

**ITEM 1
COVER PAGE**

PART 2A OF FORM ADV: FIRM BROCHURE

QVT FINANCIAL LP

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QVT Financial LP
1177 Avenue of the Americas, 9th Floor
New York, New York 10036
Tel: (212) 705-8888
Fax: (212) 705-8820
Website: www.qvt.com

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ADDITIONAL INFORMATION ABOUT QVT FINANCIAL LP IS ALSO AVAILABLE ON THE SEC'S WEBSITE AT WWW.ADVISERINFO.SEC.GOV

REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR WITH ANY STATE SECURITIES AUTHORITY DOES NOT IMPLY A CERTAIN LEVEL OF SKILL OR TRAINING.

ITEM 2
MATERIAL CHANGES

This Brochure is the Adviser's initial Form ADV Part 2A submitted with its application for registration with the U.S. Securities and Exchange Commission (the "SEC"), therefore, there are no material changes to report. If the Adviser makes any material changes to this Brochure, this section will be revised to include a summary of such changes.

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ITEM 4

ADVISORY BUSINESS

A. General Description of Advisory Firm.

QVT Financial LP (the "Adviser"), a Delaware limited partnership with offices in New York, was formed on June 18, 2003. The principal owners are QVT Financial GP LLC, Daniel Gold, Nicholas Brumm, Arthur Chu and Tracy Fu.

The Adviser and its affiliates (the "Affiliates") (the Adviser and its Affiliates are sometimes collectively referred to as the "Advisers") provide administrative and/or investment management services to U.S. limited partnerships, non-U.S. limited partnerships and non-U.S. corporations (collectively, the "Private Funds" or the "Clients") based on their respective investment objectives. Certain Advisers serve as the general partner to those Private Funds that are formed as U.S. limited partnerships or non-U.S. limited partnerships. Persons reviewing this Form ADV Part 2A should not construe this as an offering of any of the Private Funds described herein, which will only be made pursuant to the delivery of a private placement memorandum to prospective investors.

As of the date hereof, the Advisers provide administrative and/or investment management services to the following Private Funds: QVT International L.P., a Cayman Islands exempted limited partnership ("QVT International Feeder Fund"), QVT International II L.P., a Cayman Islands exempted limited partnership ("QVT International Intermediate Fund"), QVT Fund LP, a Cayman Islands exempted limited partnership ("QVT Master Fund"), QVT Associates II LP, a Delaware limited partnership ("QVT Associates Feeder Fund"), QVT Overseas Ltd., a Cayman Islands exempted company ("QVT Overseas Feeder Fund"), QVT Overseas II L.P., a Cayman Islands exempted limited partnership ("QVT Overseas Intermediate Fund"), Quintessence Overseas L.P., a Cayman Islands exempted limited partnership ("Quintessence Overseas Feeder Fund"), Quintessence Overseas II L.P., a Cayman Islands exempted limited partnership ("Quintessence Overseas Intermediate Fund"), Quintessence Fund L.P., a Cayman Islands exempted limited partnership ("Quintessence Master Fund"), Quintessence Associates LP, a Delaware limited partnership ("Quintessence Associates Feeder Fund"), Quintessence Global L.P., a Cayman Islands exempted limited partnership ("Quintessence Global Feeder Fund"), Quintessence Global II L.P., a Cayman Islands exempted limited partnership ("Quintessence Global Intermediate Fund"), QVT Overseas Holdings Ltd., a Cayman Islands corporation ("Overseas Holdings"), QVT Associates Holdings II Ltd., a Cayman Islands corporation ("Associates Holdings" and together with Overseas Holdings, the "Special Liquidity Vehicles"), Ashokan Opportunities Fund L.P. ("Ashokan Master Fund"), a Cayman Islands exempted limited partnership, Ashokan Associates LP ("Ashokan Associates Feeder Fund"), a Delaware limited partnership and Ashokan Overseas L.P. ("Ashokan Overseas Feeder Fund"), a Cayman Islands exempted limited partnership.

B. Description of Advisory Services.

Please see Item 8.

C. Availability of Customized Services for Individual Clients.

The Adviser's investment decisions and advice with respect to each Private Fund are subject to each Private Fund's investment objectives and guidelines, as set forth in its offering documents.

D. Wrap Fee Programs.

The Adviser does not participate in wrap fee programs.

E. Assets Under Management.

The Adviser manages approximately \$5,448,756,389, which is the aggregate Client net asset value as of November 30, 2011, on a discretionary basis. As of January 11, 2012, the Adviser does not manage any assets on a non-discretionary basis.

ITEM 5 FEES AND COMPENSATION

A. Advisory Services and Fees.

With respect to Clients structured as hedge funds, Clients are charged a monthly management fee, in arrears, generally based on the net asset value of the assets under management, typically at a rate between 1.0% and 2.0% per annum. With respect to Clients structured as private equity funds, Clients are charged a quarterly fee, in advance, generally based on capital commitments to such Private Funds during their investment period and invested capital during the liquidation period, typically at a rate between 1% and 2% per annum.

Further, Clients structured as hedge funds may also be charged an annual performance allocation depending upon the investment mandate. The performance allocation is generally 20% and based on net capital appreciation at the end of a fiscal year. With respect to Clients structured as hedge funds, typically, any loss is carried forward from year-to-year so that no performance allocation is charged unless all of the losses incurred through the end of the period for which the allocation is to be made have been recouped (such an arrangement being called a "high water mark" provision). Investors in the Private Funds withdrawing or redeeming other than at a fiscal year end will bear any incentive allocation accrued through such withdrawal or redemption date. To the extent a Fund is below its high water mark at the time of a withdrawal, such high water mark is reduced proportional to the amount withdrawn. With respect to Clients structured as private equity funds, such Clients provide for a "carried interest" distribution to be paid to an affiliate of the Adviser.

With respect to the Ashokan Associates Feeder Fund, distributions of proceeds realized upon the disposition of the assets of Ashokan Associates Feeder Fund, are distributed first, to investors until investors have received 100% of their capital calls and management fee calls; second, in an amount equal to 20% to investors and 80% to an Affiliate until such Affiliate has received 20% of 10% of the cumulative amount of distribution proceeds that investors have received in respect of their interest such that investors have received a 10% internal rate of return on their contributed capital; third, (x) 80% to investors and (y) 20% to an Affiliate until the cumulative amount of distribution proceeds that investors have received in respect of their interests such that investors have received a 25% internal rate of return on their contributed capital (the "25% Hurdle"); fourth, (x) 25% to investors and (y) 75% to an Affiliate until such Affiliate has received 25% of the 25% Hurdle and 25% of the amounts distributed under this clause; and fifth, (x) 75% to such investors and (y) 25% to the Affiliate.

With respect to the Ashokan Overseas Feeder Fund, the Adviser will be paid a performance fee as follows: (i), the Adviser earns no incentive fees until the appreciation in the net asset value of an investor's interests reaches 10% internal rate of return ("IRR"); (ii), once the 10% IRR is achieved, the Adviser will be entitled to 80% of any additional appreciation in net asset value (with the investor retaining the other 20% of such additional appreciation) until the Adviser "catches up" and receives an amount equal to 20% of the appreciation in net asset value attributable to the investor under clause (i) and under this section (ii); (iii) the Adviser will be entitled to

receive 20% of any additional appreciation (with the investor retaining the other 80% of such additional appreciation) until such time that the net asset value of the investor's interests reaches a 25% IRR; (iv) once the net asset value of the investor's interests reaches a 25% IRR, the Adviser will be entitled to 75% of any additional appreciation in net asset value (with the investor retaining the other 25% of such appreciation) until the Adviser "catches up" and receives an amount equal to 25% of all appreciation in net asset value attributable to the investor, including any appreciation attributed to such investor under this section (iv); and (v) the Adviser will be entitled to receive 25% of any additional appreciation (with the investor retaining the other 75% of such additional appreciation).

The respective offering documents will generally permit the Adviser or the Private Fund the ability to waive, rebate or reduce all or part of the management fee and/or performance allocation with respect to investments made by certain investors without waiving, rebating or reducing the allocations charged/payable to other investors (such as the case of, but not limited to, investments made by the Adviser, its partners/employees and their family members in a Private Fund).

B. Payment of Fees.

Fees and compensation paid to the Adviser or its Affiliates by the Private Funds are generally deducted from the assets of such Clients. As discussed above, management fees are generally deducted on a monthly or quarterly basis and performance compensation is generally deducted on an annual basis.

C. Additional Expenses and Fees.

A Client may bear the following expenses: operating and other expenses including, but not limited to, entity-level taxes, organizational, offering and investment expenses (e.g., expenses that are related to the investment of such Client's assets, such as brokerage commissions, management fees, incentive compensation, expenses relating to certain agreements with specialized market intermediaries, acting as the third-party manager of an investment vehicle formed for the exclusive benefit of the Client, investment-related travel expenses (which are travel expenses related to the purchase, sale or transmittal or ongoing monitoring of such Client's investments incurred by the Adviser or its Affiliates), interest expenses, and consulting and other professional fees related to particular investments and legal, accounting, due diligence and other similar expenses attributable to investments, even if such investments are not consummated), expenses related to the purchase and sale of illiquid securities and special investments, fees and expenses relating to software tools, programs or other technology utilized in managing such Client (including, without limitation, technology to measure risk), research and market data (including any computer hardware and telephone and data lines incorporated into the cost of obtaining such research and market data), administrative expenses (including fees and expenses of an administrator), legal expenses, internal and external accounting and valuation expenses, audit and tax preparation expenses, insurance premiums, custodial fees, other expenses associated with the operation of such Client and extraordinary expenses.

D. Prepayment of Fees.

Please see responses to 5A above.

E. Additional Compensation and Conflicts of Interest.

Neither the Adviser, its Affiliates, nor any of their supervised persons accept compensation for the sale of securities or other investment products.

ITEM 6
PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

The Adviser's Affiliates receive performance-based compensation in the form of an incentive allocation or carried interest with respect to its Clients except for the Special Liquidity Vehicles which, for investors holding interests in such Special Liquidity Vehicles received upon redemption/withdrawal from other Clients, bear only a management fee.

In the allocation of investment opportunities, performance-based allocation arrangements may also create (i) an incentive to favor accounts with performance allocation arrangements over accounts that are not charged, or from which an adviser will not receive (*e.g.*, because the Private Fund is below the high water mark), a performance allocation; and (ii) an incentive to favor accounts from which an adviser will receive a greater performance allocation over accounts from which an adviser will receive a lesser performance allocation. The Adviser has adopted an allocation procedure designed to ensure that all Clients are treated fairly and equally and to prevent this form of conflict from influencing the allocation of investment opportunities among Clients. In accordance with the allocation procedures, the Adviser will endeavor to treat each Client in a fair and equitable manner.

