

Form ADV Part 2A: FIRM BROCHURE



WMD Asset Management, LLC

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March 30, 2016

This Brochure provides information about the qualifications and business practices of WMD Asset Management, LLC (“WMD” or the “Firm”). If you have any questions about the contents of this Brochure, please contact us at 904-683-4950 or dec@wmddaugherty.com. 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.

WMD is a registered investment adviser with the SEC. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an investment adviser provide you with information based on which you determine to hire or retain an investment adviser.

Additional information about WMD also is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

There have been no material changes since our last firm brochure (“Brochure”), dated March 31, 2015. However, there have been updates throughout this Brochure to provide more detail about our business practices.

Pursuant to SEC Rules WMD provides a summary of material changes to its Brochure within 120 days of the close of WMD’s fiscal year. WMD may further provide other ongoing disclosure information about material changes as deemed necessary. Additionally, WMD will provide a new Brochure as necessary, without charge. Currently, our Brochure may be requested by contacting Dennis E. Carlton, Managing Director, Counsel, Secretary and Chief Compliance Officer at 904-683-4950 or dec@wmdaugherty.com.

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Item 4 – Advisory Business

A. Describe your advisory firm, including how long you have been in business. Identify your principal owner(s).

WMD Asset Management, LLC, a Delaware limited liability company (“WMD” or the “Firm”), is an investment adviser that provides investment advisory services to pooled investment vehicles which are exempt from registration under the Investment Company Act of 1940, as amended (each a “Fund” or, collectively, the “Funds” or “Clients”). Formed in February 2008, WMD invests in equities, loans, mortgages and other mortgage-related assets and whole loan instruments. WMD’s main office is located at 6279 Dupont Station Court, Jacksonville, Florida. The Firm maintains additional offices in Santa Barbara, California; Denver, Colorado; and Lake Elmo, Minnesota.

In 1998, William M. Daugherty founded W.M. Daugherty & Company, LLC as a proprietary vehicle to create investment opportunities using his experience with real estate assets and lending. In 2005, as a result of growth in the scope of the company’s activities, WMD Capital Markets, LLC was formed to acquire, manage and advise with respect to real estate and whole loan assets. Mr. Daugherty serves as Chairman and Chief Executive Officer of WMD Capital Markets, LLC. With increased specialization in the industry, WMD was organized in 2008 so as to direct the organization’s business focus to the review, acquisition, management, and disposition of real estate-related securities and to manage the same in funds sponsored or managed by WMD.

WMD provides investment advice and management to privately placed investment funds, including limited liability companies and limited partnerships of which WMD generally is the investment manager (collectively referred to herein as “Partnerships”) and non-U.S. companies and partnerships (“Offshore Funds,” jointly with the Partnerships, the “Funds”). WMD’s clients may also include separately managed accounts, primarily for institutions (“Separate Accounts”). Partnerships, Offshore Funds and Separate Accounts are collectively referred to herein as “Clients.”

In addition to its Clients mentioned above, WMD also provides investment management services to several affiliated entities. These affiliated entities are not owned by WMD, but rather are affiliated with the principles of WMD and invest in WMD Funds and outside joint ventures.

For a complete list of the Funds and their general partners, please see the portion of WMD Form ADV Part 1 captioned “Private Fund Reporting” at Section 7.B.(1).

WMD Investors, LLC, a Delaware limited liability company (70% owned by W.M. Daugherty & Company, LLC, a Delaware limited liability company; 15% owned by Dennis E. Carlton; and 15% owned by Michael Thomas), owns 100% of WMD Asset Management. W.M. Daugherty & Company, LLC is 99% owned by William M. Daugherty and 1% owned by Dennis E. Carlton.

B. Describe the types of advisory services you offer. If you hold yourself out as specializing in a particular type of advisory service, such as financial planning, quantitative analysis, or market timing, explain the nature of that service in greater detail. If you provide investment advice only with respect to limited types of investments, explain the type of investment advice you offer, and disclose that your advice is limited to those types of investments.

WMD's investment objective is to invest primarily in residential (including manufactured housing) or commercial whole loan mortgages (whether performing, sub-performing, non-performing or otherwise), pools of such loans, senior living facilities, real estate owned properties and other mortgage-related assets and whole loan instruments such as mortgage-related securities and derivatives, including residential mortgage backed securities ("RMBS") and commercial mortgage backed securities ("CMBS"), and asset backed securities ("ABS"), equity securities, as well as other securities used for hedging purposes. WMD seeks to identify, evaluate, acquire, finance, manage and sell whole loan mortgages and other assets in order to deliver superior performance that is non-correlated to major indices. By investing in a wide array of investments, WMD can be patient and wait for attractive pricing within each sector, which is predicated on the belief that pricing among these sectors is regularly desynchronized. Additional consideration will be given to the diversification of the investments, including, but not limited to, diversification by geography, servicers, originators and transaction size. WMD's strategies and the risks involved are described in response to Item 8, below.

The Funds are offering limited partnership and limited liability company interests (the "interest(s)") to certain qualified investors as described in response to Item 7, below; Separate Accounts may be offered on a similar basis (in all cases, such investors, limited partners or prospective limited partners are referred to herein as "Investors").

C. Explain whether (and, if so, how) you tailor your advisory services to the individual needs of clients. Explain whether clients may impose restrictions on investing in certain securities or types of securities.

WMD does not tailor its advisory services to the individual needs of Investors in its Funds; WMD's investment advice and authority for each Fund are tailored to the investment objectives of each particular Fund. These objectives are described in the private placement memorandum, limited partnership agreement, investment advisory agreement and other governing documents of the relevant Fund or Separate Account (collectively, "Governing Documents").

Fund Investors cannot impose restrictions on investing in certain securities or types of securities. Investors in Funds participate in the overall investment program for the applicable partnership, but may be excused from a particular investment due to legal, regulatory or other applicable constraints, pursuant to the terms of the applicable partnership agreement. WMD may enter into side letters or

similar agreements with certain limited partners that have the effect of establishing rights under, or altering or supplementing a Fund's partnership agreement.

D. If you participate in wrap fee programs by providing portfolio management services, (1) describe the differences, if any, between how you manage wrap fee accounts and how you manage other accounts, and (2) explain that you receive a portion of the wrap fee for your services.

WMD does not participate in wrap-fee programs.

E. If you manage client assets, disclose the amount of client assets you manage on a discretionary basis and the amount of client assets you manage on a non-discretionary basis. Disclose the date “as of” which you calculated the amounts.

WMD manages the following assets under management:

| Discretionary Amounts: | Non-Discretionary Amounts: | Date Calculated: |
|-------------------------------|-----------------------------------|-------------------------|
| \$438,546,538 | \$2,895,368 | December 31, 2015 |

Item 5 – Fees and Compensation

A. Describe how you are compensated for your advisory services. Provide your fee schedule. Disclose whether the fees are negotiable.

As compensation for investment advisory services rendered to the Funds, WMD receives a management fee and its affiliated general partners receive a performance based, incentive allocation fee (as described more fully below in Item 6). The general partners or other WMD entities or affiliates may receive additional compensation in connection with management and other services performed on behalf of the Funds. Limited partners in the Funds also bear certain fund expenses, as described below. The limited partnership agreement of each Fund details the fees, compensation and expenses in greater detail. The following is a summary of WMD’s active Funds; differences exist from Fund to Fund, and certain Funds may not charge certain fees, compensation or expenses that other Funds charge.

From the Funds, WMD typically receives a monthly asset-based management fee calculated as a percentage of each Investor’s capital account, payable monthly in advance. The management fee generally ranges from 1.25% to 2.0% annually, depending on the Fund. From Separate Accounts, WMD generally receives fees similar to those paid by the Funds. In addition, the relevant Fund general partner may, in its sole discretion, waive or reduce a limited partner’s management or performance fee.

Management fees and other compensation are negotiable in certain circumstances and arrangements with any particular Investor may vary. In particular, the management fee for certain limited partners in the Funds who are employees of WMD, or family members of such employees, may be waived at WMD's discretion. Although WMD believes its fees are competitive, lower fees for comparable services may be available from other investment advisers.

B. Describe whether you deduct fees from clients' assets or bill clients for fees incurred. If clients may select either method, disclose this fact. Explain how often you bill clients or deduct your fees.

Management fees, incentive allocations and third-party fees (discussed below) are deducted from Client assets. Management fees are accrued and paid after the accrual date on either a monthly or quarterly basis as per each Fund's Governing Documents. Incentive allocations are allocated as of the last business day of the calendar year and as of any date on which an Investor makes a withdrawal or receives a distribution from such Investor's capital account(s).

C. Describe any other types of fees or expenses clients may pay in connection with your advisory services, such as custodian fees or mutual fund expenses. Disclose that clients will incur brokerage and other transaction costs, and direct clients to the section(s) of your brochure that discuss brokerage.

