backed Securities. Mortgage loans on commercial properties underlying CMBS often are structured so that a substantial portion of the loan principal is not amortized over the loan term but is payable at maturity and repayment of the loan principal. Therefore, the unavailability of real estate financing may lead to default. Most commercial mortgage loans underlying CMBS are effectively nonrecourse obligations of the borrower. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related CMBS are likely to be adversely affected.

Risks Related to Asset-Backed Securities. ABS present certain risks that are not presented by MBS. Primarily, these financial instruments do not generally have the benefit of the same security interest in the related collateral. The risk of investing long in ABS is ultimately dependent upon payment of consumer loans by the debtor. The

value of an ABS is affected by changes in the market's perception of the asset(s) 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.

Risks Related to Investments Tied to Index-Specified Rates. The Credit Fund may also invest in structured notes, variable rate MBS and ABS and certain classes of CMOs derivatives, the rate of interest payable under which varies with a designated rate or index. The value of these investments is closely tied to the absolute levels of such rates or indices, or the market's perception of anticipated changes in those rates or indices. This dependence introduces additional risk factors related to the movements in specific indices or interest rates which may be difficult or impossible to hedge.

Risks Related to Investments in Distressed or Stressed Companies. Investments of this type may involve substantial financial and business risks that can result in significant or even total losses. It is frequently difficult to obtain reliable information as to the true financial condition and prospects of financially troubled companies. The market prices of distressed and stressed securities are subject to abrupt and erratic market movements and excessive price volatility. While distressed and stressed securities present investment opportunities for the Credit Fund, there is no guarantee that such investments will recover, or that their value will not be permanently impaired.

Risks Related to Investing in Bank Loans. Prepayments of bank loans may generally occur at any time without premium or penalty. Loans may become nonperforming or impaired for a variety of reasons and may require substantial workout negotiations or restructuring that may entail a reduction in the interest rate and/or a write-down of the principal. Certain loans may not be purchased or sold as easily as publicly traded securities. In the case of a loan participation, the Credit Fund generally will have no right to enforce compliance by the obligor with the terms of the loan agreement and may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. The Credit Fund thus would assume the credit risk of both the obligor and a selling institution.

Risks Related to Investing in Mezzanine Debt Securities. Mezzanine debt securities have greater credit and liquidity risk than more highly rated debt obligations. Mezzanine debt securities have no trading market, are generally unsecured and subordinate to other obligations of the obligor and are subject to many of the same risks as those associated with high-yield debt securities.

Risks Related to Investing in Synthetic Securities. The Credit Fund may have a contractual relationship only with the counterparty of a Synthetic Security and not with the obligor of the Reference Obligation (the "Reference Obligor"). The Credit Fund will not directly benefit from the collateral supporting the Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation. In the event of the counterparty's insolvency, the Credit Fund will have no claim with respect to the Reference Obligation. Consequently, the Credit Fund will be subject to the credit risk of the counterparty as well as that of the Reference Obligor.

Item 9 – Disciplinary Information

On October 19, 2006, Capstone Trading, LLC ("CT") (a proprietary trading businesses previously owned by Capstone Holdings Group, LLC, an affiliate of CIA), Scott Brindley (a trader with CIA) and a former employee settled a charge by the Chicago Board Options Exchange, Incorporated ("CBOE") alleging that CT, Brindley and the former employee failed to maintain a sufficient in-person trading percentage for a floor market maker and initiated and entered orders from off of the CBOE trading floor on behalf of a market-maker account with CBOE floor broker members, while not registered with CBOE as a market-maker. CT, Scott Brindley and the former employee neither admitted nor denied the alleged violations but agreed to be censured and to pay a fine.

Item 10 – Other Financial Industry Activities and Affiliations

Capstone Fund Services, LLC

As noted above, Capstone Fund Services, LLC (previously defined as “CFS”), an affiliate of the Capstone Advisers, serves as the general partner of each domestic feeder Fund and as the intermediate fund manager of each intermediate Fund and as such is entitled to receive performance compensation from the intermediate funds of each of the Volatility, Credit and Convexity Funds.