ITEM 7
TYPES OF CLIENTS

The Clients to whom the Adviser and its Affiliates provide investment management services and advice to are the Private Funds.

The offering documents of each Private Fund may set minimum amounts for investment by prospective investors in such Private Funds. These minimum amounts may be waived by the Adviser or an Affiliate.

ITEM 8

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Methods of Analysis and Investment Strategies

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

Equity Relative Value: Equity relative value is a broad category encompassing long and short investments in equities and related instruments globally. Investment themes in this area include long or short positions based on fundamental analysis, event-driven positions such as mergers or spinoffs, and activist or legally intensive strategies. Although many of the underlying instruments are publicly listed, exchange-traded equities, the strategy also has included a wide variety of other instruments, such as private equities, debt, physical commodities and commodity futures, and royalty or milestone securitizations. In addition, the Adviser may invest in special purpose acquisition vehicles (SPACs) as part of its equity relative value strategy.

Convertibles: This strategy employs both fully credit- and equity-hedged volatility-driven positions as well as outright long credit and/or equity positions through convertible securities and related instruments. This strategy may also use credit derivatives, options, and straight debt as a complement or hedge to convertible positions. At times, including in recent years, this strategy has included unhedged or indirectly hedged positions in certain emerging markets.

Credit Relative Value: The credit relative value strategy takes both relative value positions (e.g., basis trades and capital structure arbitrage) as well as fundamental long/short positions in credit and related instruments. This strategy invests in both developed and emerging markets. Instruments traded include all types of debt, preferred and common stock, credit and equity derivatives and options on these instruments.

Structured Finance: Structured finance includes long and short strategies involving mortgage-backed and other asset-backed securities and related products, such as residential mortgage-backed securities, commercial mortgage-backed obligations, collateralized debt obligations, equipment trust certificates, student loan- and credit card-backed securities, and similar instruments. This strategy has historically made extensive use of credit derivatives.

Macro: This strategy consists of directional positions, typically in global currency and interest rate markets, based on macroeconomic analysis and models. Its classification as a stand-alone strategy reflects the Adviser's opinion that the post-financial crisis environment offers an unusually rich set of opportunities in this area. Instruments used include government bonds, government bond futures, non-U.S. dollar cash positions, interest rate and currency swaps, and related options.

Distressed: The distressed strategy consists mainly of long positions in instruments of companies undergoing restructuring, or, in many cases, bankruptcy or other judicial reorganization. Instruments include defaulted or distressed debt (*e.g.* bank loans, secured and unsecured bonds), equity, as well as unlisted instruments, such as trade claims. In addition to the inherent fundamental analysis component, investments within this area are often legally intensive and require estimation of the value of litigation or similar claims, including significant inter-creditor issues.

Closed-End Funds/Pooled-Investment Vehicles: A Client may, as part of its whole investment program, or as one of many strategies to its investment program, pursue a closed-end fund/pooled-investment vehicle strategy. The strategy generally involves the purchase of a closed-end fund or similar investment vehicle, including hedge funds, funds of hedge funds and private equity funds, at a discount to its estimated net asset value, the application of appropriate hedges, and a view or strategy towards narrowing or monetizing the discount. Although certain closed-end fund or pooled investment vehicle investments are composed of liquid underlying securities which can be directly hedged, it is also common for the underlying securities to be illiquid—for example, in the case of closed-end property, venture capital, private equity, funds of hedge funds or side pockets of hedge funds. The closed-end funds may be exchange-listed or private and are themselves frequently illiquid even if listed.

Portfolio-Level Hedges: Portfolio-level hedges aim to limit the exposure of the Clients to rapid, adverse changes in the market environment and to "tail risks". Historically, portfolio-level hedges have been concentrated in long protection positions in credit derivatives (principally liquid indices), but also included positions in currencies, equities, equity indices, and options on such instruments. The size and composition of such hedges has varied, and can be expected to continue to vary, significantly across time.

Other Strategies: Other, historically smaller, strategies include energy (trading principally in oil and natural gas futures), as well as private placements in a variety of instruments and sectors.

Hedging: While the Adviser aims to limit the Clients' exposure to general investment risks, neither individual trades nor the general portfolio is typically designed to be strictly neutral to these risks. Both individual trades and the overall portfolio will frequently have an intentional net long or, less frequently, net short exposure to the equity and credit markets. Furthermore, while hedging strategies can significantly reduce the Clients' exposure to general equity, interest rate, credit spread and exchange rate risk under ordinary market environments, the Adviser is of the opinion that such hedging techniques cannot be relied upon to protect the Clients' portfolio against rapid downward movements in global equity and credit markets, particularly when associated with market panics or crises or other scenarios involving significant

declines in market liquidity and spiraling risk aversion. In this sense, the Adviser believes that despite its hedging efforts, the portfolios of Clients are generally net long market risk and may display significant correlation with equity and credit market movements across periods of market stress even after experiencing the performance of its hedges. In implementing its hedges, the Adviser uses various interest rate, equity and currency instruments, including, but not limited to, individual stocks, stock-index futures and options, stock options, interest rate futures, swaps and options, individual sovereign and corporate bonds, foreign currency spot, forward and futures contracts and currency options, and volatility futures, swaps and options. As part of its hedging strategy, the Adviser may use one asset class to hedge another (e.g., credit protection to hedge equity risks).

The following risk factors do not purport to be a complete list or explanation of the risks relating to the Adviser's services. A complete list of risks relating to an investment in a particular Client is set forth in such Client's offering memorandum. The following risks are not listed in order of importance.

Risks Relating to Investment Strategies

The investment programs for each of the Clients involve a substantial degree of risk.

No Limits on Investment Instruments: There is no limit on the type of instrument or investment opportunity in which the Adviser may cause the Clients to invest. Such instruments and other investments may range from typical retail investment securities to far more exotic instruments and are expected to include some or all of the following: equities, including exchange-listed and unlisted private equities, and including, without limitation, common shares, preferred shares, voting or non-voting share classes, depository receipts, subscription rights, warrants, units, and other equity-related securities; funds, including closed-end funds, exchange-traded funds, open-end mutual funds, hedge funds, funds of hedge funds and private equity funds; bonds, notes and debentures (whether subordinated, convertible or otherwise); secured and unsecured loans (including bank debt); participations; accounts and notes receivable and payable held by trade or other creditors, trade acceptances, contract and other claims; executory contracts; structured products, including residential mortgage-backed obligations, commercial mortgage-backed obligations, collateralized debt obligations and other asset-backed securities, royalty streams, royalty or milestone securitizations, equipment lease certificates, equipment trust certificates, and catastrophe-linked securities; real estate, real estate-related or other physical assets, including, without limitation, companies that invest in mortgages or other interests in real estate, real estate-related or other physical assets; commodities, including, without limitation, commodity-related equities or funds, physical ownership, and forwards, swaps, options or other derivatives products (as described below) referencing commodity prices; currencies, including spot, forwards, swaps, options or other derivatives products (as described below) referencing currency prices; obligations of the United States or any state thereof, and foreign governments and instrumentalities of any of them; and derivative products, including, without limitation, futures contracts and options thereon, based on the price of any investment instrument, listed herein or otherwise, over-the-counter derivatives including swaps (including equity swaps, interest rate swaps, credit default swaps, index swaps, and total return swaps referencing any other type of investment instrument, listed herein

or otherwise), forwards, contracts for differences, repurchase and reverse repurchase agreements, options, swaptions, caps, collars, floors and forward rate agreements.

Risk of Securities Activities: All securities investing and trading activities risk the loss of capital. While the Adviser will attempt to moderate these risks through the Clients' investment programs and risk management techniques, there can be no assurance that the Clients' investment and trading activities will be successful or that the investors in the Clients will not suffer losses.

Convertible Securities: The Adviser, on behalf of its Clients, may invest in convertible securities, which are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. Convertible securities also typically pay or accrue interest or dividends until they mature, redeem, convert into common stock or default. Convertible securities in general (i) have higher yields than their underlying common stocks, but lower yields than comparable non-convertible securities; (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed income characteristics; and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases.

The value of a convertible security is a function of its "bond value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, changes in the creditworthiness of the issuer, and changes in the overall market risk premium. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the bond value, the price of the convertible security is governed principally by its bond value, and if the conversion value is much higher than the bond value, then the price of the convertible security will be governed principally by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed income security. Generally, this premium decreases as the convertible security approaches maturity. In some markets this premium can be negative, if it is not possible to hedge out the risk of the underlying stock, or the process of conversion takes a long period of time.

The potential risks of investing in convertible securities include: (i) a drop in the investment value caused by deterioration of the creditworthiness of the issuer, (ii) default in payment of interest or principal by the issuer, (iii) an unexpected increase of the dividend by issuer with respect to the underlying common stock, (iv) a loss of the ability to hedge the underlying common stock, (v) an unexpected termination of the conversion option due to a takeover of the issuer with respect to the underlying common stock and (vi) a failure of the issuer to deliver common stock upon receipt of a conversion notice.

Risks Associated with Below Investment-Grade Investments and Investments in High-Yield Securities: The Adviser, on behalf of its Clients, may invest in debt

securities and instruments, which may be unrated or below investment grade, including high-yield securities. Certain of these investments may be unrated, and whether or not rated, the debt instrument may have speculative characteristics. The issuers of such instruments may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. As a result (and as noted above), the market prices of such securities can be subject to abrupt and erratic market movements and changes in liquidity and above-average price volatility, and the spread between the bid and asked prices of such securities may be greater than those prevailing in other securities markets. Companies that issue such securities are often highly leveraged and may not have available to them more traditional methods of financing. It is possible that a major economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default of such securities. Finally, if the Adviser invests in bonds of issuers that do not have publicly-traded equity securities, it will be more difficult to hedge the risks associated with such investments.

Investments in Distressed Situations: The Adviser, on behalf of its Clients, may invest in securities and obligations of U.S. and non-U.S. issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems or extraordinary liabilities, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These securities are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments also may be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and a bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. There is no assurance that the Adviser will correctly evaluate the value of the assets underlying any distressed investment or the prospects for a successful reorganization or similar action.