Subject to the provisions of the respective Governing Documents, the Clients shall pay such costs and expenses as WMD shall reasonably determine to be necessary, appropriate, advisable or convenient to carry on its business and realize its objective. The Funds' expenses include, but are not limited to, the following expenses incurred by the Funds: (i) all third party and out of pocket expenses, including legal, tax, accounting, travel, registration and filing, capital raising and other organizational fees and expenses incurred in the formation of the Funds, the general partners, the offering of interests in the Funds, and the negotiation, execution, and delivery of partnership agreements, side letters, management agreements, and other agreements relating to the foregoing (the "Organizational Expenses"); (ii) marketing and syndication expenses; (iii) all Fund investment expenses (other than the general partners' and the Firm's overhead and expenses borne entirely by the managed account), including, without limitation, rent and fees, taxes, costs and expenses related to the acquisition, operation, management, investment-related travel expenses, monitoring and sale of securities, including interest, fees and expenses of custodians, consultants, banks, counsel and accountants and brokerage commissions, research and consulting fees and expenses (including fees for market research services) to the extent not paid directly by the managed account, out-of-pocket costs incurred in investigating and pursuing potential investments in securities, including organizing and maintaining special purpose vehicles, and dividend expenses relating to short sales and other expenses reasonably related to the investment decision and monitoring process, and preparation and filing expenses (including expenses of regulatory filings made in respect of the Funds, such as Form PF filings pursuant to U.S. securities laws); (iv) other expenses of the general partners or the Firm reasonably

related to their status as general partners or the manager of the Funds, as applicable, or performance of their respective duties relating to the Funds, including without limitation compliance expenses and fees and expenses of legal counsel and other professional advisers of the general partners and the Firm, as applicable; and (v) the Fund administration expenses (other than the general partners' and the Firm's overhead), including, without limitation, rent and fees of the administrator and any other costs incurred in connection with performing anti-money laundering procedures, maintaining the books and records of the Funds, valuation costs, completing regulatory reports, communicating with the Investors and providing periodic reports to the Investors, any insurance, indemnity or litigation expense (including any judgments or settlements paid in connection therewith), auditing expenses of the Funds, financial statement and tax return preparation costs, compliance and regulatory fees and expenses, withholding and transfer fees, filing and registration fees, expenses of winding up and liquidating the Funds, and any taxes, fees or other governmental charges levied against the Funds or any investments. As determined by the general partners, the management fees and other Fund expenses may be paid or reimbursed by subsidiaries of the Funds on the basis of their ownership of investments. At the option of the general partners, Organizational Expenses of the Funds shall be amortized over a period of 60 months from the commencement of the Funds' operations. Expenses for transactions not consummated, or "broken deal expenses," are borne pro rata, indirectly by each vehicle involved in the potential transaction.

For WMD Liquid Real Estate Fund, LP, the Firm is entitled to use "soft" or commission dollars generated by the Fund to pay certain expenses which would otherwise be payable by the Fund. In formulating and implementing its policies with regard to the use of commissions or "soft dollars" it is the general partners' intent to stay within the parameters of Section 28(e) of the Securities Exchange Act of 1934 (the "1934 Act").

WMD's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the Clients. Such charges, fees and commissions are exclusive of and in addition to WMD's management fee, and WMD shall not receive any portion of these commissions, fees, and costs. However, WMD may pay fees to certain affiliated real estate brokers and other service providers.

Please see Item 12 of this Brochure for more information about WMD's brokerage arrangements for its Clients.

D. If your clients either may or must pay your fees in advance, disclose this fact. Explain how a client may obtain a refund of a pre-paid fee if the advisory contract is terminated before the end of the billing period. Explain how you will determine the amount of the refund.

WMD generally permits withdrawals annually on the day preceding the anniversary of an Investor's capital contribution. In the event that WMD makes an exception to this policy, it will not refund the prepaid management fee for any interests held for less than a full month. The Funds generally invest

on a long-term basis. Accordingly, management fees are expected to be paid, except as otherwise described in the limited partnership agreements, over the term of the Funds.

E. If you or any of your supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds, disclose this fact and respond to Items 5.E.1, 5.E.2, 5.E.3 and 5.E.4.

Neither WMD nor its supervised persons accepts compensation for the sale of securities or other investment products outside of its association with WMD.

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

If you or any of your supervised persons accepts performance-based fees – that is, fees based on a share of capital gains on or capital appreciation of the assets of a client (such as a Client that is a hedge fund or other pooled investment vehicle) – disclose this fact. If you or any of your supervised persons manage both accounts that are charged a performance-based fee and accounts that are charged another type of fee, such as an hourly or flat fee or an asset-based fee, disclose this fact. Explain the conflicts of interest that you or your supervised persons face by managing these accounts at the same time, including that you or your supervised persons have an incentive to favor accounts for which you or your supervised persons receive a performance-based fee, and describe generally how you address these conflicts.

As discussed in Item 5.A., in addition to management fees, an affiliate or general partner of WMD generally receives an incentive allocation equal to a percentage of the net income allocated to each Investor for the year. WMD generally receives an incentive allocation equal to a percentage of the net income allocated to each Investor for the year, subject to a “high water mark” such that if there is a temporary decline in an Investor’s capital account due to net losses, the general partner will not be allocated the performance incentive for such Investor until these losses are recovered. This incentive allocation is generally 20% and is typically made at the end of each calendar year.

All performance-based fees are calculated and paid in accordance with Section 205(a) (1) of the Advisers Act and the exemptions set forth in Rule 205-3.

The performance allocation may provide an incentive for WMD to make riskier or more speculative investments on behalf of a Client than those which would be recommended under a different fee arrangement. In addition, this arrangement may cause Clients to pay a greater expense than if such fees were not charged. Notwithstanding this potential incentive, WMD will evaluate investments in a manner that it considers to be in the best interest of the Clients, given those Clients’ investment objectives, investment strategies, suitability of the investment, and risk profile. Fund Investors are provided with clear disclosure as to how performance-based compensation is charged and the risks

associated with such performance-based compensation prior to making an investment. The Firm principals have invested a substantial amount of capital in the Funds, thus aligning, to some extent, the interests of WMD with the interests of the Funds.

In addition, WMD may manage multiple Clients with similar investment strategies on a side-by side basis. As a result of the foregoing, WMD and/or the general partners may have conflicts of interest in: (i) allocating their time and activity among the multiple Clients; (ii) allocating investments among the multiple Clients; and (iii) effecting transactions among the multiple Clients, including ones in which WMD and/or the general partners may have a greater financial interest. These conflicts of interest may create an incentive for WMD to favor a Client in which it and/or a general partner have a greater financial interest with respect to allocation of time and activity, limited investment opportunities, or investments that WMD regards as more attractive or better performing.

To address these conflicts of interest, the Firm has implemented policies and procedures to ensure that all Clients receive equitable and fair treatment over time with respect to the allocation of investment opportunities. These policies and procedures, along with each Client's Governing Documents, require WMD to at all times allocate investments among its Clients in a manner which it believes to be fair and equitable and prohibit WMD from basing an allocation decision on any of the following, or similar, reasons: (i) to generate higher fees paid by one Client over another, or to produce greater fees to WMD or any of its affiliates; (ii) to develop a relationship with an existing or potential investor; (iii) to compensate an Investor for past services or benefits rendered to WMD or any employee of WMD; or (iv) to induce future services or benefits to be rendered to WMD or any employee of WMD.

Item 7 – Types of Clients

Describe the types of clients to whom you generally provide investment advice, such as individuals, trusts, investment companies, or pension plans. If you have any requirements for opening or maintaining an account, such as a minimum account size, disclose the requirements.

WMD provides investment advice and management to the Partnerships, Offshore Funds and Separate Accounts. Separate Account Clients and Investors in the Funds may include banks or thrift institutions, trusts, estates or charitable organizations, corporations or other business entities and high net worth individuals and family offices.

Prospective Investors in the Funds must meet eligibility criteria and are subject to certain withdrawal requirements and limitations. Investors must be “accredited investors” (as defined in Regulation D under the Securities Act of 1933). In addition, Investors in the Offshore Funds must be non-U.S. persons or U.S. persons who are: “qualified clients” as defined in the Advisers Act and, in the case of those Funds that rely on the exemption from registration under the Investment Company Act of 1940,

as amended, provided by Section 3(c)(7) thereof, “qualified purchasers” as defined therein. The minimum initial investment of most WMD Funds is \$1,000,000 and subject to waiver at the discretion of WMD. Each Fund’s Governing Documents specify its investment minimum. Generally, similar terms will apply to Separate Accounts, though Clients in such Separate Accounts may negotiate terms that differ or are more favorable than those for the Partnerships and Offshore Funds.

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

A. Describe the methods of analysis and investment strategies you use in formulating investment advice or managing assets. Explain that investing in securities involves risk of loss that clients should be prepared to bear.

The following investment strategies apply, variously, to WMD Funds; however, for a more detailed description of the investment strategies relevant to each Fund, please refer to the applicable Governing Documents. WMD’s investment objective is to invest primarily in residential (including manufactured housing) or commercial whole loan mortgages (whether performing, sub-performing, non-performing or otherwise), pools of such loans, senior living facilities, real estate owned properties and other mortgage-related assets and whole loan instruments such as mortgage-related securities and derivatives. These may include securities or other instruments relating to publicly traded companies globally that are engaged principally in the real estate industry, including, without limitation, real estate investment trusts (“REITs”) and REIT-like corporate structures, other real estate-related companies, mortgage REITs, mortgage originators, homebuilders, manufactured homebuilders, commercial brokerage companies, and land developers. The Funds execute their investment program by making investments in these companies and the real estate industry in general through various investment vehicles, including without limitation common stock, preferred stock, unsecured debt, commercial mortgage backed securities (“CMBS”), asset backed securities (“ABS”), residential mortgage-backed securities (“RMBS”), American Depositary Receipts (“ADRs”) as well as other securities used for hedging purposes.

The Funds may engage in put and call options, credit default swaps, total return swaps and property-related swaps or other derivative instruments both for purposes of hedging existing positions and for independent investment opportunities in non-U.S. markets. The Funds expect to invest particularly in publicly traded securities and related instruments, but may also invest, to a limited extent, in private securities and other instruments that provide less liquidity, such as pre-IPO securities, private placements with no daily trading volume on a major exchange, 144A securities or other securities not traded on a major exchange.

WMD seeks to identify, evaluate, acquire, finance, manage and sell whole loan mortgages and other assets, in order to deliver superior performance that is non-correlated to major indices. The mix of investments is expected to vary over time based on prevailing opportunities and market conditions as determined by WMD, and could include financing provided by the Clients to third parties to facilitate

investments. By investing in a wide array of investments, WMD can be patient and wait for attractive pricing within each sector, which is predicated on the belief that pricing among these sectors is regularly desynchronized. Additional consideration will be given to the diversification of the investments, including, but not limited to, diversification by geography, servicers, originators and transaction size.