Capstone Investment Advisors (UK), LLP

Capstone Investment Advisors (UK), LLP (“CIA UK”) is a London-based subsidiary of CIA that is authorized and regulated by the UK Financial Services Authority (the “FSA”). CIA UK provides discretionary investment advisory services to the Volatility Fund and the Convexity Fund. CIA UK is compensated by CIA for these services, and Fund investors are not subject to additional fees as a result of these services. CIA UK will be an Exempt Reporting Adviser under the U.S. Investment Advisers Act of 1940 (as amended) (the “Advisers Act”)

As noted above in Item 4, CIA UK currently serves as discretionary subadviser to the Irish Trust. An employee of CIA (the “shared employee”) also is an employee of CIA UK and in that capacity serves as a portfolio manager to the Irish Trust on behalf of CIA UK. The shared employee must comply with the legal and regulatory requirements of both CIA and CIA UK. To address possible conflicts of interest that may arise, portfolio transactions for both the Funds and the Irish Trust will be reviewed by CIA to ensure that investment opportunities are allocated in a manner that is fair and equitable over time and to avoid misuse of non-public information related to client trades. All employees of the Capstone Advisers and CIA UK also are subject to the confidentiality and information security policies and procedures of their respective firms.

Capstone Investment Advisors (Singapore) Pte. Ltd.

Capstone Investment Advisors (Singapore) Pte. Ltd. (“CIA Singapore”) is a Singapore-based subsidiary of CIA and is regulated by the Monetary Authority of Singapore (“MAS”). CIA Singapore provides discretionary investment advisory services to the Volatility Fund by way of a sub-advisory agreement in effect among CIA Singapore, CIA and certain of the Funds. CIA Singapore will be a Foreign Private Adviser under the Advisers Act.

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

Code of Ethics and Personal Trading

The Capstone Advisers have adopted a Code of Ethics (the “Code”) that sets forth standards of ethical and business conduct expected of the Capstone Advisers’ personnel and addresses actual or potential conflicts that might arise in the context of personal trading and other activities by employees. The Code requires employees of each Capstone Adviser to report their personal securities holdings and transactions as well as other non-exempt trading activities to the Capstone Advisers’ Chief Compliance Officer or his or her designee. The Code specifically requires each employee’s broker-dealer to provide duplicate personal account statements directly to the applicable Capstone Adviser. The Code also requires the Capstone Advisers to review these reports periodically. Employees may only participate in initial public offerings and purchase private placements with the prior consent of the chief compliance officer or his or her designee.

Employees (including principals) of the Capstone Advisers may buy or sell securities and other instruments that a Capstone Adviser recommends or trades for Funds. The Capstone Advisers monitor and limit or restrict such transactions pursuant to internal policies and guidelines.

The Capstone Advisers and their employees may not trade for Funds or themselves or recommend to others trading in securities of a company while in possession of material, non-public information (“Information”) or disclose such Information to any person not entitled to receive it. While the Capstone Advisers have designed and implemented policies and procedures reasonably designed to limit those situations, there can be no assurance that such policies and procedures will be successful.

The Capstone Advisers will provide a copy of the Code to any current or prospective client or Fund investor upon request.

Principal Transactions and Cross Trades

A Capstone Adviser, to the extent permitted under applicable law, may engage in principal transactions with clients. Any such transaction will be conducted in accordance with the disclosure and consent requirements of Section 206(3) of the Advisers Act.

A Capstone Adviser, to the extent permitted under applicable law, also may effect cross transactions in which the Capstone Adviser causes a transaction to be effected between a Fund and another account advised by it or any of its affiliates (a “cross trade”). Cross trades, which may or may not constitute principal transactions, will be conducted in accordance with the Capstone Advisers’ fiduciary responsibility to each participating client, must be in the best interest of each participating client and must be consistent with the Capstone Advisers’ duty to seek best execution.