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

Risks Associated with Bankruptcy Cases: Many of the events within a U.S. bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, a

debtor-in-possession in a U.S. bankruptcy case retains a significant degree of control over the proceedings and the operation of any continuing business. Furthermore, where there are multiple classes of creditors, there can be significant inter-creditor issues. Accordingly, there can be no assurance that a bankruptcy court will not approve actions that may be contrary to the interests of the claims held by the Clients. Generally, the duration of a bankruptcy case cannot be estimated with any degree of accuracy. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by multiple creditor classes and confirmation by the bankruptcy court. This process is subject to unpredictable and lengthy delays. Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

Debt Securities, Fixed Income Securities and Loans: The Adviser, on behalf of its Clients, may invest in debt securities, bonds or other fixed income securities of U.S. and non-U.S. issuers, including, without limitation, bonds, notes and debentures issued by corporations; debt securities issued or guaranteed by a sovereign government or one of its agencies or instrumentalities; bank debt; and commercial paper, some of which may have speculative characteristics. Debt and fixed income securities pay fixed, variable or floating rates of interest. The value of debt and fixed income securities in which the Clients invest will change in response to fluctuations in interest rates. In addition, the value of certain debt and fixed income securities and bank loans can fluctuate in response to perceptions of creditworthiness, political stability or soundness of economic policies. Debt and fixed income securities and bank loans are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (*e.g.*, credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (*e.g.*, market risk). A major economic recession could severely disrupt the market for most of these securities and may have an adverse impact on the value of such instruments.

Risks Associated with Catastrophe-Linked Securities and Derivatives Generally: Catastrophe-linked securities are privately placed fixed income or equity securities for which the return of principal and payment of interest or dividends are contingent on the non-occurrence of a specific natural peril event such as a hurricane, earthquake or other physical or weather-related phenomenon. Catastrophe-linked securities and derivatives often provide for an extension of maturity following the occurrence of an event to enable the insurer to process and audit loss claims where a trigger event has, or possibly has, occurred. Alternatively, the maturity could in certain circumstances be accelerated upon the occurrence of certain legal, regulatory, credit or structural events. An extension or acceleration of maturity may increase volatility. The market value of catastrophe-linked securities can be expected to fluctuate (i) in the event of a catastrophic event or (ii) reflecting market expectations of a catastrophic event that could potentially impact the Clients' investments. The occurrence of catastrophic events is inherently unpredictable. In addition, catastrophe-linked securities issued by a special purpose vehicle will be subject to risk of loss of principal resulting from

third-party investment decisions taken with respect to the cash posted as collateral to secure the special purpose vehicle's obligations to the ceding insurer or from credit exposure to swap counterparties.

Relative Value Strategies: The success of the Adviser's relative value strategies depends on market values converging towards the theoretical values determined by the Adviser's valuation models. In the event that the perceived mispricings underlying the Clients' positions were to fail to converge toward or were to diverge further from expected relationships, the Adviser may incur a loss. In the event of market disruptions, significant losses can be incurred which may force the Adviser to close out one or more positions. Such disruptions have in the past resulted in substantial losses for funds employing relative value strategies. Furthermore, the valuation models used to determine whether a position is mispriced may be incorrect or may become outdated and inaccurate as market conditions change. The Adviser's relative value investment strategy may result in high portfolio turnover and, consequently, high transaction costs.

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

Small and Medium Capitalization Companies: The Adviser, on behalf of its Clients, may invest a portion of its assets in the securities of companies with small- to medium-sized market capitalizations. While such companies may provide significant potential for appreciation, those stocks, particularly small-capitalization stocks, involve higher risks in some respects than do investments in securities of larger companies. For example, prices of small-capitalization and even medium-capitalization securities are often more volatile than prices of large-capitalization securities and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) is higher than for larger "blue-chip" companies. In addition, due to thin trading in the securities of some small-capitalization companies, an investment in those companies may be illiquid. Additionally, small- and medium-capitalization companies may have poorer access to capital market (financing risks), shorter operating histories and/or less proven or capable management teams.

Commodity Interests Trading: Price movements for commodity interests are influenced by, among other things: changing supply and demand relationships; weather; agricultural, trade, fiscal, monetary, and exchange control programs and policies of governments; political and economic events and policies; changes in

national and international interest rates and rates of inflation; currency devaluations and re-valuations; and emotions of the marketplace.

The risk of loss in trading commodities can be substantial. If the Adviser, on behalf of its Clients, purchases a commodity option, it may sustain a total loss of the premium and of all transaction costs. If the Adviser, on behalf of its Clients, purchases or sells a commodity futures contract or sells a commodity option, it may sustain a total loss of the initial margin funds and any additional funds that it deposits with its broker to establish or maintain its position. If the market moves against its position, the Clients may be called upon by their broker to deposit a substantial amount of additional margin funds, on short notice, in order to maintain its position. If it does not provide the requested funds within the prescribed time, its position may be liquidated at a loss, and it will be liable for any resulting deficit in its account.

Trading Cash Commodities: The Adviser, on behalf of its Clients, may from time to time trade physical or cash commodities for immediate or deferred delivery. Cash transactions relate to the purchase and sale of specific physical commodities and such contracts may differ from each other with respect to terms such as quantity, grade, mode of shipment, terms of payment, penalties and risk of loss. There is no limit on daily price movements of cash commodities and banks, brokerage firms and dealers in cash commodities are not required to continue to make markets in any commodity. Lastly, the CFTC does not comprehensively regulate cash transactions, which are subject to the risk of the foregoing entities' failure, inability or refusal to perform with respect to such contract.

Risks of Investments in Metals and Mining Companies: The Adviser, on behalf of its Clients, may invest a portion of its portfolio in metals and securities and other instruments of companies in the metals and mining industry. The investments in the metals and mining industry will be subject to the risks inherent to the mining industry including, but not limited to: fluctuations in the global demand and prices of metals; lack of management and operational personnel with appropriate expertise to design and operate mines; limitations in the availability of key mining equipment, services, and/or personnel; the risk that technology employed in mining or processing mineral ores will not be effective, efficient, or economic; loss of necessary permits, leases or licenses; changes in government regulation; changes in tax or royalty policy; environmental liability; loss of title; unforeseen geological, physical or meteorological conditions; natural disasters; injury or death of personnel; insufficient insurance coverage for all potential losses, liability and damages related to the company's mines; and labor or industrial disputes. In addition to general metals and mining risks, certain portfolio companies may have limited operating histories and/or be engaged in the development of new mineral properties. The construction and operation of new mines is subject to additional risks including, but not limited to: failure to complete and commission the mine facilities, processing plants and any necessary support infrastructure on time and within budget; inability to obtain additional financing, if required, on commercially suitable terms; and inability to obtain necessary permits or licenses for construction or operation of the new mine. The prices of metals are highly volatile and may fluctuate as a result of factors including: global supply and demand, investors' expectations with respect to the rate of inflation, currency exchange rates, interest rates, investment and trading activities of hedge funds and commodity funds, and global or regional political, economic or financial events and

situations. The metals and mining industry is subject to comprehensive Federal, state and local laws and regulations including environmental, health and safety, taxation, land access and other regulations. Present, as well as future, statutes and regulations could cause additional expenditures, restrictions and delays that could materially and adversely affect the prospects of the Clients. Certain metals, such as uranium, are deemed strategic in nature by governments. These metals and the securities of companies that mine or process them may be subject to substantial ownership, use, and transfer restrictions. Changes in such regulations may preclude the resale or eliminate the market for these metals or securities or otherwise result in a loss of value. In addition, estimates of mineral reserves or resources by qualified engineers are often a key factor in valuing certain mining companies. These estimates are subject to wide variances based on changes in commodity prices and certain technical assumptions. Accordingly, it is possible for such reserve estimates to be significantly revised from time to time, creating significant changes in the value of the company owning such reserves or resources.

Risks of Investments in Physical Assets and Energy and Agricultural Commodities: The Adviser, on behalf of its Clients, may invest and deal in physical assets such as oil, gas, electric power, transmission facilities and power plants. These investments are subject to risks—destruction, loss, industry-specific regulation (*e.g.*, pollution control regulation), operating failures, labor relations, etc.—that are not typically directly applicable to financial instrument trading. In addition, the regulation of such assets is extensive and variable, and the Clients' commitment to certain of such assets (*e.g.*, if the Adviser, on behalf of its Clients, were to invest in a power plant) could be wholly illiquid for long periods of time. Energy and agricultural commodity trading is a speculative activity. Prices are affected by factors such as global supply and demand, investors' expectations with respect to the rate of inflation, currency exchange rates, interest rates, investment and trading activities of hedge funds and commodity funds, and global or regional political, economic or financial events and situations. Markets can be volatile at times, and there may be sharp fluctuations in prices even during periods of rising prices.

Investments in Other Investment Vehicles, and Joint Ventures and Co-Investments: The Adviser, on behalf of its Clients, may invest a portion of its portfolio in pooled investment vehicles (*e.g.*, hedge funds, funds of hedge funds, private equity funds and closed-end funds) or private investment vehicles managed by third-party managers for the exclusive benefit of the Clients, invest capital with unaffiliated advisors or managers, and make direct investments in operating entities as to which the Clients are limited in their ability to exercise day-to-day management control where the Adviser or its Affiliates determine that such arrangements complement the Adviser's expertise and/or enhance the Adviser's ability to access specific investment opportunities, or enter into joint venture, co-investment and other agreements with other parties holding (or agreeing to purchase) the same investments as the Clients for purposes of collectively pursuing a particular strategy (each such partner, a "Strategic Partner"). Under such agreements, the Strategic Partner may take a lead role in implementing such joint strategies and, as a result, be compensated through fees and/or a profit participation. To the extent such investments or agreements are made, the Clients will bear their *pro rata* share of the investment management fees, incentive fees or allocations, other fees and/or expenses charged to the Clients by the manager of each such investment vehicle or Strategic Partner, in

addition to the management fee and incentive allocation. As a result, the Clients will bear multiple fees and allocations which, in the aggregate, will exceed the fees and allocations that would typically be incurred if the investment in such pooled or private investment vehicles were made directly and not through such vehicles. In addition, since such pooled and private investment vehicles invest independently of one another, they may, at times, hold economically offsetting positions or concentrate in certain positions. These investments involve the Clients relying on the performance of third-parties, thereby increasing the risk of manager misconduct or bad judgment, as well as limiting the Adviser's control over, and knowledge of, the Clients' overall portfolios. The Clients may not be able to withdraw capital from a Strategic Partner, even in situations where such Strategic Partner is deviating from announced strategies or risk control policies and the Clients may not have knowledge of such deviations. In selecting Strategic Partners, the Adviser relies on a variety of both quantitative as well as qualitative factors, as well as the subjective judgment of its personnel.