Except as described in the Funds' Governing Documents, there are no limits imposed on the types of investments in which the Funds may invest, the types of positions they may take, the concentration of investments by sector, industry, issuer, counterparty, servicer, country, asset class or otherwise. Further, depending on conditions and trends in securities, credit and other markets, the Funds may pursue other strategies or employ other techniques that WMD considers appropriate and in the Funds' best interests. WMD generally has similarly broad discretion over Separate Accounts; however, the possibility of negotiation on the investment strategy may result in limits being imposed. Although no such change or amendment is currently anticipated, the Firm may change or amend the investment objective and policies of the Funds set forth herein at any time.

B. For each significant investment strategy or method of analysis you use, explain the material risks involved. If the method of analysis or strategy involves significant or unusual risks, discuss these risks in detail. If your primary strategy involves frequent trading of securities, explain how frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.

No guarantee or representation is made that WMD will achieve its investment objectives. Investment with WMD involves significant risks and conflicts of interest, including, but not limited to, the risk of a complete loss of the amount invested. The risks set out below do not purport to be exhaustive. Additional risks and uncertainties that are currently unknown or currently deemed immaterial may become material factors that affect WMD. Prospective Investors should carefully consider the risks involved in an investment with WMD, including but not limited to those discussed below. Prospective Investors should consult their own legal, tax and financial advisers as to all these risks and as to an investment with WMD generally. Each of the risks listed below do not necessarily apply to all of the Funds. The following risks apply, variously, to WMD Funds; however, for a more detailed description of the risks relevant to each Fund, please refer to the applicable Governing Documents.

Real Estate Investment. The Funds anticipate investing in real estate and real estate linked investments, such as real estate investment trusts, or "REITs". Real estate as an investment class has experienced significant fluctuation and cycles in value, and specific market conditions may cause occasional or permanent reductions in the value of real estate related investments. The cash flow and value of these investments will depend on many factors beyond the control of the Fund, including changes in general economic or local conditions; changes in supply of or demand for competing properties in an area; changes in interest rates; new governmental regulations relating to land-use and zoning restrictions, environmental protection, unavailability or cost of mortgages, the financial condition of counterparties,

changes in real estate tax rates, energy or materials shortages, various uninsured or uninsurable risks, natural disasters, and war and terrorism.

Small and Mid-Cap Risks. A portion of the Funds' assets may be invested in securities of small-cap and mid-cap issuers. While in the Firm's opinion the securities of small- and mid-cap issuers may offer the potential for greater capital appreciation than investments in securities of large-cap issuers, securities of small-cap issuers may also present greater risks. For example, some small and mid-cap issuers often have limited product lines, markets, or financial resources. They may be dependent for management on one or a few key persons, and can be more susceptible to losses and risks of bankruptcy. They may be subject to high volatility in revenues, expenses and earnings. Their securities may be thinly traded (and therefore have to be sold at a discount from current market prices or sold in small lots over an extended period of time), may be followed by fewer investment research analysts and may be subject to wider price swings and thus may create a greater chance of loss than when investing in securities of larger-cap issuers. The market prices of securities of small- and mid-cap issuers generally are more sensitive to changes in earnings expectations, to corporate developments and to market rumors than are the market prices of large-cap issuers. Transaction costs in securities of small and mid-cap issuers may be higher than in those of large-cap issuers.

Short Sales. The Firm makes short sales of investment securities on behalf of the Funds. In a short sale, the seller sells a security that it does not own, typically a security borrowed from a broker or dealer. Because the seller remains liable to return the underlying security that it borrowed from the broker or dealer, the seller must purchase the security prior to the date on which delivery to the broker or dealer is required. The making of short sales exposes the Funds to the risk of liability for the market value of the security that is sold, which is an unlimited risk due to the lack of an upper limit on the price to which a security may rise. In addition, there can be no assurance that securities necessary to cover a short position will be available for purchase or that securities will be available to be borrowed by a Fund at reasonable costs. If a request for return of borrowed securities occurs at a time when other short sellers of the security are receiving similar requests, a "short squeeze" can occur, and the Funds may be compelled to replace borrowed securities previously sold short with purchases on the open market at the most disadvantageous time, possibly at prices significantly in excess of the proceeds received in originally selling the securities short.

The SEC has in the past adopted interim rules requiring reporting of all short positions above a certain de minimis threshold and is expected to adopt rules requiring monthly public disclosure in the future. In addition, other non-U.S. jurisdictions where the Funds may trade have adopted reporting requirements. If a Fund's short positions or its strategy become generally known, it could have a significant effect on the Firm's ability to implement its investment strategy. In particular, it would make it more likely that other Investors could cause a "short squeeze" in the securities held short by a Fund forcing the Fund to cover its positions at a loss. Such reporting requirements may also limit the Firm's ability to access management and other personnel at certain companies where the Firm seeks to take a short position. In addition, if other Investors engage in copycat behavior by taking positions in the same issuers as the Funds, the cost of borrowing securities to sell short could increase

drastically and the availability of such securities to the Funds could decrease drastically. Such events could make the Funds unable to execute their investment strategy.

The SEC and regulatory authorities in other jurisdictions may adopt (and in some cases, have adopted) bans on short sales of certain securities in response to market events. Bans on short selling may make it impossible for the Funds to execute certain investment strategies and may have a material adverse effect on the Funds' ability to generate returns.

Pledge of Collateral. When a Fund enters into short sales it will be obligated, and when a Fund enters into certain derivative transactions it may be obligated, to deposit or pledge an amount of cash or securities that is sufficient under any applicable margin or other collateral arrangements to collateralize its obligations with respect to such short sales or derivative transactions, as applicable. A Fund generally has broad discretion in selecting the collateral it intends to pledge and the manner of such pledge. Pledged collateral may be held in domestic or offshore accounts for the benefit of the applicable secured party. Additionally, pledged collateral may be subject to the credit risk of the secured party.

If the securities posted by a Fund as collateral decline in value, the Fund could be required to deposit additional collateral or potentially suffer liquidation of the pledged securities. In the event of a sudden change in value with regard to the derivatives transaction or the security subject to the short sale, the Fund might be required to post additional collateral in amounts which may be significant. If a Fund were to default on its obligations with respect to any secured derivative transactions or short sale, the secured party under such transaction may liquidate the pledged collateral to partially or fully satisfy the respective Fund's obligations thereunder.

Operational Leverage. Trading in derivative instruments can result in large amounts of operational leverage. Thus, the leverage offered by trading in derivative instruments will magnify the gains and losses experienced by the Funds and could cause the value of the net assets of the Funds to be subject to wider fluctuations than would be the case if the Funds did not use the leverage feature of derivative instruments.

Preferred Stock. Preferred stocks in which the Funds may invest, like debt obligations, are generally fixed income securities. Shareholders of preferred stocks normally have the right to receive dividends at a fixed rate when and as declared by the issuer's board of directors, but do not participate in other amounts available for distribution by the issuing corporation. Dividends on the preferred stock may be cumulative, and generally all cumulative dividends must be paid prior to common shareholders receiving any dividends. Because as a general matter preferred stock dividends must be paid before common stock dividends, preferred stocks generally entail less risk than common stocks. Upon liquidation, preferred stocks are generally entitled to a specified liquidation preference, which is generally the same as the par or stated value, and are senior in right of payment to common stock. Preferred stocks are, however, equity securities in the sense that they do not represent a liability of the

issuer and, therefore, do not offer as great a degree of protection of capital or assurance of continued income as investments in corporate debt securities. In addition, preferred stocks are subordinated in right of payment to all debt obligations and creditors of the issuer, and convertible preferred stocks may be subordinated to other preferred stock of the same issuer.

Quantitative Model Risks. The Firm employs quantitatively-based financial/analytical models to aid in the selection of investments for the Funds, and to determine the risk profile of the Funds. The success of the Funds' investments and trading activities depends, to some degree, on the viability of these analytical models. There can be no assurance that the models are currently viable, or, if the models are currently viable, that they will remain viable during the term of the Funds. Also, there can be no assurance that the investment professionals utilizing the models will be able to: (i) determine that any model is or will become not viable, or not completely viable; or (ii) notice, predict or adequately react to any change in the viability of a model. The use of a model that is not viable or not completely viable could, at any time, have a material adverse effect on the performance of the Funds.

Concentration Risk. A substantial portion, if not all, of a Fund's portfolio is invested in publicly-traded real estate companies. Accordingly, a negative development in the real estate market, interest rate environment or any other factor that impacts real estate companies, could adversely impact the Fund's entire portfolio because it is not diversified across asset classes. The Funds may, at the discretion of the Firm, invest in a limited number of investments or take substantial positions in particular investments. A consequence of a limited number of investments is that the aggregate returns realized by the Funds may be substantially adversely affected by the unfavorable performance of a small number of such investments. Although the Funds have developed general diversification guidelines (which are subject to change) and a risk control framework, investments could potentially be concentrated in relatively few securities.

Lack of Liquidity in Markets. Despite the heavy volume of trading in securities and other financial instruments, the markets for many securities and instruments have limited liquidity and depth. This limited liquidity and lack of depth could be a disadvantage to the Funds, both in the realization of the prices which are quoted and in the execution of orders at desired prices. Also, securities exchanges and the SEC have authority to suspend trading in a particular security without notice.

Hedging. The Funds' investment strategies may involve hedging certain risks, such as market risk, interest rate risk and real estate market risk, through the use of various derivative instruments. However, it is generally not possible to eliminate all risk of adverse market movement. Suitable hedging transactions may not be available in all circumstances, and there can be no assurance that the Funds will engage in these transactions to reduce exposure to risks when that would be beneficial. The use of hedging instruments may enable the Funds to increase its profits from favorable market price movements and diminish its exposure to market volatility. However, any reduction or increase in the hedge from the theoretical neutral hedge also increases the exposure of the Funds to adverse market price movements, and at times could present material risk to the capital of the Funds.

Information Sources. The Firm selects investments for the Funds based in part on information and data that the issuers of such securities file with various government agencies or make directly available to the Firm or that the Firm obtains from other sources. The Firm may also, in its discretion, utilize information, data and analysis provided by third parties. The Firm is not in a position to confirm the completeness, genuineness or accuracy of such information, data and analysis, and, in some cases, complete and accurate information is not readily available.