Item 12 – Brokerage Practices

General

The Capstone Advisers have complete authority over the selection of the brokerage firms used to execute and clear portfolio transactions on behalf of the Funds and custody assets of the Funds.

Best Execution

The Capstone Advisers’ policy is to place portfolio transactions with broker-dealers who will execute transactions at the most advantageous terms reasonably available under the circumstances. The Capstone Advisers will seek to obtain best execution taking into account all factors they deem relevant, including the quality of execution, the brokerage firm’s financial responsibility and reputation, range and quality of the services made available to the Funds and the brokerage firm’s professional services, including clearance procedures and ability to provide research information for consideration, analysis and evaluation by the Capstone Advisers. If the Capstone Advisers determine in good faith that the amount of transaction costs charged by a brokerage firm is reasonable in relation to the value of the products or services such brokerage firm provides, the Capstone Advisers may incur transaction costs in an amount greater than the lowest cost available.

The Capstone Advisers have established a “Best Execution Committee” comprised of representatives from portfolio management, trading and compliance to evaluate periodically the execution performance of brokers executing transactions for Funds, to compare services, commissions and execution quality by brokers, and to review the firm’s compliance with its best execution policies, including monitoring of conflicts.

The Capstone Advisers have no directed brokerage arrangements. If they were to engage in such arrangements, there is no assurance that best execution could be achieved.

The employees of Capstone Advisers may receive gifts and gratuities from broker-dealers or persons with whom the Capstone Advisers do business. This may include meals, tickets to sporting events and other entertainment, transportation, attendance at seminars or other educational training or informational events, logo items and other items of small value, gifts associated with life events such as birthdays or weddings, and gifts of substantial value. It is the policy of the Capstone Advisers that gifts or entertainment of substantial value be pre-approved.

Soft Dollar Benefits

The Capstone Advisers currently have no material soft dollar arrangements. However, the Capstone Advisers use full-service broker-dealers that provide research or other products or services to most or all of their customers, without being requested to do so. As a result, the Capstone Advisers may on occasion receive and use such services provided by these broker-dealers.

Such services may include research and other brokerage services. Because, the Capstone Advisers believe that the research it receives is not material in nature and quantity and is provided by most broker-dealers with which the Capstone Advisers deal, the Capstone Advisers' receipt of such research is generally not expected to have a material effect on the Capstone Advisers' selection of broker-dealers. However, in such instances, the Capstone Advisers may have an incentive to select broker-dealers based on their interest in receiving such research rather than based on the Funds' interest in receiving the most favorable execution.

Such full services brokers-dealers may also provide other products, including consulting services, risk analytics and capital introductory services to the Capstone Advisers. In these situations, the Capstone Advisers receive a benefit because it does not have to pay for such services. Additionally, the capital introductory services provided by full service brokers-dealers provide the Capstone Advisers with an opportunity to solicit new investor and client referrals. The Capstone Advisers do not separately compensate such broker-dealers for the provision of such services and do not believe that they "pay up" for such services. However, the receipt of such services may pose a conflict of interest for the Capstone Advisers, as the Capstone Advisers may have incentives to select broker-dealers based on their interest in receiving such services rather than based on the Funds' interests in receiving the most favorable execution

Although the Capstone Advisers do not currently have any material soft dollar arrangements, the investment management agreement entered into between the Funds' and the Capstone Advisers (the "Investment Management Agreements") provide that the Capstone Advisers may select the prime brokers for the Funds, and specifically authorizes them to direct brokerage to firms which provide research services and brokerage services in exchange for receiving commissions. Products and services acquired this way are generally referred to as services acquired with "soft dollars" (collectively "Soft Dollar Services"). It is the Capstone Advisers' policy to enter into arrangements for Soft Dollar Services only to the extent that they are within the "safe harbor" provided by Section 28(e) of the Securities Exchange Act of 1934. Accordingly, Capstone Advisers may in the future cause the Funds to pay a broker-dealer that provides brokerage services (either directly or through third-party relationships) an amount of commission or transaction cost in excess of that which another broker-dealer would have charged, if the Capstone Advisers determine in good faith that such commission or transaction cost is reasonable in relation to the value of brokerage, research or other services provided.