Investments in Special Purpose Acquisition Companies: The Adviser, on behalf of its Clients, may invest a portion of its portfolio in special purpose acquisition companies (each, a "SPAC"). A SPAC is a publicly-traded company formed for the purpose of raising capital through an initial public offering to fund the acquisition, through a merger, capital stock exchange, asset acquisition or other similar business combination, of one or more undervalued operating businesses. Following the acquisition of a target company, a SPAC typically would exercise control over the management of such target company in an effort to increase the value of such target company. Capital raised through the initial public offering of securities of a SPAC is typically placed into a trust until the target company is acquired or a predetermined period of time elapses. Investors in a SPAC would receive a return on their investment in the event that a target company is acquired and such target company's value increased. In the event that a SPAC is unable to locate and acquire target companies by the deadline, the SPAC would be forced to liquidate its assets, which may result in losses due to the expenses and liabilities of the SPAC. Investors in a SPAC are subject to the risk that, among other things, (i) such SPAC may not be able to locate or acquire target companies by the deadline, (ii) assets in the trust may be subject to third-party claims against such SPAC, which may reduce the per share liquidation price received by the investors in the SPAC, (iii) such SPAC may be exempt from the rules promulgated by the SEC to protect investors in "blank check" companies, such as Rule 419 promulgated under the Securities Act of 1933, as amended (the "Securities Act"), so that investors in such SPAC may not be afforded the benefits or protections of those rules, (iv) such SPAC may only be able to complete one business combination, which may cause it to be solely dependent on a single business, (v) the value of any target company may decrease following its acquisition by such SPAC, (vi) the value of the funds invested and held in the trust decline, (vii) the inability to redeem due to the failure to hold the securities in the SPAC on the record date or the failure to vote against the acquisition and (viii) if the SPAC is unable to consummate a business combination, public stockholders will be forced to wait until the deadline before liquidating distributions are made. In addition, most SPACs are illiquid and have a concentrated shareholder base that tends to be comprised of hedge funds (at least at inception). The Adviser, on behalf of its Clients may invest in a SPAC that, at the time of investment, has not selected or approached any prospective target businesses with respect to a business combination. In such circumstances, there may be limited basis for the Adviser to evaluate the

possible merits or risks of such SPAC's investment in any particular target business. To the extent that a SPAC completes a business combination, it may be affected by numerous risks inherent in the business operations of the acquired company or companies. For these and additional reasons, investments in SPACs are speculative and involve a high degree of risk.

General Real Estate Risks: The Adviser's investments in real estate on behalf of its Clients generally will be subject to the risks incident to the ownership and operation of commercial real estate and/or risks incident to the making of nonrecourse mortgage loans secured by real estate, including: (i) risks associated with both the domestic and international general economic climate; (ii) local real estate conditions; (iii) risks due to dependence on cash flow; (iv) risks and operating problems arising out of the presence of certain construction materials; (v) changes in supply of, or demand for, competing properties in an area (as a result, for instance, of over-building); (vi) the financial condition of tenants, buyers and sellers of properties; (vii) changes in availability of debt financing; (viii) energy and supply shortages; (ix) changes in tax, real estate, environmental and zoning laws and regulations; (x) various uninsured or uninsurable risks; (xi) natural disasters; and (xii) the ability of the Clients or third-party operators or borrowers to manage the real properties. With respect to investments in the form of real property owned by the Clients, the Clients will incur the burdens of ownership of real property, which include the paying of expenses and taxes, maintaining such property and any improvements thereon, and ultimately disposing of such property. With respect to investments in equity or debt securities, the Clients will in large part be dependent on the ability of third parties to operate successfully the underlying real estate assets. In addition, the Adviser, on behalf of its Clients, may invest in mortgage loans that are structured so that all or a substantial portion of the principal will not be paid until maturity, which increases the risk of default at that time. The investment strategy of the Adviser, which may involve the acquisition of distressed or underperforming assets in a leveraged capital structure, will involve a high degree of legal and financial risk. There can be no assurance that the Clients' investment objective will be realized or that there will be any return of capital. There is no assurance that there will be a ready market for resale of investments because investments in real estate generally are not liquid. Illiquidity may result from the absence of an established market for the investments, as well as legal or contractual restrictions on their resale. The possibility of partial or total loss of capital will exist and investors should not subscribe unless they can readily bear the consequences of such loss.

Investments in Debt Secured by or Related to Real Estate: The Adviser, on behalf of its Clients, may acquire performing, subperforming or nonperforming debt interests which are secured by real estate. The Adviser, on behalf of its Clients, may also acquire unsecured debt interests that are issued by real estate companies, REITs or that pertain to the owners of the underlying real estate. In addition to the risks of borrower default, the collateral may be mismanaged or otherwise decline in value during periods in which the Adviser is seeking to obtain control of the underlying real estate. In addition, borrowers may contest enforcement of foreclosure or other remedies, seek bankruptcy protection against such enforcement and/or bring claims for lender liability in response to actions to enforce mortgage obligations. If any of the above occurred, the Clients' ability to make distributions to investors could be delayed or otherwise adversely affected. Moreover, because the Adviser will attempt

to obtain contractual rights to participate in or substantially to influence the management of properties by borrowers, the likelihood is increased that a borrower may claim that the Clients interfered with the borrower's business, acted in bad faith in exercising their management rights or otherwise acted in a manner giving rise to a claim for lender liability. As lenders, the Clients may also be subject to penalties for violations of state usury limitations, which penalties may be triggered by contracting for, charging or receiving usurious interest. A certain portion of the Adviser's real estate-related debt investments, may not be rated by any nationally-recognized rating agency. Generally, the value of such unrated classes is more subject to fluctuation due to economic conditions than rated classes. Overall credit quality may move up or down frequently within this category. The Clients' acquisition of credit support classes of securitizations (which generally are expected to be first loss classes) which are unrated at the time of acquisition and which have lower ratings incrementally increase the risk of nonpayment or of a significant delay in payments on these classes. Should assets be downgraded, it may adversely affect their value and may adversely affect the value of the Clients. The Adviser, on behalf of its Clients, may also take short positions in these types of securities through derivative contracts.

Risks of Investments in Energy-Related Industries: The Adviser, on behalf of its Clients, may invest in the securities or other instruments of companies operating in energy-related industries including: exploration and production of oil and natural gas; oil services; transportation of energy commodities by pipeline, shipping or other method; generation of electricity from fossil fuels, nuclear energy, renewable sources, or solar energy; design and manufacture of technology for the generation of solar power; transportation and distribution of electricity; and petroleum refining. The Adviser, on behalf of its Clients, may also trade in electricity, natural gas, oil, coal, emissions and related derivative instruments, including options, futures, forwards and swaps. Energy-related industries are inherently uncertain, volatile, very complex and multi-faceted, and require the possession of esoteric knowledge. Due to the depleting nature of most sources of energy and the finite lifespan of equipment used to extract, transport, and process energy, energy-related industries consistently require new capital. Underlying energy commodity markets are sensitive to fluctuations in global and regional economic growth, fuel supply and demand, interest rates, currency exchange rates, investment and trading activities of hedge funds and commodity funds, special risks of constructing and operating facilities (including nuclear facilities), lack of control over pricing, merger and acquisition activity, and regulation. Fluctuations in the prices of energy commodities impact the financial results of companies operating in energy-related industries and hence the value of their securities. Investments in companies operating in energy-related industries are subject to the risks of those industries, not all of which can presently be foreseen or quantified. Examples of such risks may include, but are not limited to: (i) the risk that technology employed in an energy project will not be effective or efficient; (ii) uncertainty about the availability or efficacy of energy sales agreements or fuel supply agreements that may be entered into in connection with a project; (iii) risks that regulations affecting the energy industry will change in a manner detrimental to the industry; (iv) environmental liability risks related to energy properties and projects; (v) risks of equipment failures, fuel interruptions, loss of sale and supply contracts or fuel contracts, decreases or escalations in power contract or fuel contract prices, bankruptcy of key customers or suppliers, tort liabilities in excess of insurance coverage, inability to obtain desirable amounts of insurance at economic rates, acts of

God and other catastrophes; (vi) uncertainty about the extent, quality and availability of oil and gas reserves; (vii) risks that interest rate increases may make project financing more difficult to obtain, or impair the cash flow of projects that are leveraged; (viii) political, social and economic uncertainties affecting energy producing regions and countries; (ix) weather conditions; (x) changes in the competitive position of any particular source of energy as compared with other energy sources; (xi) the refining capacity of oil purchasers; and (xii) the risk of change in tax or royalty policy. The occurrence of events related to the foregoing could have a material adverse effect on the Clients and their investments. The energy industry is subject to comprehensive Federal, state and local laws and regulations including environmental, health and safety, taxation, land access and other regulations. Present, as well as future, statutes and regulations could cause additional expenditures, restrictions and delays that could materially and adversely affect the prospects of the Clients. In addition, estimates of hydrocarbon reserves by qualified engineers are often a key factor in valuing certain energy companies. These estimates are subject to wide variances based on changes in commodity prices and certain technical assumptions. Accordingly, it is possible for such reserve estimates to be significantly revised from time to time, creating significant changes in the value of the company owning such reserves.

Over-the-Counter Energy Transactions: The Adviser, on behalf of its Clients, invests in energy-based financial instruments, including, without limitation, exchange-traded and over-the-counter derivatives contracts such as futures, options, swaps and forwards, which have energy commodities (such as petroleum products, natural gas and electric power) as their reference asset. Certain of these markets are in developmental stages and may expose the Clients to unusually volatile returns and illiquidity. Energy-based derivatives have the same risks associated with them as other energy-related transactions and derivative financial instruments, including a high degree of leverage, deviations between the theoretical and realizable value of the reference commodity and the derivative and imperfections in dealer pricing. The energy markets in which the Clients will invest can experience periods of illiquidity, and the Adviser, on behalf of its Clients, may choose to invest in joint ventures, private companies, physical assets (*e.g.*, tankers, rigs, transmission lines, oil storage facilities and oil and gas producing properties) as well as a variety of other ventures and investments. The foregoing investments may be illiquid and may not have a readily-ascertainable market value.

Storage of Physical Commodities: The Adviser, on behalf of its Clients, may from time to time take physical delivery of commodities and store them for future sale. In such cases the Clients will make use of commercial storage facilities appropriate to the particular physical commodity in question. Commodities held in storage are subject to a risk of loss in the event of bankruptcy of the storage facility, or physical damage to the storage facility and its contents. Physical loss of stored commodities may be the result of insurable or uninsurable risks. The Adviser may choose not to purchase insurance for insurable risks based on its assessment of the cost of the insurance compared to the risks insured. Even if the physical commodities owned by the Clients are insured, certain events such as terrorist attacks or extreme weather events may not be covered by such insurance.