Portfolio Valuation. Valuations of the Funds' portfolios, which will affect the amount of any management fee or incentive allocation, if any, may involve uncertainties and judgmental determinations. Third-party pricing information may at times not be available regarding certain of the Funds' securities, derivatives and other assets. A disruption in the secondary markets for the Funds' investments may limit the ability of the Funds to obtain accurate market quotations for purposes of valuing their investments and calculating the value of the net assets of the Funds. In addition, material events occurring after the close of a principal market upon which a portion of the securities or other assets of the Funds are traded may require the Firm, in accordance with the Firm's valuation policy, to make a determination of the effect of a material event on the value of the securities or other assets traded on the market for purposes of determining the value of the net assets of the Funds on a valuation date. Further, because of the overall size and concentrations in particular markets and maturities of positions that may be held by the Funds from time to time, the liquidation values of the Funds' securities and other investments may differ significantly from the interim valuations of these investments derived from the valuation methods described herein. The determination of the Funds' liabilities also may involve uncertainties. For example, GAAP may require the Funds to accrue for certain taxes that may or may not ultimately be paid. The amount of such accruals and other determinations in respect of Funds liabilities will be determined by the Firm in its sole discretion. If the valuation of the Funds' portfolio assets or liabilities should prove to be incorrect, the value of the net assets of the Funds could be adversely affected. Incorrect valuations of the Funds' investments could lead to subscriptions and withdrawals of Fund interests being affected at NAVs that do not accurately reflect the true value of such interests, and could result in excessive management fees and incentive allocations. Valuation determinations recorded by the administrator, in accordance with the Firm's valuation policy, are conclusive and binding.

It is possible that the valuation procedures described above may produce different valuations than those produced pursuant to ASC 820 (formerly FAS 157), adopted by the Financial Accounting Standards Board in 2009. In this case, the valuation presented in the Funds' audited financial statements will differ from the net asset value of the Funds and purchases and sales as well as fees and reallocations will continue to be calculated based on the Funds' net asset value. The Funds will reconcile the net asset value of the Funds and valuation presented in the Funds' audited financial statements in the notes to the audited financial statements of the Funds.

Dependence on the Manager and Key Personnel. All allocation or investment decisions with respect to the Funds' assets are made by the Firm, and Investors do not have the ability to take part in the day-to-day management or investment operations of the Funds. As a result, the success of the Funds depends

largely upon the abilities of the Firm and its personnel, and there can be no assurance that the Firm or its personnel will remain willing or able to provide advice to and trade on behalf of the Funds or that their trading will be profitable in the future. Accordingly, no Investor should purchase an interest unless such Investor is willing to entrust all aspects of the management of the Funds to the general partners and the Firm. If the Funds were to lose the services of the Firm, or if the Firm is terminated, the Funds might have to be liquidated.

Other Clients of the Manager. The Firm manages other accounts that may invest in securities that the Funds invest in. The Firm's advice to certain clients and the action of the Firm for those and other clients are frequently premised not only on the merits of a particular investment but on the suitability of that investment for the particular client in light of its applicable investment objective, guidelines and circumstances and thus, any action of the Firm with respect to a particular investment may, for a particular client, differ or be opposed to, either the recommendation, advice, or actions of the Firm to, or on behalf of, other clients. The investment activities of the Firm and its affiliates for their own accounts and the other accounts they manage may give rise to conflicts of interest, which may disadvantage one or more of the Funds.

Restricted Withdrawals and Transfers. As set forth in the relevant partnership agreements, payment of withdrawal proceeds may be delayed under certain circumstances and may be made in kind rather than in cash. Withdrawals may be subject to a redemption fee as set forth in the relevant partnership agreement. Although the Funds will primarily invest in publicly traded securities, portions of the Funds' investments may have limited liquidity and, thus, may be disposed of quickly only at substantial discounts or losses. The limited liquidity of portions of a Fund's portfolio may affect the ability of Investors to receive cash withdrawal proceeds. If withdrawals or other distributions are effected in kind and the securities distributed to a withdrawing Investor are not publicly traded or are subject to restrictions on transfer, Investors may be required to bear the economic risk of ownership of such securities for an indefinite period.

The administrator will use reasonable efforts to acknowledge in writing all withdrawal requests which are received in good order. A subscriber failing to receive such written acknowledgement from the administrator within five (5) business days should contact the administrator to obtain the same. Failure to obtain such a written acknowledgement from the administrator may render the request void, unless otherwise permitted by the general partner.

Further, the interests have not been registered under the securities laws of any jurisdiction and may therefore be subject to statutory restrictions on transfer in any such jurisdiction. There is no secondary market for the interests, and no market is expected to develop. Transfers are prohibited except with the prior approval of the general partner and in accordance with the relevant partnership agreement. The Funds may not register any transfer of interests not made pursuant to registration under the Securities Act, or pursuant to an available exemption from registration. Any purported transfer of interests not made in accordance with the terms and conditions of the relevant partnership agreement

is null and void. Investors may be unable to liquidate their investment promptly in the event of an emergency or for any other reason. Investors should be fully aware of the long-term nature of an investment in the Funds.

The administrator will use reasonable efforts to acknowledge in writing all transfer or assignment requests that are fully executed by each of the transferor and the transferee in good order. A transferor failing to receive such written acknowledgment from the administrator within five (5) business days should contact the administrator to obtain the same. Failure to obtain such a written acknowledgment from the administrator may render the transfer void, unless otherwise permitted by the respective general partner.

Side Letters and Other Agreements with Clients. The Funds, with the consent of the Firm, to the fullest extent permitted by the relevant partnership agreements and applicable law, shall have the absolute discretion to enter into separate agreements with certain Investors, such as those affiliated with the Firm or those deemed to involve a significant or strategic relationship, which include terms which are not available to existing Investors. In such cases the parties will enter into a written side arrangement to: (i) waive or modify the terms, conditions and/or application of any provision of the offering terms herein; or (ii) allow such Investors to invest on different terms than those specifically described herein (including, without limitation, with respect to fees, liquidity or depth of information provided to such Investors concerning the Funds), in each case without obtaining the consent of any other Investor. Under certain circumstances, these agreements could create preferences or priorities for such Investors with respect to other Investors of the Funds.

C. If you recommend primarily a particular type of security, explain the material risks involved. If the type of security involves significant or unusual risks, discuss these risks in detail.

Special Risks of Securities Linked to the Real Estate Market. Since the Funds concentrate their investments in the real estate industry, their performance is significantly affected by the performance of the real estate markets. Real property investments are subject to varying degrees of risk. Property values may fall due to increasing vacancies or declining rents resulting from economic, legal, cultural or technological developments. The price of real estate company shares also may drop because of the failure of borrowers to pay their loans and poor management. Many real estate companies utilize leverage, which increases investment risk and could adversely affect a company's operations and market value in periods of rising interest rates, as well as risks normally associated with debt financing. The yields available from investments in real estate depend on the amount of income and capital appreciation generated by the related properties. Income and real estate values also may be adversely affected by such factors as applicable laws, interest rate levels and the availability of financing. If the properties do not generate sufficient income to meet operating expenses, including, where applicable, debt service, ground lease payments, tenant improvements, third-party leasing commissions and other capital expenditures, the income and ability of the real estate company to make payments of any

interest and principal on its debt securities will be adversely affected. In addition, real property may be subject to the quality of credit extended and defaults by borrowers and tenants. The performance of the economy in each of the regions in which the real estate owned by a real estate company is located affects occupancy, market rental rates and expenses and, consequently, has an impact on the income from such properties and their underlying values. The financial results of major local employers also may have an impact on the cash flow and value of certain properties. In addition, real estate investments are relatively illiquid and, therefore, the ability of real estate companies to vary their portfolios promptly in response to changes in economic or other conditions is limited. A real estate company also may have joint venture investments in certain of its properties and, consequently, its ability to control decisions relating to these properties may be limited. Real property investments are also subject to risks which are specific to the investment sector or type of property in which the real estate companies are investing.

- *Retail Properties.* Retail properties are affected by the overall health of the applicable economy and may be adversely affected by the growth of alternative forms of retailing, bankruptcy, departure or cessation of operations of a tenant, a shift in consumer demand due to demographic changes, spending patterns and lease terminations.
- *Office Properties.* Office properties are affected by the overall health of the economy and other factors such as a downturn in the businesses operated by their tenants, obsolescence and non-competitiveness.
- *Hotel Properties.* The risks of hotel properties include, among other things, the necessity of a high level of continuing capital expenditures, competition, increases in operating costs which may not be offset by increases in revenues, dependence on business and commercial travelers and tourism, increases in fuel costs and other expenses of travel and adverse effects of general and local economic conditions. Hotel properties tend to be more sensitive to adverse economic conditions and competition than many other commercial properties.
- *Healthcare Properties.* The healthcare industry is highly regulated, and healthcare properties and healthcare providers are affected by several significant factors, including laws governing licenses, certification, adequacy of care, pharmaceutical distribution, rates, equipment, personnel and other factors regarding operations; qualification for any government assistance programs; and competition on a local and regional basis. The failure of any healthcare operator to comply with applicable laws and regulations may significantly affect its ability to operate its facility.
- *Multifamily Properties.* The value and successful operation of a multifamily property may be affected by a number of factors, such as the location of the property, the ability of the management team, the level of mortgage rates, presence of competing properties, adverse economic conditions in the locale, oversupply and applicable laws and regulations.