Allocation of Orders

Orders are allocated among eligible clients (including the Funds and the Irish Trusts) in a manner that the Capstone Advisers and, as applicable, CIA UK believe is reasonable and equitable over time. Orders for the Vol Fund and Credit Fund are rarely, if ever, allocated to other accounts other than the respective accounts themselves. At times, orders for the Convexity Fund and the Irish Trusts may be allocated among each other. Normally, this allocation (and any allocation between the Vol Fund or the Credit Fund and another account) would be done on a *pro rata* basis, unless such an allocation would be inappropriate based on the particular investment mandate of any such other account). However, *pro rata* allocation is not always feasible, and allocations are driven by a number of factors including, among others, investment guidelines and the portfolio manager's overall view of the portfolio, including the nature and size of target positions and existing positions, available cash, cash needs, as well as market conditions and performance. Accordingly, the Capstone Advisers' allocation decisions will affect performance and certain clients will not participate in gains or losses that were realized by other clients with similar investment objectives.

When buying and selling securities for clients, the Capstone Advisers may aggregate multiple transactions into one order so that eligible clients may participate equally over time on a reasonable and equitable basis, in terms of best available cost, efficiency and terms under the circumstances. Each client that participates in an aggregated order participates at the average price.

Trading Errors

From time to time, during the course of trading for the Funds, trading errors will occur. The Capstone Advisers have adopted a trading error policy that applies to the Funds. Pursuant to this policy, as a general matter and to the extent not inconsistent with any Capstone Adviser's or any third party's contractual arrangements with the relevant Fund or applicable law, trading errors will be absorbed (in the case of a trading loss) or retained (in the case of a trading gain) by the Fund on whose behalf the trade was placed.

Item 13 – Review of Accounts

Funds are generally reviewed daily by, or under the supervision of, CIA's Chief Risk Officer in conjunction with his designated responsibilities.

The Capstone Advisers consider the careful management of risk to be a critical element of a successful trading program and have developed a range of monitoring and analytical techniques intended to make risk management more rational and effective. The Capstone Advisers monitor markets on an ongoing basis. When volatility and trading losses reach predetermined levels, positions are generally reviewed to determine whether to scale back or eliminate such positions. Each Fund's portfolio of positions and investments is monitored to maintain the targeted levels of risk and volatility. The Risk Management Committee of the Capstone Advisers seeks to enhance risk management disciplines, adding value-at-risk computations, stress tests and additional analyses to attempt to complement the risk control methods already implemented.

Fund investors receive monthly letters from the Capstone Advisers describing the performance of the relevant Fund, along with a commentary by the pertinent Capstone Adviser. Fund investors also receive monthly statements detailing their account information, including, but not limited to, the account's beginning and ending equity and the account's performance for that period. Performance information is also available through a secure link on CIA's website. In addition, each Capstone Adviser issues to the Fund investors annual audited financial statements concerning the relevant Fund (and, for investors in U.S. Funds, tax reports) within 120 days of the end of the Fund's fiscal year. Single investor funds and clients with separately managed accounts receive reports and other information in accordance with their managed account agreements.

The Irish Trusts are managed subject to portfolio and risk guidelines. The investors in the Irish Trusts receive regular risk reports from CIA UK, as well as from the sponsor/manager of each Irish Trust.