Risks of Investments in Emissions and Carbon Credits: Trading of emissions credits (including carbon credits) is a speculative activity. Emissions trading programs are created by state and Federal law, such as the Clean Air Act, Federal regulations, such as the Clean Air Interstate Rule, or international treaties, such as the Kyoto Treaty. In the past, substantial changes in the prices of emissions have resulted from changes in the regulations governing such trading programs. Emissions prices may be affected by any future modifications to the regulations governing emissions trading programs. The decision of state or national governments to opt in or out of existing regional, national or international emissions trading programs may result in substantial changes in the prices of emissions credits. Emissions credits are at risk of total loss of value in the case of termination of the governing trading program. Emissions prices are also affected by factors such as supply and demand, investors' expectations with respect to the rate of inflation, currency exchange rates, interest rates, prices of other commodities, investment and trading activities of hedge funds, utilities, energy merchants, industrial producers and commodity funds, and global or regional political, economic or financial events and situations. Markets can be volatile at times, and there may be sharp fluctuations in prices even during periods of rising prices.

Risk of Investing in the Life Sciences Sector: The Adviser, on behalf of its Clients, may invest in companies involved in the life sciences industry, including biotechnology companies whose ultimate success or failure often depends heavily on unproven technologies and/or highly risky drug development candidates. While investments in securities and other instruments of life sciences companies offer the opportunity for significant capital gains, these investments involve substantial risks, including but not limited to the following risks:

Regulatory Risk: Life sciences companies are subject to significant government regulation, including the requirement for government approval of their products and services. Attainment of such government approval is often a lengthy, expensive and uncertain process, and its outcome could have a material impact on the potential commercial opportunity or availability of these companies' products.

Technological Risk: The development of life sciences technologies, including drug discovery and development, is a highly risky business in which the majority of product candidates fail to reach the market due to safety concerns, lack of efficacy, or other concerns. Consequently, companies in this sector are subject to significant technological risks that may result in the discontinuation of the development or commercialization of their products. Moreover, even if successful, the types of products or services produced or provided by these companies may quickly become obsolete as a result of innovation or new discoveries.

Reimbursement Risk: Reimbursement for life sciences products or services is highly complicated and subject to many uncertainties, including but not limited to the potential impact of healthcare reform legislation in the U.S. and other countries. Life sciences companies rely on reimbursement for their products from third-party payers, including public insurers such as Medicare and Medicaid as well as private insurers. If these third-party payers do not

adequately reimburse companies, patients and physicians, the commercial potential of these companies' products or services may be limited.

Financial Risk: Developing product candidates, conducting clinical trials, and commercializing products is expensive and typically requires significant capital investment. Life sciences companies such as biotechnology companies may be unable to raise sufficient funds during periods of capital illiquidity or may be forced to do so at prices that result in significant dilution to existing investors.

Business Risk: Many life sciences companies rely on third-parties or corporate partners for funding and assistance with the operation of certain aspects of their businesses, such as the manufacturing of drug product and the conduct of clinical trials, which may result in material delays or quality deficiencies in product development programs. Furthermore, if terminated, these relationships may have an adverse impact on the development and commercialization of these companies' product candidates.

Additional risks include, but are not limited to the possibility of lawsuits related to patents or products, the emergence of new competitors in the marketplace, pricing pressure resulting from the entry of generic products, changes in government policies (including healthcare reform), and changing investor sentiments and preferences with regard to life sciences sector investments (some of which are generally perceived as risky).

These risks and/or other risks may have an adverse effect on the prices of underlying securities. Volatility in the prices of securities in this sector may cause the performance of the Clients to experience substantial volatility, including adverse performance. Investing in this sector often requires specific scientific, medical, or technical knowledge which the Adviser may or may not have.

Illiquid Investments; Investments in Unlisted Securities/Private Companies: The Adviser, on behalf of its Clients, may invest in illiquid investments, including both public and private investments (such as unlisted securities of U.S. and non-U.S. companies and private companies on a global basis, including companies located in emerging markets), and may acquire assets or securities that the Adviser believes either lack a readily assessable market value or should be held until the resolution of a special event or circumstance. Additionally, investments may become illiquid due to market conditions, given the relative size of the investment. The success of these investments is typically dependent not only upon the successful management of such companies, but also upon the Adviser's ability to engineer effective "exit strategies" in order to realize any enterprise value created or to force the companies to create liquidity opportunities. Such investments may consume a substantial amount of the Adviser's time. The market prices, if any, for such securities tend to be volatile and may not be readily ascertainable, and the Adviser or its Affiliates may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and/or illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over the counter markets. The Adviser may not be able

to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. Although these securities may be resold in privately negotiated transactions, restricted or otherwise illiquid securities may sell at a price lower than similar securities that are not subject to restrictions on resale. In addition, the limited liquidity of these investments may subject them to more extensive fluctuations in value and may impair the ability of the Adviser to exit such investments in times of adversity. Further, companies whose securities are not publicly-traded will generally not be subject to public disclosure and other investor protection requirements applicable to publicly-traded securities. Such unlisted and private securities may also be difficult to value and such valuation may require the exercise of substantial discretion by the Adviser or its Affiliates.

Illiquid Investments Concentration: The Adviser, on behalf of its Clients, may hold illiquid investments, both long and short, which may be concentrated in certain industries and/or among certain investment types, including energy (e.g., oil and gas and energy equipment and services), life sciences (e.g., biotechnology and pharmaceuticals), finance (e.g., banks, insurers, and real estate), materials (e.g., chemicals, metals, and mining), funds (e.g., closed-end, hedge fund, funds of fund and private equity fund interests) and commercial mortgage-backed securities. Some of these illiquid investments may be concentrated in emerging markets.

Risk of Clawback With Respect to Investments: The Adviser, on behalf of its Clients, may make investments in certain illiquid instruments (such as investments in other hedge funds or private equity funds) that are, or may be, subject to ongoing litigation, other dispute resolution processes or bankruptcy proceedings, or have as part of their organizational documents a right to clawback distributions previously made to investors, all of which could result in all or part of the Clients' investment in such investments being clawed back under certain circumstances. Although the Adviser considers clawback risk when making investments, it may not be able to accurately predict the likelihood or size of such risk. Accordingly, if a clawback is imposed on a Client in respect of such an investment, investors in such Client as of the time of such clawback will bear such loss even if such investors were not limited partners or shareholders at the time of the initial investment.

Use of Leverage: The Adviser may use leverage in managing Clients' portfolios. It is expected the Clients will, in the sole discretion of the Adviser, lever their investment positions by borrowing funds from securities broker-dealers, banks or others. The Adviser, on behalf of its Clients, may also use leverage by engaging in futures transactions, swaps, options and short sales. Such leverage increases both the possibilities for profit and the risk of loss and the volatility of the Clients' portfolios. The use of leverage increases the possibility that a systematic underperformance of assets versus their hedges in the markets in which the Adviser invests will result in material, perhaps even total, losses. Borrowings (and in some cases guarantees of performance of the Clients' obligations) will usually be from (or, in the case of guarantees, by) securities brokers, dealers or banks, are typically in the absence of specific agreements repayable on demand, and will typically be secured by the Clients' securities and other assets. Margin requirements, in the absence of specific agreements, are generally subject to change or revocation by the lender upon very limited notice and for any or no reason. Under such circumstances, such lender may

demand an increase in the collateral, including requiring collateral equal to the full amount of the borrowings (e.g., completely revoking marginability), that secures the Clients' obligations and if a Client were unable to provide additional collateral, the broker-dealer could liquidate assets held in the account to satisfy the Client's obligations to the broker-dealer. Liquidation in that manner could have extremely adverse consequences. Any such adverse effects may be exacerbated in the event that such changes or revocations are imposed suddenly and/or by multiple market participants. In addition, the amount of a Client's borrowings and the interest rates on those borrowings, which will fluctuate, may have a significant effect on such Client's profitability. In order to manage the risks of short-term margin, the Adviser seeks to enter into term margin lock agreements that provide fixed margin and pricing terms with respect to leverage for a fixed period (generally less than one year). Over-the-counter derivative transactions are governed by ISDA master agreements (the "ISDAs") which generally provide for fixed initial and variable margin for existing transactions. Lock-up term agreements, ISDAs and other credit arrangements entered into by the Clients generally contain net asset value termination events that allow the prime broker, counterparty or other credit provider, as the case may be, the right to amend immediately otherwise fixed margin and pricing terms, to terminate the ISDA or declare a default under a credit arrangement (each a "net asset value trigger"). Such net asset value triggers may be calculated on a monthly, quarterly, year-to-date or annual basis. To the extent that a prime broker, counterparty or other credit provider elects immediately to amend margin and pricing terms, terminate an ISDA or declare a default under a credit agreement as a result of a Client breaching a net asset value trigger, such action may limit the amount of available leverage, or affect the cost of leverage, on a going forward basis and will generally permit the counterparty to close out such Client's positions under the relevant agreement at prices determined by the counterparty and setoff other amounts owed by the counterparty which will likely result in substantial losses to such Client. A termination of an ISDA or a declaration of default under a credit agreement by a counterparty may also permit other counterparties to exercise similar rights against a Client under the cross-acceleration provisions of other financing agreements. The Adviser believes that lending counterparties may attempt to increase margin levels, especially in market stress conditions or stress specific to each Client. The Clients may elect to comply with these requests (even if not obligated to do so under the relevant agreements with lenders) if the Adviser believes that complying with such requests would be in the best interest of the Clients. Whether or not the Clients in fact comply with the lenders' requests, the Adviser expects that a broad-based increase in margin among hedge funds generally is likely to have an adverse impact on the market values of the investments held by the Clients, because a reduction in available leverage for hedge funds will decrease demand and increase supply of the relevant investments. The Adviser also may use leverage in managing the Clients' portfolios with substantially the same risks as described above.

Hedging Transactions: The Adviser may utilize a variety of financial instruments, such as derivatives, options, interest rate swaps, caps and floors, futures and forward contracts, both for investment purposes and for risk management purposes. However, the Adviser is not obligated to, and may elect not to, hedge against risks. While the Adviser may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Clients than if it had not engaged in any such hedging transaction. Moreover, it should be noted that the portfolio will

always be exposed to certain risks that cannot be hedged, such as credit risk of certain issuers (relating both to particular securities and counterparties), as well as risks to which the Adviser chooses to expose the Clients as part of its investment strategies.

Trading in Options: The Adviser, on behalf of its Clients, may buy or sell ("write") options on securities, currencies and commodities on national and international commodities and securities exchanges and in the domestic and international over-the-counter market. The seller ("writer") of a put option that is covered (*e.g.*, the writer has a short position in the underlying security, currency or commodity) assumes the risk of an increase in the market price of the underlying security, currency or commodity above the sales price (in establishing the short position) of the underlying security, currency or commodity, less the premium received, and gives up the opportunity for gain on the underlying security, currency or commodity below the exercise price of the option. If the seller of the put option owns a put option covering an equivalent number of shares with an exercise price equal to or greater than the exercise price of the put written, the position is "fully hedged" if the option owned expires at the same time or later than the option written. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security, currency or commodity below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option. If the buyer of the put holds the underlying security, currency or commodity, the loss on the put will be offset, in whole or in part, by any gain on the underlying security, currency or commodity.