- *Insurance Issues.* Certain of the real estate companies may carry comprehensive liability, fire, flood, earthquake, extended coverage and rental loss insurance with various policy specifications, limits and deductibles. Should any type of uninsured loss occur, the real estate company could lose its investment in, and anticipated profits and cash flows from, a number of properties, which, as a result, would adversely affect the Funds', investment performance.
- *Credit Risk.* Real estate companies may be highly leveraged and financial covenants may affect the ability of these companies to operate effectively.
- *Environmental Issues.* A real estate company's ownership (direct or indirect), operation, management and development of real properties that may contain hazardous or toxic substances may expose the company to liability under applicable law for removal or remediation costs, as well as certain other costs, including governmental fines and liabilities for injuries to persons and property. The existence of any such material environmental liability could have a material adverse effect on the results of operations and cash flow of any such real estate company and may adversely affect the Funds', investment performance.
- *REITs.* REITs are subject to a highly technical and complex set of provisions in the Internal Revenue Code of 1986, as amended (the "Code"). It is possible that one or more of the Funds may invest in a real estate company which purports to be a REIT and that the company could fail to qualify as a REIT. In the event of any such unexpected failure to qualify as a REIT, the company would be subject to corporate-level taxation, significantly reducing the return to such Fund on its investment in such company. REITs could possibly fail to qualify for tax-favored status under the Code, or to maintain their exemptions from registration under the Investment Company Act. The above factors may also adversely affect a borrower's or a lessee's ability to meet its obligations to the REIT. In the event of a default by a borrower or lessee, the REIT may experience delays in enforcing its rights as a mortgagee or lessor and may incur substantial costs associated with protecting its investments.
- *Competition.* Competition among investors, including hedge funds, is significant, and the Funds will compete with other investment advisory and securities firms, private investment firms, risk arbitrage funds and institutional investors, many of which will have greater financial resources than the Funds. While size is not necessarily an indication of a firm's success in managing market risk, many firms have substantially greater ability to absorb losses and, consequently, to take greater investment risks than the Funds. While the Firm believes that it will have access to a sufficient transaction flow to enable it to invest the Funds' capital, there can be no assurances that the Firm will be able to locate investment opportunities which satisfy the Funds' investment strategies or that it will be able to fully invest all of the Funds', capital.

- *Possible Lack of Product.* The Funds' investment strategies are based upon the purchase and sale of real estate related securities. However, given the fluctuating nature of the securities markets and interest rates, it may not be advantageous for new issuers to sell these types of securities. Accordingly, the availability of product may vary over time. The Firm believes that it will have access to a sufficient transaction flow to invest the capital of the Funds. However, there can be no assurances that the Firm will be able to locate investment opportunities that satisfy the investment objectives of the Funds or that it will be able to fully invest the capital of the Funds. This may adversely affect the overall return of one or more of the Funds.

Derivative Instruments. Some Funds may make use of various derivative instruments, or "derivatives," which are derived from and are valued in relation to one or more underlying securities, financial benchmarks or indices including convertible securities, futures, forwards and interest-rate, currency and equity swaps. Derivatives typically allow an Investor to hedge or speculate upon the price movements of a particular security, financial benchmark or index at a fraction of the cost of acquiring, borrowing or selling short the underlying asset. The Funds may invest and trade in a variety of derivative instruments, both to hedge the Funds' portfolios and as independent investment opportunities in non-U.S. markets. The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage often embedded in such instruments. The derivatives markets are frequently characterized by limited liquidity, which can make it difficult as well as costly to close out open positions in order either to realize gains or to limit losses. The pricing relationships between derivatives and the instruments underlying such derivatives may not correlate with historical patterns, resulting in unexpected losses.

Swap Agreements. Some Funds may enter into swap agreements. Swap agreements can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Swap agreements can take many different forms and are known by a variety of names, including "contracts for differences." The Funds are not limited to any particular form of swap agreement if the Firm determines that other forms are consistent with the Funds' investment objectives and policies. Swap agreements will tend to shift a Funds' investment exposure from one type of investment to another. Depending on how they are used, swap agreements may increase or decrease the overall volatility of a Fund's portfolio. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency, individual equity values or other factors that determine the amounts of payments due to and from a Fund. If a swap agreement calls for payments by the Fund, it must be prepared to make such payments when due. In addition, if the counterparty's creditworthiness declined, the value of a swap agreement would be likely to decline, potentially resulting in losses by the Fund.

Equity Swap Contracts. Equity swap contracts involve an agreement by two parties to exchange returns calculated with respect to a notional amount of an equity index (e.g., the S&P 500 Index), basket of equity securities, or an individual equity security. If a Fund enters into a long equity swap contract, such Fund's net asset value will fluctuate as a result of changes in the value of the equity index, basket

of equity securities, or individual equity security on which the equity swap is based as if it had purchased the notional amount of securities comprising the index, securities comprising the basket, or individual security, as the case may be. If a Fund enters into a short equity swap contract, such Fund's net asset value will fluctuate as a result of changes in the value of the equity index, basket of equity securities, or individual equity security on which the equity swap is based as if it had sold the notional amount of securities comprising the index, securities comprising the basket, or individual security, as may be the case. Equity swaps are subject to risks relating to swap agreements generally.

Risk of Trading in Futures. Futures transactions are executed and cleared through futures commission merchants ("FCMs") who receive compensation for their services. The selection of an FCM is generally based on the overall quality of execution and other services, including research, provided by the FCM. Upon entering a futures contract, a Fund is required to deposit with the FCM or be credited by the FCM an amount of cash or cash equivalents equal to a percentage of the contract amount. Subsequent payments, debits or credits thereon are made or received by the Funds each day depending on the daily fluctuation in the value of the contract.

Futures prices can be highly volatile. Because of the low margin deposits normally required in futures and options trading, an extremely high degree of leverage is typical of a futures trading account. As a result, a relatively small price movement in a futures contract may result in substantial losses to the investor. Like other leveraged investments, a futures transaction may result in losses in excess of the amount invested.

Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Futures prices have occasionally moved beyond the daily limits for several consecutive days with little or no trading. Over-the-counter instruments generally are not as liquid as instruments traded on recognized exchanges. This constraint could prevent the Fund from promptly liquidating unfavorable positions and subject it to substantial losses. In addition, the U.S. Commodity Futures Trading Commission (the "CFTC") and various exchanges impose speculative position limits on the number of positions that the Funds may indirectly hold or control in particular commodities.

Options. The trading of options is highly speculative and may entail risks that are greater than those present when investing in other securities. Prices of options are generally more volatile than prices of other securities. The Funds speculate on market fluctuations of securities and securities exchange indices while investing only a small percentage of the value of the securities underlying such option. A change in the market price of the underlying securities or underlying market index will cause a much greater change in the price of the option contract. In addition, to the extent that a Fund purchases

options that it does not sell or exercise, it will suffer the loss of the premium paid in such purchase. To the extent a Fund sells options and must deliver the underlying securities at the option price, the Fund has an unlimited risk of loss if the price of such underlying securities increases. To the extent a Fund must buy the underlying securities, the Fund risks the loss of the difference between the market price of the underlying securities and the option price. Any gain or loss derived from the sale or exercise of an option will be reduced or increased, respectively, by the amount of the premium paid. The expenses of option investing include commissions payable on the purchase and on the exercise or sale of an option.

Whole Loan Transactions. Investment in distressed mortgages has special risks that may adversely affect the Clients.

- *Delays in Liquidation.* There could be substantial delays in the liquidation of defaulted mortgages purchased by the Clients and corresponding delays in receiving the proceeds of liquidation.
- *The Mortgage Portfolio May Not Be Geographically Diversified.* Property in any state having a significant concentration of properties underlying the mortgage loans may be more susceptible than homes located in other parts of the country to certain types of uninsured hazards, such as earthquakes, floods, mudslides, other natural disasters and acts of terrorism.
- *Underwriting Guidelines.* Mortgages purchased may or may not conform to Fannie Mae or Freddie Mac guidelines. As a result, the mortgages may experience rates of delinquency, foreclosure and borrower bankruptcy that are higher, and that may be substantially higher, than those experienced by mortgage loans underwritten in strict compliance with Fannie Mae or Freddie Mac guidelines.
- *Modification to Terms.* Modifications of a defaulted mortgage loan agreed to by the related servicer in order to maximize ultimate proceeds of a mortgage loan may extend the period over which principal is received on the mortgages.
- *Decline in Value.* Certain economic conditions, including increased interest rates and lower home prices, could result in a decline in the value of the properties underlying the mortgage loans, as well as declines in the value of the collateral underlying the investments.
- *Bankrupt and Non-Performing Servicers.* If a servicer becomes bankrupt, a bankruptcy trustee or receiver may have the power to prevent the appointment of a successor servicer. Any related delays in servicing could result in increased delinquencies or losses on the related mortgage loans.

- *Second Lien Mortgages.* Second lien mortgages carry special risks. The proceeds from any liquidation, insurance or condemnation proceedings will be available to satisfy the outstanding balance of such mortgages only to the extent that the claims of the related senior mortgages have been satisfied in full, including any related foreclosure costs.
- *Recording in MERS.* The mortgages or assignments of mortgage for some of the mortgage loans which may be purchased have been or may be recorded in the name of Mortgage Electronic Registration Systems, Inc. ("MERS"), solely as nominee for the sponsor and its successors and assigns. Subsequent assignments of those mortgages are registered electronically through the MERS system. However, if MERS discontinues the MERS system and it becomes necessary to record an assignment of mortgage to the trustee, then any related expenses will be paid by the trust and will reduce the amount available to pay principal of and interest on the certificates.

Residential Mortgage-Backed Securities. The Clients' investment portfolios may also include residential mortgage-backed securities ("RMBS"). The loans underlying these securities have had in many cases higher default rates than those loans that meet government underwriting requirements.

It is likely that the servicers of RMBS transactions in which the Clients invest may find it necessary or desirable to foreclose on some, if not many, of the underlying collateral properties. The foreclosure process is often lengthy and expensive. Borrowers may resist mortgage foreclosure actions by asserting numerous claims, counterclaims and defenses, including, without limitation, numerous lender liability claims and defenses, even when such assertions may have no basis in fact, in an effort to prolong foreclosure actions and force lenders into a modification of the loans or a favorable buy-out of the borrowers' positions.