Item 14 – Client Referrals and Other Compensation

The Funds may from time to time engage appropriately registered third-party selling agents ("Selling Agents") to assist in the offering of interests or shares of the Funds, as applicable, on an exclusive or non-exclusive basis. Such Selling Agents may charge a Fund investor a fully disclosed one-time or ongoing sales charge, with such Fund investor's consent. Any such sales charge may be paid separately by such Fund investor to the Selling Agent. Fund investors who do not make their subscription to a Fund through Selling Agents will not be subject to any such sales charge. Alternatively, the pertinent Capstone Advisers may share a portion of the Management Fee and/or the Performance Allocation, as applicable, with a Selling Agent in return for such Selling Agent's services to the Funds. In no event will any sales charges be payable for the benefit of the Funds or the Capstone Advisers.

Item 15 – Custody

The assets of the Funds will be held in cash or securities at the banks, brokerage firms, clearing firms and other financial institutions selected by the Capstone Advisers. No cash or securities of the Funds will be held in the actual custody of any Capstone Adviser or their affiliates. However, the Capstone Advisers are deemed to have custody of the assets contained in the Fund portfolios since an affiliate of the Capstone Advisers serves as the general partner of each of the onshore Funds and the Capstone Advisers have the ability to deduct their fees directly from the Funds' accounts. Such arrangements may cause a Capstone Adviser to have custody for purposes of the custody rule of the Advisers Act. Fund investors do not receive account statements from the custodian; rather, the Funds are subject to an annual audit and the audited financial statements are distributed to each Fund investor within 120 days of the end of their fiscal year.

Item 16 – Investment Discretion

The Capstone Advisers provide discretionary investment advisory services to the Funds. The pertinent Capstone Adviser may make investment decisions, without consultation with the Funds or the Fund investors, regarding which securities are bought and sold for the Funds, the total amount of the securities to be bought and sold, the broker-dealers (if any) with which orders are placed for execution and (as applicable) the commission rates at which

securities transactions are effected. Such discretionary authority is granted to the pertinent Capstone Adviser in the applicable limited partnership agreement or investment management agreement (or sub-advisory agreement, to the extent applicable). Certain separately managed accounts or single investor vehicles or Funds managed by a Capstone Advisor generally will provide investors with the ability to tailor the management of such accounts through investment and risk guidelines and may provide other specialized terms.

Item 17 – Voting Client Securities

In compliance with Advisers Act Rule 206(4)-6, the Capstone Advisers have adopted proxy voting policies and procedures. All decisions about how to vote a proxy will be made in accordance with the pertinent Capstone Adviser's proxy voting policies and procedures, which are designed to take into account the best interests of the Fund, as determined by such Capstone Adviser in its discretion.

Due to the nature of the Capstone Advisers' advisory services, a majority of the strategies employed largely use quantitative valuation models and a largely systematic approach to trading rather than a long-term investment approach. Such strategies are generally not dependent upon the outcome of proxy contests, and in such circumstances the Capstone Advisers will generally refrain from voting proxies. If, however, the Capstone Advisers receive a proxy request with respect to a security that a Capstone Adviser determines the Fund will continue to hold, and such Capstone Adviser determines that the costs and expenses associated with voting do not outweigh the potential benefit to the Fund of voting, the Capstone Adviser will seek to vote the proxy in the best interest of the pertinent Fund. Clients may obtain a copy of the proxy voting policy of the pertinent Capstone Adviser and its proxy voting record upon request.

Item 18 – Financial Information

The Capstone Advisers are not aware of any financial condition reasonably likely to impair their ability to meet contractual commitments to their clients, and the Capstone Advisers have not been the subject of a bankruptcy petition at any time during the past ten years.

Other Information

CIA or its affiliates may form additional investment vehicles in the future that may have different or similar strategies to a Fund and may be operated in parallel with any of the Funds or other accounts. Such parallel vehicles may have more favorable terms, including liquidity and reporting, than the Funds. Certain investment positions may be appropriate for both a Fund and any other account managed by CIA or any of its affiliates.