The writer of a call option that is covered (*e.g.*, the writer holds the underlying security, currency or commodity) retains the risk of a decline in the market price of the underlying security, currency or commodity below the value of the underlying security, currency or commodity less the premium received, and gives up the opportunity for gain on the underlying security, currency or commodity above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security, currency or commodity above the exercise price of the option. The buyer of a call option assumes the risk of losing its entire investment in the call option. If the buyer of the call sells short the underlying security, currency or commodity, the loss on the call will be offset, in whole or in part, by any gain on the short sale of the underlying security, currency or commodity.

Highly Volatile Instruments: The prices of securities and derivative instruments, including options, are highly volatile. Price movements of securities, forward contracts and other derivative contracts in which the Clients' assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies and financial instrument options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of interest rate fluctuations, among other things. The Clients are also subject to the risk of the failure of any of the exchanges on which their positions trade or of the clearing houses through which their positions clear.

Swap Agreements: The Adviser, on behalf of its Clients, 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. Depending on their structure, swap agreements may increase or decrease the Clients' exposure to long-term or short-term interest rates (in the United States or abroad), foreign currency values, corporate borrowing rates, commodity prices, or other factors such as security prices, baskets of equity securities or inflation rates. Swaps may also be used to obtain leverage. In connection with swap agreements, cash or securities may be posted to or received from the swap counterparty in accordance with the terms of the swap agreement. The Clients earn or pay interest on cash posted or received as collateral. Cash posted as collateral is required to be returned by the counterparty and is classified as restricted in terms of use and marketability. Cash received as collateral is required to be returned to the counterparty. Although classified as restricted, cash held as collateral is not held separately and may be used by the holder in its normal operations. Swap agreements can take many different forms and are known by a variety of names. A Client is not limited to any particular form of swap agreement if consistent with such Client's investment objective and policies.

Credit Default Swaps: The Adviser, on behalf of its Clients, may invest in credit default swaps ("CDSs"). Generally, CDSs are contracts where one party (the buyer of protection), pays a premium, to another party (the seller of protection) until the earlier of an agreed maturity or the date of a credit event(s). If a credit event occurs, the seller of protection is obligated to remit to the buyer of protection a certain payout. Credit events may include a ratings downgrade of the reference obligation below certain specified ratings levels, a writedown (including an implied writedown) of the reference obligation, a failure by the reference company to pay principal or interest with respect to the reference obligation, a restructuring of the final maturity date of the reference obligation, or an acceleration of the reference obligation so that it is due prior to its stated maturity date, among others. CDSs can be used to hedge a portion of the default risk on a single corporate bond or a portfolio of bonds. In addition, CDSs can be used to implement the Adviser's view that a particular credit, or group of credits, will experience credit improvement. In the case of expected credit improvement, the Adviser, on behalf of its Clients, may sell credit default protection in which it receives spread income. The Adviser, on behalf of its Clients, may also buy credit default protection even in the case in which it does not own the referenced instrument if, in the judgment of the Adviser, there is a likelihood of credit deterioration. The Adviser may also use credit default swaps to hedge bond positions. CDSs are priced incorporating many variables including the pricing of debt of the company, and potential loss realized on the debt upon default, among other factors.

Financial Instruments with Off-Balance Sheet Risk: The Adviser's investment activities expose its Clients to various types of risk, both on- and off-balance sheet, that are associated with the financial instruments and markets in which it invests. These financial instruments expose the Clients in varying degrees to elements of credit, market, interest rate and currency risks. In the normal course of business, the Clients hold various derivative instruments, including futures contracts, credit default swaps, options, forward contracts, asset swaps, total return swaps, interest rate swaps and contracts for difference, that are carried at market or fair value. Generally, these financial instruments represent future commitments to purchase, sell or exchange other financial instruments on specific terms at specified future dates.

No Formal Diversification Policies: Although diversification is an integral part of the Adviser's overall portfolio risk management process, the Adviser is not restricted as to the percentage of each Client's assets that may be invested in any particular issuer, industry, instrument, market or strategy. The Clients do not and will not maintain any fixed requirements for diversifying its portfolio among issuers, industries, instruments, markets, sectors or strategies. In attempting to maximize each Client's returns, the Adviser may concentrate the holdings of each Client in those industries, companies, instruments or markets that, in the sole judgment of the Adviser, provide the best profit opportunities consistent with the Client's investment objective. Consequently, a loss in any such concentrated position could ultimately result in significant losses to each Client and a proportionately higher reduction in the net asset value of the Client than if its capital had been spread over a wide number of positions.

Custody, Counterparty and Prime Brokerage Risk: Some of the markets in which the Adviser, on behalf of its Clients, may effect its transactions are "over-the-counter" or "interdealer" markets. The transactions in such markets are typically not subject to credit enhancements and regulatory oversight as are transactions of "exchange-based" or "centrally cleared" markets. This exposes the Clients to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Clients to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Adviser, on behalf of its Clients, have concentrated its transactions with a single or small group of counterparties. The Adviser, on behalf of its Clients, is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty.

There are risks involved in dealing with custodians (and/or their unaffiliated sub-custodians), counterparties or prime brokers that execute and settle trades or certain transactions where the Clients' assets are pledged as collateral for example for leverage or as part of stock loan transactions. Exposure to the failure of a custodian (or its unaffiliated sub-custodians), counterparty or prime broker's credit may include: (i) the loss of initial margin in credit default swaps, total return swaps and other derivatives facing the custodian, counterparty or prime broker; (ii) the loss of equity in positions held under margin with prime brokers and repo counterparties; (iii) the loss of assets held in custody or the delay in returning assets that in each case may prevent the Clients from selling the assets, (iv) "replacement risk," the amount of money that may be lost, or lost opportunity to profit, because a position is terminated as a result of the failure of the custodian (or its unaffiliated sub-custodians), counterparty or prime broker's credit and can be replaced only at a higher cost; and (v) "refinancing risk" as the Clients are unable to finance or refinance certain positions on the same leverage terms and may be forced to liquidate all or a portion of their portfolio during a constrained time period.

Upon a counterparty failure, the Clients may not receive full payment under derivative or similar contracts. The Clients may make claims for any losses and could receive a payment in due course, although it is likely that the amounts received would be substantially less than the amounts claimed and could take considerable time. The Clients may incur additional costs (or lost opportunity to profit) to replace positions

lost due to the counterparty failure or to unwind positions that the relevant derivative was hedging. Should a custodian (or its unaffiliated sub-custodians), counterparty or prime broker fail, assets held on behalf of a Client may not be returned or may be returned only in part. There may be a substantial delay during which it will be unclear which assets, if any, will be delivered to the Client. This uncertainty may affect trading and expose the Client to further loss. A failure of a significant market participant, or even concerns about a default by such institution, could lead to significant liquidity problems, losses or defaults by other institutions, which in turn could adversely affect the Clients. In aggregate the Clients face a multitude of risks related to the failure of a major custodian (and/or its unaffiliated sub-custodians), counterparty or prime broker, and there can be no guarantee that any such failure would not result in extremely adverse consequences to Clients.

In addition, in connection with an effort to minimize counterparty risk, the Clients may use multiple custodians, which could result in higher fees being paid and a reliance on custodians with weaker operational systems. As part of their liquidity and credit diversification management, certain Clients place a material amount of their investors' capital, in the form of cash, in deposits at major banks with whom they do limited capital markets business. These Clients have chosen large, highly-rated banks. However, these Clients are exposed to the ability of these banks to repay these deposits in full or to any delay of the bank to repay the deposits. As these are large deposits, any failure of the deposit bank will have a material adverse effect on the Clients' capital. The Adviser and its Affiliates have no dedicated internal credit department which evaluates the creditworthiness of its counterparties. The ability of the Clients to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Clients.

In relation to the Clients' right to the return of assets to which legal and beneficial title has been transferred to a prime broker, the Clients may rank as one of such prime broker's unsecured creditors. In the event of the insolvency of the prime broker, the Clients may not be able to recover such equivalent assets in full particularly if such assets have been rehypothecated by a prime broker. In addition, the Clients' cash held with a prime broker may not be segregated from such prime broker's own cash and may be used by the prime broker in the course of its business. In the event of an insolvency of a prime broker, the Clients may rank as an unsecured creditor in relation thereto. The Clients presently use and expect to continue to use leverage, which will be provided primarily by prime brokers.

The Adviser, on behalf of its Clients, enters into derivative contracts with various banks. The Clients have two-way margin relationships with certain counterparties and, where appropriate, cross margin agreements. Changes in market risk levels and counterparties' credit risk appetite have resulted in significantly higher initial margin levels charged by banks to their hedge fund clients. The Clients generally receive variation margin on over-the-counter derivative transactions based upon the mid-market price to replace such transactions. Thus, the margin received references the fair value changes in the individual transaction. Since the mid-market price is calculated on the day preceding a default it may not accurately reflect the value of the transaction on the date of the default, particularly because any default by a major

counterparty can have a significant effect on the markets and such values. Initial margin is separate from this calculation. The Clients do not receive additional variation margin to mitigate the risk of their counterparties' failure to return initial margin.

The Clients may also use money market funds as part of their cash management, especially as part of a tri-party arrangement. The Clients therefore may be exposed to the risk that money market funds fail to fully return the principal invested by the Clients.

Although the Adviser and its Affiliates monitor the Clients' custodians, counterparties and prime brokers and believe that they are appropriate, there is no guarantee that any custodian, counterparty or prime broker used by the Clients, will not become insolvent. The selection of any unaffiliated sub-custodians is in the hands of the relevant custodians of the Clients. While the Adviser and its Affiliates believe that the custodians used by their Clients exercise reasonable discretion in selecting such sub-custodians, there is no guarantee that any such sub-custodian will not become insolvent. While both U.S. and foreign laws, such as the U.S. Bankruptcy Code and Securities Investor Protection Act of 1970 ("SIPA"), seek to protect customer property in the event of failure, insolvency or liquidation of a broker-dealer, there is no certainty that, in the event of a failure of a custodian (or its unaffiliated sub-custodian), counterparty or prime broker with custody of the Clients' assets, the Clients would not incur losses due to their assets being unavailable for a period of time, their ultimate inability to recover less than the full amount of its assets, or both. A significant downgrade in the credit ratings of a Client's counterparties could also have a negative impact on the Client's results. In situations where the Client is permitted to require additional collateral from counterparties in the ordinary course of business, disputes may arise as to the amount of collateral that the Client is entitled to receive and/or the valuation of pledged assets. Because a substantial portion of most of the Clients assets are in custody with a single prime broker, such losses would be very significant and would materially impair the ability of such Clients to achieve their investment objective.