Asset-Backed Securities. The Clients intend to invest in asset-backed securities other than RMBS that are backed by consumer debt ("ABS"). ABS represent interests in pools of consumer debt and most often are structured as pass-through securities such as shares or certificates of interest in a pool of debt obligations that have been repackaged by an intermediary, such as a bank or broker-dealer. Interest and principal payments ultimately depend on payment of the underlying loans by individuals, although the securities may be supported by letters of credit or other credit enhancements. The value of these securities may change because of changes in the market's perception of the creditworthiness of the servicing agent for the pool, the originator of the pool, or the financial institution providing the credit support or enhancement.

Commercial Mortgage-Backed Securities. The Clients expect to invest in Commercial Mortgage-Backed Securities ("CMBS") issued or guaranteed by the U.S. Government, its agencies or instrumentalities, or private issuers such as banks, insurance companies and savings and loans. Some of these securities, such as Government National Mortgage Association certificates, are backed by the full faith and credit of the U.S. Treasury while others, such as Federal Home Loan Mortgage Corporation ("Freddie Mac")

certificates, are not.

These securities are often subject to more rapid repayment than their stated maturity dates would indicate as a result of principal prepayments on the underlying loans. This can result in significantly greater price and yield volatility than with traditional fixed-income securities. During periods of declining interest rates, prepayments can be expected to accelerate which will shorten these securities' weighted average life and may lower their return. Conversely, in a rising interest rate environment, a declining prepayment rate will extend the weighted average life of these securities which generally would cause their values to fluctuate more widely in response to changes in interest rates.

The value of these securities also may change because of changes in the markets perception of the creditworthiness of the federal agency or private institution that issued them. In addition, the CMBS market in general may be adversely affected by changes in governmental regulation or tax policies.

Most commercial mortgage loans underlying CMBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on any classes of the related CMBS are likely to be adversely affected.

Item 9 – Disciplinary Information

If there are legal or disciplinary events that are material to a client's or prospective client's evaluation of your advisory business or the integrity of your management, disclose all material facts regarding those events.

Registered Investment Advisers are required to disclose any legal or disciplinary events that are material to a Client's or prospective Client's evaluation of our advisory business or the integrity of our management. WMD and its management personnel have no reportable disciplinary events to disclose.

Although not deemed to be a matter of required disclosure, WMD recently hired Mr. Michael G. Stockman in a non-management capacity as its Director of Research. Mr. Stockman has more than 25 years of domestic and global experience in risk management, trading and capital markets. He was formerly a Senior Vice President and the Chief Risk Officer of MF Global Holdings Ltd., from January to October 2011, at which time the firm, experiencing various regulatory and liquidity issues, sought bankruptcy protection. No regulatory actions against Mr. Stockman related to his association with MF Global were initiated, nor are there now or ever have been any such proceedings pending or threatened. As an employee of WMD, Mr. Stockman will contribute to the incubation, assessment, and development of business initiatives.

Item 10 – Other Financial Industry Activities and Affiliations

A. If you or any of your management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer, disclose this fact.

Neither WMD nor any of its management persons are registered or have an application pending to register as a broker-dealer or a registered representative of a broker-dealer.

B. If you or any of your management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading adviser, or an associated person of the foregoing entities, disclose this fact.

Neither WMD nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading adviser, or an associated person of the foregoing. WMD has filed as an exempt commodity pool operator in response to certain CFTC rule amendments.

C. Describe any relationship or arrangement that is material to your advisory business or to your clients that you or any of your management persons have with any related person listed below. Identify the related person and if the relationship or arrangement creates a material conflict of interest with clients, describe the nature of the conflict and how you address it.

1. Broker-dealer, municipal securities dealer, or government securities dealer or broker
2. Investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or “hedge fund,” and offshore fund)
3. Other investment adviser or financial planner
4. Futures commission merchant, commodity pool operator, or commodity trading advisor
5. Banking or thrift institution
6. Accountant or accounting firm
7. Lawyer or law firm
8. Insurance company or agency
9. Pension consultant
10. Real estate broker or dealer
11. Sponsor or syndicator of limited partnerships.

As described in Item 4 above, WMD also provides investment management services to several affiliated entities. These affiliated entities are not owned by WMD, but rather are affiliated with the principles of WMD and invest in WMD Funds and outside joint ventures.

As described in Item 4 above, WMD is affiliated with each Fund's general partner. These general partners are deemed registered with the SEC under the Advisers Act pursuant to WMD's registration. WMD provides personnel and other services to the Advisers and other Firm entities. These affiliated investment advisers operate as a single advisory business together with WMD and serve as general partners of private investment funds, other pooled vehicles and may share common owners, officers, partners, employees, consultants or persons occupying similar positions.

WMD has and will continue to develop relationships with professionals who provide services it does not provide, including: legal, accounting, banking, tax preparation, insurance brokerage, investment management services and other personal services.

From time to time, WMD receives training, information, promotional material, meals, gifts or prize drawings from vendors and others with whom it may do business or to whom it may make referrals. At no time will WMD accept any benefits, gifts or other arrangements that are conditioned on directing individual client transactions to a specific security, product or provider. Similarly, WMD personnel and/or its affiliates may speak at conferences and programs for potential investors interested in investing in hedge funds that are sponsored by the Master Fund's prime brokers. Through such capital introduction events, prospective investors have the opportunity to meet with WMD. Neither WMD nor any Fund compensates the prime brokers for organizing such events or for investments ultimately made by prospective investors attending such events.

Neither WMD nor its management persons have any other relationships or arrangements with any related persons that are material to WMD's advisory business.

D. If you recommend or select other investment advisers for your clients and you receive compensation directly or indirectly from those advisers that creates a material conflict of interest, or if you have other business relationships with those advisers that create a material conflict of interest, describe these practices and discuss the material conflicts of interest these practices create and how you address them.

WMD does not utilize nor select other advisers or third party managers. All assets are managed by WMD.

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

A. If you are an SEC-registered adviser, briefly describe your Code of Ethics adopted pursuant to SEC rule 204A-1 or similar state rules. Explain that you will provide a copy of your Code of Ethics to any client or prospective client upon request.

WMD has adopted a Code of Ethics (the “Code”) to govern its ethical obligations regarding personal securities transactions pursuant to Rule 204A-1 under the Advisors Act. A copy of the Code will be provided to advisory Clients upon request. The Code covers a range of topics which may include: (1) basic principles, explanation of covered accounts and beneficial ownership; (2) policies against illegal activities, insider trading, front-running and scalping; (3) specific rules regarding personal accounts, service as a director, gifts and entertainment and duties of confidentiality; and (4) procedures for certification of compliance, exceptions to procedures, retention of reports and other records, reports of violations and sanctions. The Code sets forth procedures to monitor compliance with its policies and rules, requires recordkeeping and reporting, and establishes sanctions for violations.

With respect to insider trading, the Code covers the following: (1) a policy statement and general principles, including definitions, bases for liability and penalties; (2) procedures to implement the policy, including identifying inside information, personal securities trading, restricting access to material nonpublic information, and resolving issues concerning insider trading; and (3) supervisory procedures (of employees, outside research providers and independent consultants), including prevention and detection of insider trading, special and annual reports to management and recordkeeping.

With respect to gifts and entertainment, the Code covers the following: a policy overview, gifts to WMD employees, event tickets or meals, gifts sent by WMD, cash gifts and gifts as they relate to government officials. The Code requires the Chief Compliance Officer approve and maintain a log of all gifts given by WMD, as well as the suitability of gifts received by WMD to ensure that they are of a nominal value. The Code also requires that no gifts or entertainment are given or received for the purpose of influencing a business decision, transaction or service.

With respect to personal accounts, the Code covers the following: the fundamental policy; descriptions of categories of securities; pre-approval of permitted securities transactions, such as private placements and private investment funds and distributions (not competitors of WMD); securities requiring special approvals and other trading restrictions, such as initial public offerings, private investment funds and distributions (competitors of WMD), significant holdings, WMD’s restricted list and other trading restrictions; reporting accounts, holdings and transactions; excepted securities; and confidentiality. The Code requires monitoring of employees’ personal securities transactions and receipt of employee personal trading records from broker-dealers.

WMD will provide a copy of its Code of Ethics to any existing or prospective limited partner upon request to Dennis Carlton, the Chief Compliance Officer, at 805-969-1803 or dec@wmddaugherty.com.

B. If you or a related person recommends to clients, or buys or sells for client accounts, securities in which you or a related person has a material financial interest, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.

Participation or Interest in Client Transactions

Principals and employees of WMD and its affiliates may directly or indirectly own an interest in the Funds or Separate Accounts. Such transactions also may include trading in securities in a manner that differs from or is inconsistent with the advice given to the Funds. Certain of these transactions may require the consent of the applicable Fund or Client.

It is WMD's policy that the Firm will not effect any principal or agency cross securities transactions for Client accounts without first obtaining the relevant advisory board, general partner and/or limited partner approval. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells a security to an advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

Conflicts of Interest

WMD's Code requires Firm principals and employees to place the interests of clients first, and on an annual basis each principal and employee must certify that he or she has read and understands the Code and has complied with its provisions. If any matter arises that WMD determines in its good faith constitutes an actual conflict of interest, WMD may take such actions as may be necessary or appropriate, within the context of any applicable Fund's Governing Documents, to address the conflict.

The Governing Documents for each Fund include a description of what WMD believes to be the most significant conflicts of interest associated with an investment in such Fund. Investors should carefully consider the conflicts of interest herein as well as those outlined in each applicable Fund's Governing Documents prior to investing in a Fund.

Each of the principals will use their best efforts in connection with the purposes and objectives of the Funds and will devote as much of their time and effort to the affairs of the Funds as may, in their judgment, be necessary to accomplish the purposes of the Funds. Subject to the restrictions of the relevant partnership agreements, the relevant general partner, and its directors, members, partners, shareholders, officers, employees, agents and affiliates (hereinafter referred to as the “Affiliated Parties”) may conduct any other business, including any business within the securities industry, whether or not such business is in competition with the Funds. Without limiting the generality of the foregoing, the Affiliated Parties may act as investment adviser or investment manager for others, may manage funds, separate accounts or capital for others and may serve as an officer, director, consultant, partner or stockholder of one or more investment funds, partnerships, securities firms or advisory firms. Such other entities or accounts may have investment objectives or may implement investment strategies similar or different to those of the Funds. In addition, the Affiliated Parties may, through other investments, including other investment funds, have interests in investments which the Funds invest as well as interests in investments in which the Funds do not invest. As a result of the foregoing, the Affiliated Parties may have conflicts of interest in allocating their time and activity between the Funds and other entities, in allocating investments among the Funds and other entities and in effecting transactions for the Funds and other entities, including ones in which the Affiliated Parties may have a greater financial interest.