Many of the Clients' relationships are with banks or broker-dealers that are organized outside of the U.S. or use affiliates that are organized outside the U.S. The Clients' assets may therefore be subject to bankruptcy protection that is different or worse than U.S. bankruptcy treatment or it may be unclear how the law will interact with U.S. law.

Prime Brokerage Financing Transactions: The Adviser, on behalf of its Clients, uses leverage provided by prime brokers. Termination or limitation of available financing for leveraged positions or the requirement to post additional collateral could result in a material adverse effect on Clients' access to liquidity. Without access to leverage, Clients may have to sell a significant dollar value of assets and may not be able to pursue some investment strategies currently employed. To protect against an immediate change in financing terms, certain Clients have entered into margin lock-up agreements with certain prime brokers that require such a prime broker to adhere to a notice period before it may change any material financing terms. However, there is no guarantee that such Clients could renegotiate or replace the existing financing terms. The Clients also may agree to modifications of their existing agreements with

their prime brokers, including increases to margin amounts. In addition, the Clients are exposed to the ability of the prime broker to perform under these contracts. The inability of the prime broker to access financing in the interdealer markets may mean that the prime broker is unable to provide financing to the Clients. In connection with these agreements, if the prime broker defaults or enters insolvency proceedings, realization or return of a Client's assets may be delayed or limited and the Client may be materially adversely impacted.

Futures Risks: In addition to the risks associated with trading in futures and options on futures that arise from the leverage and volatility associated with such investments, 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. This could prevent the Adviser from promptly liquidating unfavorable positions and subject the Clients to substantial losses. In addition, the Clients may not be able to execute futures contract trades at favorable prices if little trading in the contracts involved is taking place. It also is possible that an exchange or the CFTC may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only.

Under the U.S. Commodity Exchange Act, as amended, futures commission merchants are required to maintain customers' assets in a segregated account. To the extent that a Client engage in futures and options contract trading and the futures commission merchants with whom the Client maintains accounts fail to so segregate the Client's assets, the Client will be subject to a risk of loss in the event of the bankruptcy of any of its futures commission merchants. In certain circumstances, the Client might be able to recover, even with respect to property specifically traceable to the Client, only a *pro rata* share of all property available for distribution to a bankrupt futures commission merchant's customers.

Short Selling: Short selling involves selling securities that may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. The fact that the Clients may have agreements in place which may guarantee margin or other financial arrangements does not necessarily protect the Clients from being forced to return the borrowed securities to the securities lending counterparty at a time that may not be advantageous to the Clients. Short selling allows a Client to profit from declines in securities prices or to attempt to hedge related long positions in other securities or derivative instruments of the same issuer or a different issuer. A short sale of a security involves the risk of a theoretically unlimited increase in the market price of the security, which could result in an inability to cover the short position or a theoretically unlimited loss. There can be no assurance that securities necessary to cover a short position will be available for purchase. Additionally, certain market participants could accumulate such securities in a "short squeeze," which would reduce the available supply, and thus increase the cost of such securities or result in a

"buy-in" (which is a mandatory repurchase of the securities by the party that is short the position at the market price rather than at the time and price chosen by the Adviser to be the most economic for the particular investment strategy). Purchasing securities to close out the short positions can itself cause the price of the securities to rise further, thereby exacerbating the loss. Such practices could, in certain circumstances, substantially increase the impact of adverse price movements on the Clients' portfolios and expose the Clients to the risk of additional losses on related long positions to the extent they become unhedged. The Adviser has sole discretion in determining when, whether and in what manner to engage in short selling. In recent years, regulators in the U.S. and several other countries, including the U.K. and other European Union member states, have instituted restrictions on short-selling and/or disclosure requirements. Such restrictions and/or public disclosure requirements, if in effect, could materially affect the markets and the ability to effectively sell securities short. Currently, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC is required to promulgate rules relating to public filings of short positions. It is not yet determined how such rule would be implemented nor the affect it may have on the Adviser's short selling strategies.

Repurchase and Reverse Repurchase Agreements: Certain Clients enter into repurchase agreements (where securities are purchased under an agreement to resell) as lenders of securities and into reverse repurchase agreements (where securities are sold under an agreement to repurchase) as borrowers of securities. Changes in financing terms, including changes in financing spreads or the amount of collateral required, may affect a Client's ability to maintain or enter into certain investment strategies. The experiences of the repo financing market in recent years indicate such financing is potentially unreliable and although repurchase or reverse repurchase agreements have terms agreed for a defined period, there can be no guarantee that these terms will be available at the end of the current contracts. Any lack of visibility or transparency of market prices on securities not traded on an exchange may limit a Client's ability to access this type of financing or cause a significant change in value of existing repo positions and therefore a significant margin call. Securities purchased under agreements to resell are collateralized by cash and U.S. government and other securities. The Clients take possession of the underlying securities, monitor the value relative to the amounts due under the agreements, including accrued interest, throughout the life of such agreements and, when deemed appropriate by the Adviser or its Affiliates, require transfer of cash or securities to manage credit exposure and liquidity. In connection with these agreements, if the counterparty defaults, the positions are netted and closed, and a Client would make a claim against the counterparty for any deficiency. Resolution of such claims may be delayed or limited. Securities sold under agreements to repurchase are collateralized by cash, U.S. government and agency securities, and other securities. Clients monitor collateral market value relative to the amounts due under the agreements, including accrued interest, throughout the life of such agreements and, when deemed appropriate by the Adviser or its Affiliates, deliver or receive cash or securities to manage credit exposure and liquidity. In connection with these agreements, if the counterparty defaults or enters an insolvency proceeding, positions are netted and closed and the Clients would make a claim against the counterparty for any deficiency. Resolution of such claims may be delayed or limited.

Investments in Mortgage-Backed Securities: The investment characteristics of mortgage-backed securities differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that principal may be prepaid at any time because the underlying loans generally may be prepaid at any time. The adverse effects of prepayments may indirectly impact the Clients in two ways. First, particular investments may experience outright losses, as in the case of an interest-only security in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that a Client may have constructed for these investments, resulting in a loss to the Client. In particular, prepayments (at par) may limit the potential upside of many mortgage-backed securities to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

The Adviser, on behalf of its Clients, may also invest in variable rate mortgage-backed securities, including adjustable-rate mortgage securities ("ARMs"), which are backed by mortgages with variable rates, the rate of interest payable under which varies with a designated rate or index. The value of these investments is closely tied to the absolute levels of such rates or indices, or the market's perception of anticipated changes in those rates or indices. This introduces additional risk factors related to the movements in specific indices or interest rates which may be difficult or impossible to hedge, and which also interact in a complex fashion with prepayment risks.

Municipal Market Risk: Various factors may adversely affect the value and yield of municipal securities. These factors include political or legislative changes and uncertainties related to the tax status of municipal securities or the rights of investors in these securities. To the extent that the Adviser, on behalf of its Clients, invests heavily in a particular state's municipal securities, the Clients will be more vulnerable to factors affecting that state. The Clients' investments in revenue securities, where principal and interest payments are made from the revenue of a specific project or facility, and not general tax revenues, may have increased risks. Factors affecting the project or facility, such as local business or economic conditions, could have a significant impact on the project's ability to make payments of principal and interest on these securities.

Banking Regulation: Unless certain regulatory requirements are met, the Adviser, on behalf of its Clients, is generally prohibited from purchasing or otherwise acquiring 5% or more of any class of voting securities of any issuer that is a U.S. bank or a U.S. bank holding company, or 10% or more of any class of voting securities of any U.S. thrift or U.S. thrift holding company, subject to the U.S. Change in Bank Control Act unless the presumption of control under the statute is rebutted. The Adviser, on behalf of its Clients, does not intend to purchase or otherwise acquire 5% or more of any class of voting securities of any U.S. bank or U.S. bank holding company or 10% or more of any class of voting securities of any U.S. thrift or U.S. thrift holding company. In the event that a Client were to exceed such limits, the Client would be required to receive approvals from the appropriate regulators and the Client would be subject to regulation by such regulators which could place burdensome restrictions on the Client's operations and restrict its ability to transact in U.S. banks, U.S. bank holding companies, U.S. thrifts or U.S. thrift holding companies. The Adviser will take appropriate actions, including, monitoring of

positions, divestiture of securities or adoption of proxy voting guidelines, to seek to ensure that such limits are not exceeded.

Global Economic and Market Conditions: The Adviser, on behalf of its Clients, may invest in securities and currencies traded in various markets throughout the world, including emerging or developing markets, some of which are highly controlled by governmental authorities, if it believes that market conditions present opportunities for attractive returns. Such investments require consideration of certain risks typically not associated with investing in currencies or securities of developed markets. Such risks include, among other things, trade balances and imbalances and related economic policies, unfavorable currency exchange rate fluctuations, imposition of exchange control regulation by governments, limitations on the removal of funds or other assets of the Clients, imposition of withholding or other taxes on dividends, interest, capital gains or other income, policies of governments with respect to possible nationalization of their industries or other diplomatic developments that could affect investments in such countries, political difficulties, including expropriation of assets, confiscatory taxation and social, economic or political instability. These factors may affect the level and volatility of securities prices and the liquidity of the Clients' investments. Unexpected volatility or illiquidity could impair Clients' profitability or result in losses.

The economies of non-U.S. countries may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, currency depreciation, asset reinvestment, resource self-sufficiency and balance of payments position. Further, certain non-U.S. economies are often heavily dependent upon international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. The economies of certain non-U.S. countries may be based, predominantly, on only a few industries and may be vulnerable to changes in trade conditions and may have higher levels of debt or inflation.

Non-U.S. Securities Markets: Financial markets in non-U.S. countries may have substantially less trading volume. Therefore, securities in those markets may also be less liquid and more volatile than comparable U.S. securities. There may be less government regulation of stock exchanges, brokers and listed companies in certain non-U.S. countries than in the United States. An issuer of securities may be domiciled in a country other than the country in whose currency the instrument is denominated. The values and relative yields of investments in the securities markets of different countries, and their associated risks, are expected to change independently of each other. In addition, settlement of trades in some non-U.S. markets is much slower and more subject to failure than in U.S. markets.

Forward Contracts and Currency Transactions: The Adviser, on behalf of its Clients, may deal in forward foreign exchange contracts between currencies of different countries and multi-national currency units and options on currencies and on currency futures contracts for hedging or speculation. With respect to forward currency contracts, this is accomplished through contractual agreements generally to purchase or sell one specified currency for another currency at a specified future date and price determined at the inception of the contract. Forward contracts and options

thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. For example, there are no requirements with respect to record-keeping, financial responsibility or segregation of customer funds or positions. In contrast to exchange-traded futures contracts, interbank traded instruments rely on the dealer or counterparty being contracted with to fulfill its contract. As a result, trading in interbank foreign exchange contracts may be subject to more risks than futures or options trading on regulated exchanges, including, but not limited to, the risk of default due to the failure of a counterparty with which a Client has a forward contract. Although the Adviser seeks to trade with reliable counterparties, failure by a counterparty to fulfill its contractual obligation could expose a Client to unanticipated losses. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any currency market traded by the Adviser due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward trading to less than that which the Adviser would otherwise recommend, to the possible detriment of the Clients. Market illiquidity or disruption could result in major losses to the Clients.