The Funds may invest together with other private investment funds advised by an affiliated adviser of WMD in the manner set forth in the limited partnership agreements. WMD will allocate investment opportunities or advisory recommendations on a fair and equitable basis, consistent with its fiduciary obligations and the underlying documents for the relevant Fund. Accordingly, all transactions are allocated proportionately to each limited partner capital commitment unless “opt-out” provisions apply. Such “opt-out” provisions are directed by the applicable limited partner in Fund side-letters.

In allocating orders among its Clients, WMD should avoid potential conflicts that may exist under the circumstances, including, without limitation, when: (i) one Client is purchasing or selling a specific investment within a short period of time prior to another Client taking the same or a contrary position, or (ii) a larger Client, by virtue of the size of its holdings or otherwise, may have the ability to influence the market of an investment held by a smaller Client. In any situation where there is the appearance of a potential conflict, the WMD trading desk should discuss the matter with the Chief Compliance Officer. The Chief Compliance Officer should create and maintain a record of any determination.

Each Fund’s Investors include persons or entities resident in various jurisdictions, including the United States and other countries, who may have conflicting investment, tax and other interests with respect to their investments. The conflicting interests of individual Investors may relate to or arise from, among other things, the nature of investments made by each Fund, the structuring of the acquisitions for each Fund and the timing of the disposition of investments. Such transactions and trading may result in different after-tax returns being realized by different Investors. As a consequence, conflicts

of interest may arise in connection with decisions made by WMD that may be more beneficial for one Investor than another Investor, especially with respect to Investors' individual tax situations. WMD considers the investment and tax objectives of each Fund as a whole, and not the individual investment, tax or other objectives of any particular Investor.

If any matter arises that WMD determines in its good faith constitutes an actual conflict of interest, WMD may take such actions as may be necessary or appropriate, within the context of such Client's Governing Documents to ameliorate the conflict.

C. If you or a related person invests in the same securities (or related securities, e.g., warrants, options or futures) that you or a related person recommends to clients, describe your practice and discuss the conflicts of interest this presents and generally how you address the conflicts that arise in connection with personal trading.

WMD, its employees and/or related persons may personally buy or sell the same instruments that WMD buys or sells for Client accounts, and it or they, may own securities, or options on securities, of issuers whose securities are subsequently bought for Client accounts because of WMD's recommendations regarding a particular security. WMD's policy is designed: (i) to prevent potential legal, business or ethical conflicts; (ii) to minimize the risk of unlawful trading in any account where Employees have an interest; and (iii) to guard against the misuse of confidential information. All personal trading and other activities must avoid any conflict or potential conflict of Investor interest. Employees are prohibited from engaging in unlawful trading and any trading that may appear to be improper. WMD employees are prohibited from trading, either personally or on behalf of others, in securities while in possession of material non-public information regarding these securities or communicating material non-public information to others. Personal securities transactions by employees who manage client accounts are required to be conducted in a manner that prioritizes the client's interests in client eligible investments.

If you or a related person recommends securities to clients, or buys or sells securities for client accounts, at or about the same time that you or a related person buys or sells the same securities for your own (or the related person's own) account, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.

Please refer to Items 11.A, 11.B, and 11.C.

Item 12 – Brokerage Practices

A. Describe the factors that you consider in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

WMD is authorized to determine the broker or dealer, if any, to be used for each investment for the Clients. Where best price and execution may be obtained from more than one broker or dealer, WMD may purchase and sell investments through brokers or dealers who provide research, statistical and other information, although the Clients may not necessarily, in any particular instance, be the direct or indirect beneficiary of the research services provided. Research and related services furnished or paid for by brokers or dealers may include, but is not limited to, written information and analyses concerning specific investments, companies or sectors; market, financial and economic studies and forecasts; financial publications; statistic and pricing services; WMD's prior experience with the broker; the quality of the investment research; investment strategies, special execution capabilities, clearance, settlement, custody, recordkeeping and other services provided by such broker and discussions with research personnel. In selecting brokers or dealers and negotiating commission rates, WMD will take into account the financial stability and reputation of brokerage firms and the brokerage and research services provided by such dealers and brokers. WMD need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost.

- 1. Research and Other Soft Dollar Benefits. If you receive research or other products or services other than execution from a broker-dealer or a third party in connection with client securities transactions ("soft dollar benefits"), disclose your practices and discuss the conflicts of interest they create.**
 - a. Explain that when you use client brokerage commissions (or markups or markdowns) to obtain research or other products or services, you receive a benefit because you do not have to produce or pay for the research, products or services.**
 - b. Disclose that you may have an incentive to select or recommend a broker-dealer based on your interest in receiving the research or other products or services, rather than on your clients' interest in receiving most favorable execution.**
 - c. If you may cause clients to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits (known as paying-up), disclose this fact.**
 - d. Disclose whether you use soft dollar benefits to service all of your clients' accounts or only those that paid for the benefits. Disclose whether you seek to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the**

accounts generate.

- e. **Describe the types of products and services you or any of your related persons acquired with client brokerage commissions (or markups or markdowns) within your last fiscal year.**
- f. **Explain the procedures you used during your last fiscal year to direct client transactions to a particular broker-dealer.**

Section 28(e) of the Securities Exchange Act of 1934, as amended, is a “safe harbor” that permits an investment manager to use commissions or “soft dollars” to obtain research and brokerage services that provide lawful and appropriate assistance in the investment decision-making process. WMD will limit the use of “soft dollars” to obtain research and brokerage services to services which constitute research and brokerage within the meaning of Section 28(e). Research and brokerage services within Section 28(e) may include, but are not limited to: research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; analyses concerning specific securities, companies or sectors; and data services (including services providing market data, company financial data and economic data); services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an investment manager and a broker-dealer); and trading software operated by a broker-dealer to route orders.

Research and brokerage services obtained by the use of commissions arising from Client portfolio transactions may be used by WMD in its other investment activities and thus, a Fund or Separate Account may not necessarily, in any particular instance, be the direct or indirect beneficiary of the research or brokerage services provided.

Although WMD will make a good faith determination that the amount of commissions paid is reasonable in light of the products or services provided by a broker, commission rates are generally negotiable and thus, selecting brokers on the basis of considerations that are not limited to the applicable commission rates may result in higher transaction costs than would otherwise be obtainable. The receipt of such products or services and the determination of the appropriate allocation in the case of “mixed use” products or services create a potential conflict of interest between WMD and its Clients.

- 2. **Brokerage for Client Referrals. If you consider, in selecting or recommending broker-dealers, whether you or a related person receives client referrals from a broker-dealer or third party, disclose this practice and discuss the conflicts of interest it creates.**
 - a. **Disclose that you may have an incentive to select or recommend a broker-dealer based on your interest in receiving client referrals, rather than on your clients’ interest in receiving most favorable execution.**

b. Explain the procedures you used during your last fiscal year to direct client transactions to a particular broker-dealer in return for client referrals.

In selecting brokers and negotiating commission rates, WMD will take into account, among other things, the financial stability and reputation of brokerage firms, and the research, brokerage or other services provided by such brokers. WMD may place transactions with a broker or dealer that (i) provides it (or an affiliate) with the opportunity to participate in capital introduction events sponsored by the broker-dealer or (ii) refers Investors to the Fund and/or Separate Accounts or other products advised by WMD (or an affiliate), if otherwise consistent with seeking best execution, provided WMD is not selecting the broker-dealer solely in recognition of the opportunity to participate in such capital introduction events or the referral of Investors. The selection of a broker (including the prime brokers) 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; consulting with respect to technology, operations and equipment; commitment of capital; access to company management; and access to deal flow. Neither the Firm nor any Fund and/or Separate Account separately compensate any broker for any of these other services.

Brokers sometimes suggest a level of business they would like to receive in return for the various services they provide. Actual brokerage business received by any broker may be less than the suggested allocations, but can (and often does) exceed the suggestions, because total brokerage is allocated on the basis of all the considerations described above. A broker is not excluded from receiving business because it has not been identified as providing research services.

Each Fund and Separate Account's securities transactions may generate brokerage commissions and other compensation, all of which the respective Fund and/or Separate Account, not WMD, will be obligated to pay. WMD has complete discretion in deciding what brokers and dealers each Fund and/or Separate Account will use and in negotiating the rates of compensation a Fund and/or Separate Account will pay. In addition to using brokers as "agents" and paying commissions, each Fund and/or Separate Account may buy or sell securities directly from or to dealers acting as principals at prices that include markups or markdowns, and may buy securities from underwriters or dealers in public offerings at prices that include compensation to the underwriters and dealers.

WMD recognizes that it may have an incentive to favor broker-dealers that provide capital introduction services to WMD or refer Investors. WMD receives asset-based fees and accordingly would receive a financial benefit from the increase in assets under management that result from capital introduction services and Investor referrals. Similarly, WMD receives a performance-based fee and accordingly could receive a larger performance-based fee in any given profit period as a result of an increase in assets under management that results from capital introduction services and Investor referrals. The potential for higher fees presents a potential conflict in that WMD has an incentive to favor broker-dealers that provide services that have a direct impact on fees even if those

broker-dealers rate unfavorably in other categories.

WMD addresses this potential conflict by periodically reviewing its broker-dealer arrangements and evaluating each broker-dealer's performance in a variety of categories, including but not limited to the broker or dealer's execution capabilities, reputation and access to the markets for the securities being traded. Other considerations include, among other things, the amount of transaction costs, the quality of execution, the expertise in particular markets, the experience and financial stability of the firm, the availability of stock loans, the breadth of investment products made available, the quality of service, the familiarity both with investment practices generally and the techniques employed by WMD, the research and analytic services and clearing and settlement capabilities, the capability to facilitate transfers and payments to and from accounts, and the availability of other products and services, subject at all times to principles of best execution. Such reviews are expected to enable WMD to determine when broker-dealers that outperform in capital introduction and Investor referrals also underperform in other areas. In such situations, WMD may provide heightened scrutiny to its relationship with such a broker-dealer.

3. Directed Brokerage

- a. If you routinely recommend, request or require that a client direct you to execute transactions through a specified broker-dealer, describe your practice or policy. Explain that not all advisers require their clients to direct brokerage. If you and the broker-dealer are affiliates or have another economic relationship that creates a material conflict of interest, describe the relationship and discuss the conflicts of interest it presents. Explain that by directing brokerage you may be unable to achieve most favorable execution of client transactions, and that this practice may cost clients more money.**
- b. If you permit a client to direct brokerage, describe your practice. If applicable, explain that you may be unable to achieve most favorable execution of client transactions. Explain that directing brokerage may cost clients more money. For example, in a directed brokerage account, the client may pay higher brokerage commissions because you may not be able to aggregate orders to reduce transaction costs, or the client may receive less favorable prices.**

WMD does not have any directed brokerage arrangements.

B. Discuss whether and under what conditions you aggregate the purchase or sale of securities for various client accounts. If you do not aggregate orders when you have the opportunity to do so, explain your practice and describe the costs to clients of not aggregating.

WMD may (but is not required to) aggregate orders for Client accounts for which it or its principals have trading authority. When it does aggregate orders, WMD's policy is to allocate trades in a fair, consistent and equitable manner among WMD's Clients. When WMD deems the purchase and sale of securities to be in the best interest of a Fund, and any other managed vehicles or accounts, it may aggregate the securities to be purchased or sold in order to obtain superior execution and/or lower brokerage expenses. However, in most cases because the mandates for each Fund are distinct, orders are generally placed for a specific Fund rather than aggregated.

WMD may allocate orders among Clients on a case by case basis in accordance with its allocation policy, which is subject to monthly review and periodic adjustment. WMD is not required to allocate all orders among Clients on a pro rata basis, as pro rata allocations among the Clients may not always be appropriate.

Item 13 – Review of Accounts

A. Indicate whether you periodically review client accounts or financial plans. If you do, describe the frequency and nature of the review, and the titles of the supervised persons who conduct the review.

The Chief Compliance Officer participates as a non-voting member in WMD's Investment Committee, except where needed to constitute a quorum or in the event of a tie vote, and in that forum reviews the portfolios of WMD's Clients to confirm that they are maintained consistently with the investment objectives established for the Clients. Client accounts are also reviewed regularly by each Fund's portfolio manager and monthly or more frequently by the Chief Investment Officer.

The Chief Compliance Officer or his designee will periodically review the portfolios of each Client to ensure that they comply with any restrictions, including, but not limited to restrictions relating to the use of illiquid securities, leverage or asset class. It is WMD's policy that any issues regarding restrictions shall promptly be brought to the attention of the Chief Compliance Officer. The Chief Compliance Officer will take any necessary steps to address the matter and will maintain a record of his actions.

B. If you review client accounts on other than a periodic basis, describe the factors that trigger a review.

Reviews may take place more frequently if triggered by economic, market, or political conditions.

C. Describe the content and indicate the frequency of regular reports you provide to clients regarding their accounts. State whether these reports are written.

WMD generally will provide to its limited partners (i) audited financial statements annually within 120

days of year end, commencing with the first year in which it either is in operation for at least six months or makes an investment, (ii) unaudited financial statements for the first three quarters of each fiscal year, (iii) annual tax information necessary for each partner's U.S. tax returns, descriptive investment information for each portfolio company semi-annually. All reports are sent to limited partners in either a physical copy or are delivered electronically as per each Investor's preference. The Firm also has contact with Investors (personal visits, telephone, e-mail) throughout the year as conditions warrant.

Item 14 – Client Referrals and Other Compensation

A. If someone who is not a client provides an economic benefit to you for providing investment advice or other advisory services to your clients, generally describe the arrangement, explain the conflicts of interest, and describe how you address the conflicts of interest. For purposes of this Item, economic benefits include any sales awards or other prizes.

WMD does not receive any economic benefit, directly or indirectly from any third party for advisory service rendered to the Clients.

B. If you or a related person directly or indirectly compensates any person who is not your supervised person for client referrals, describe the arrangement and the compensation.

While it has not done so in the past, WMD or its affiliates may pay a fee representing a portion of the management fee or incentive allocation to third parties for soliciting Investors in the Clients. Such fee will be paid out of WMD's revenues, and does not result in an increase in expenses paid by the Clients over the amount that would be paid to WMD in the absence of such fee. Any such agreement will be structured in accordance with Rule 206(4)-3(A)(1)(ii).

Item 15 – Custody

If you have custody of client funds or securities and a qualified custodian sends quarterly, or more frequent, account statements directly to your clients, explain that clients will receive account statements from the broker-dealer, bank or other qualified custodian and that clients should carefully review those statements. If your clients also receive account statements from you, your explanation must include a statement urging clients to compare the account statements they receive from the qualified custodian with those they receive from you.

The Investment Advisers Act of 1940 Rule 206(4) (the "Custody Rule") requires that pooled investment vehicles advised by the adviser either undergo an annual generally accepted accounting principles ("GAAP") financial statement audit or be subject to a surprise custody examination by an

SEC-registered auditing firm. The Firm has elected to undergo an annual GAAP financial statement audit for each of its Fund vehicles over which it is deemed to have custody. The Funds are audited annually by KPMG LLP and WMD delivers to the Funds and their respective limited partners a copy of the annual audited financial statements within 120 days of the fiscal year end in accordance with the Custody Rule.

While WMD places all Fund assets in custody with prime brokers and other executing broker-dealers and does not maintain physical custody over any Investors' funds or securities, it is still considered to have custody over these assets because of the ability of its general partner to deduct fees from Investor accounts. WMD's brokers and custodians send account statements to the Funds each month. Separately Accounts have established their own, independent relationships with specific qualified custodians and are not deemed to be under WMD's custody purview.

For a list of WMD's qualified custodians, please see ADV Part 1, Schedule D, Item 7.B.(1).

Item 16 – Investment Discretion

If you accept discretionary authority to manage securities accounts on behalf of clients, disclose this fact and describe any limitations clients may (or customarily do) place on this authority. Describe the procedures you follow before you assume this authority (e.g., execution of a power of attorney).

WMD is authorized to invest and trade Clients' assets in a broad range of investments, to be selected at WMD's sole discretion, with no specific limitations as to type, amount, concentration, or leverage, except as specifically limited by a Fund's Governing Documents. Further, WMD may enter into any type of investment transaction and employ any investment methodology or strategy it deems appropriate within the parameters of each investment program.

Pursuant to each Fund's Governing Documents, Investors designate WMD as their attorney-in-fact to execute, certify, acknowledge, file, record and swear to all instruments, agreements and documents necessary or advisable to carrying out the Client's business and affairs, including execution of a Fund's limited partnership agreement. An Investor's execution of a subscription agreement constitutes its execution of a Client's Governing Documents.

With respect to Separate Accounts, WMD's scope of authority, fees and other terms are highly negotiated and may vary from the Funds or other Clients.

Item 17 – Voting Client Securities

A. If you have, or will accept, authority to vote client securities, briefly describe your voting policies and procedures, including those adopted pursuant to SEC Rule 206(4)-6.

Describe whether (and, if so, how) your clients can direct your vote in a particular solicitation. Describe how you address conflicts of interest between you and your clients with respect to voting their securities. Describe how clients may obtain information from you about how you voted their securities. Explain to clients that they may obtain a copy of your proxy voting policies and procedures upon request.

WMD has the authority to vote Client proxy statements on behalf of such Funds and Separate Accounts where proxies are presented for a vote. While most of its Funds do not have an opportunity to vote proxies, for those Funds that do vote proxies, WMD will vote pursuant to SEC Rule 206(4) and consistent with the best interests of its Investors and in accordance with the Funds' stated objectives, primarily maximizing portfolio values.

WMD has retained the services of Institutional Shareholder Services Inc. ("ISS"), a proxy service firm, to assist WMD in its proxy voting and proxy management, including the resolutions of any conflicts of interest. There may be instances when WMD does not vote in accordance with ISS's recommendation due to the specific circumstances of the proxy in question. WMD cannot anticipate every situation, and certain issues are better handled on a case-by-case basis. The proxy service firm will retain all proxy voting records in accordance with SEC Rule 206(4)-6. In general, Investors cannot request that WMD vote in a particular way on any specific proposal.

Investors may obtain a copy of WMD's complete proxy voting policies and procedures upon request, free of charge, from WMD's Chief Compliance Officer, Dennis Carlton, at 805-969-1803. Investors may also obtain information from WMD, free of charge, about how WMD voted any previous proxies.

B. If you do not have authority to vote client securities, disclose this fact. Explain whether clients will receive their proxies or other solicitations directly from their custodian or a transfer agent or from you, and discuss whether (and, if so, how) clients can contact you with questions about a particular solicitation.

This Item is not applicable to WMD.

Item 18 – Financial Information

A. If you require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, include a balance sheet for your most recent fiscal year.

WMD does not require or solicit prepayment of more than \$1,200 in fees per Client, six months or more in advance.

B. If you have discretionary authority or custody of client funds or securities, or you require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, disclose any financial condition that is reasonably likely to impair your ability to meet contractual commitments to clients.

WMD has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to investors.

C. If you have been the subject of a bankruptcy petition at any time during the past ten years, disclose this fact, the date the petition was first brought, and the current status.

The Firm has not been the subject of a bankruptcy proceeding at any time during the past ten years.

Item 19 – Requirements for State-Registered Advisers

This Item is not applicable to WMD.