Non-U.S. Legal Risk: Many of the laws that govern private and non-U.S. investment transactions in securities, commodities, derivatives and securities indices, and other contractual relationships in non-U.S. countries, particularly in developing countries, are new and largely untested. As a result, the Clients may be subject to a number of unusual risks, including inadequate investor protection, contradictory legislation, incomplete, unclear and changing laws, ignorance or breaches of regulations on the part of other market participants, lack of established or effective avenues for legal redress, lack of standard practices and confidentiality customs characteristic of developed markets and lack of enforcement of existing regulations.

The Clients likewise may be subject to unpredictable foreign regulatory responses to their investments in foreign markets. On occasion, the Adviser has been assessed regulatory fines by foreign governmental or regulatory authorities relating to their differing interpretations of trading and ownership reporting disclosure requirements. The Adviser generally seeks legal advice in connection with these obligations and believes it complies fully with the advice received and the underlying legal requirements.

Furthermore, it may be difficult to obtain and enforce a judgment in certain non-U.S. countries in which assets of the Clients are invested. There can be no assurance that this difficulty in protecting and enforcing rights will not have a material adverse effect on the Clients and their operations. In addition, the income and gains of a Client may be subject to withholding or other taxes imposed by non-U.S. governments for which investors may not receive a full foreign tax credit. Furthermore, it may be difficult to

obtain and enforce a judgment in a court outside of the Cayman Islands or the United States.

Acquisition, Redevelopment, and Development Risks: New project land development is subject to numerous risks including project delays, cost overruns or force majeure that may increase project costs or impact project approvals, such as entitlements, zoning, and other permits and the incurrence of development costs in connection with projects that are not pursued to completion. The Adviser, on behalf of its Clients, anticipates that certain of its acquisitions, redevelopments, and developments may be financed using the proceeds of lines of credit or other forms of temporary secured or unsecured financing that will have less advantageous terms than permanent debt financings. Use of these forms of financing will result in a risk that permanent financing for these projects might not be available or would be available only on disadvantageous terms. If permanent debt financing is not available on acceptable terms to refinance projects undertaken without permanent financing, further acquisitions may be curtailed and cash flows may be adversely affected.

Risks Associated with Commercial Mortgage Loans: The Adviser, on behalf of its Clients, may invest in commercial mortgage loans. The value of the Clients' commercial mortgage loans will be influenced by the historical rate of delinquencies and defaults experienced on the commercial mortgage loans and by the severity of loss incurred as result of such defaults. The factors influencing delinquencies, defaults and loss severity include (i) economic and real estate market conditions by industry sectors (*e.g.*, multifamily, retail, office, etc.); (ii) the terms and structure of the mortgage loans; and (iii) any specific limits to legal and financial recourse upon a default under the terms of the mortgage loan.

Commercial mortgage loans are generally viewed as exposing a lender to a greater risk of loss through delinquency and foreclosure than lending on the security of single family residences. The ability of a borrower to repay a loan secured by income-producing property typically is dependent primarily upon the successful operation and operating income of such property (*i.e.*, the ability of tenants to make lease payments, the ability of a property to attract and retain tenants, and the ability of the owner to maintain the property, minimize operating expenses, and comply with applicable zoning and laws) rather than upon the existence of independent income or assets of the borrower. Most commercial mortgage loans provide recourse only to specific assets, such as the property, and not against the borrower's other assets or personal guarantees.

Commercial mortgage loans generally do not fully amortize, which can necessitate a sale of the property or refinancing of the remaining "balloon" amount at or prior to maturity of the mortgage loan. Accordingly, investors in commercial mortgage loans bear the risk that the borrower will be unable to refinance or otherwise repay the mortgage at maturity, thereby increasing the likelihood of a default on the borrower's obligation.

Exercise of foreclosure and other remedies may involve lengthy delays and additional legal and other related expenses on top of potentially declining property values. In certain circumstances, the creditors may also become liable upon taking title to an asset for environmental or structural damage existing at the property. Since certain

Clients' investment programs are significantly dependent on the ability to foreclose on commercial mortgage loans to access the real estate, any failure to achieve such foreclosure will adversely affect the ability of the Clients to achieve their investment objective.

Development Risks: The Adviser, on behalf of its Clients, may acquire equity and/or debt interests in real estate developments. To the extent that the Clients invest in such development activities, they will be subject to the risks normally associated with such activities. Such risks include, without limitation, risks relating to the availability and timely receipt of zoning and other regulatory approvals, the cost and timely completion of construction (including risks beyond the control of the Clients, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on the financial condition and results of operations of the Clients and on the amount of funds available for distribution to the investors.

Risks of Environmental Liabilities: Under various Federal, state and local laws, ordinances and regulations, an owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances released on, about, under or in its property. Environmental laws often impose this liability without regard to whether the owner or operator knew of, or was responsible for, the release of hazardous substances. The presence of hazardous substances, or the failure to remediate hazardous substances properly, may adversely affect the owner's ability to sell or use real estate or to borrow outside funds using real estate as collateral. In addition, some environmental laws create a lien on contaminated property in favor of the government for costs it incurs in connection with the contamination. In addition to clean-up actions brought by Federal, state and local agencies and private parties, the presence of hazardous substances on a property may lead to claims of personal injury, property damage or other claims by private plaintiffs.

Risks Inherent in Secondary Fund Investing. The success of the Clients' investments in general is subject to a variety of risks, including, without limitation, those related to (i) the availability to the Clients of opportunities to acquire undervalued assets with limited liquidity at substantial discounts and which generally fall into two categories, (a) interests in investment funds (*i.e.*, shares or limited partner interests in hedge funds, or funds of hedge funds) and (b) side-pocketed and other assets with limited liquidity rights of the foregoing ((a) and (b) collectively, the "Secondary Investments"); (ii) potential competition and its impact on the price paid to purchase the Fund's investments; (iii) the ability of the Adviser to predict successfully the value and timeline on which it is able to liquidate its Secondary Investments; (iv) the quality of the manager of the Secondary Investments and of the investment decisions such manager makes in trading or liquidating underlying portfolio assets and (v) the impact of general economic conditions on each of the foregoing. Generally, the Adviser will not have the ability to direct or influence the management and control of the Secondary Investments.

Secondary Market Pricing. The Clients' strategy of investing in Secondary Investments may be based, in part, upon the premise that Secondary Investments will

be available for purchase by the Clients at prices that the Adviser considers favorable. No assurance can be given that Secondary Investments can be acquired at favorable prices or that, once purchased, these Secondary Investments will perform to the Adviser's expectations.

Identification of Investments. Identification of attractive Secondary Investment or other investment opportunities by the Adviser involves a high degree of uncertainty. The success of the Clients depends on the availability of appropriate Secondary Investments and other investment opportunities and the ability of the Adviser to identify, adequately diligence, select, gain access to and consummate such investments. The availability of investment opportunities for the Clients generally will be subject to market conditions and the ability of the Adviser to locate Secondary Investments that are available for purchase at attractive prices. There can be no assurance that suitable Secondary Investments and other investments will be available or that the Clients will be able to fully invest its committed capital. To the extent that any portion of such committed capital is not invested, the potential for return for the Clients will be diminished. Moreover, the historical performance of the Clients or any third-party portfolio manager is not a guarantee or indication of its future performance. No assurance can be given that investments can be acquired at favorable prices or that, once purchased, investments will perform to the Adviser's expectations.

ITEM 9 DISCIPLINARY INFORMATION

A. Criminal or Civil Proceedings.

Not Applicable.

B. Administrative Proceedings Before Regulatory Authorities.

Capital Markets Board of Turkey

Trading: The Capital Markets Board of Turkey, without notice or hearing, suspended the Adviser and the QVT Master Fund from trading on Turkish exchanges effective September 19, 2009. The trading suspensions related to alleged improper trading in shares of three Turkish companies on various dates between October 2006 and February 2008. After receiving notice of the suspensions, the Adviser responded to all issues raised by the Capital Markets Board. The suspensions were lifted on November 13, 2009.

Position Computation: On November 13, 2009, the Capital Markets Board of Turkey assessed an administrative fine against the QVT Master Fund, in the amount of TRY 63,443 (approximately US\$43,000) based on the alleged failure of the QVT Master Fund to include in an ownership report "reference securities" which it did not own but which formed the economic basis for swap agreements entered into by the QVT Master Fund. The QVT Master Fund paid the administrative fine during a time period which allowed for a discounted payment in the amount of US\$31,471 and sought to have the proceeding annulled. The court in Turkey denied the requested relief in May 2011. A subsequent appeal of the denial was dismissed on June 8, 2011.

Finansinspektionen (Sweden)

Late Filing: On September 1, 2008, Finansinspektionen (the Swedish Financial Supervisory Authority) sent a letter to the Adviser, indicating that a regulatory notification had been received one day late. The Adviser's notification was delayed by one day as it sought the advice of Swedish counsel with respect to such notification. On February 3, 2009, Finansinspektionen fined the Adviser SEK 50,000 (approximately US\$6,000) for the late notification.

Hellenic Capital Market Commission (Greece)

Late Filings: The QVT Master Fund received three notices from the Hellenic Capital Market Commission related to late filings submitted in 2004 and 2006. The total amount of fines imposed was €11,000 (approximately US\$14,500). The dates of the notifications and amounts of the fines are as follows:

- March 21, 2006 notice regarding a late filing in 2004; fine of €5,000 (approximately US\$6,500) announced May 12, 2010;

- May 14, 2008 notice regarding a late filing in 2006; fine of €3,000 (approximately US\$4,000) announced May 12, 2010;
- September 29, 2011 notice regarding a late filing in 2006; fine of €3,000 (approximately US\$4,000) announced same date.

The fines have been announced, but the QVT Master Fund has not received any official payment notifications. The QVT Master Fund will pay all three fines upon receipt of such payment notifications.

C. Self-Regulatory Organization (SRO) Proceedings

Not Applicable.

ITEM 10
OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

A. Broker-Dealer Registration Status.

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

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

The Adviser and its management persons are not registered as, and do not have any application to register as, a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

C. Material Relationships or Arrangements with Industry Participants.

Other Affiliated General Partners and Investment Managers

QVT Associates GP LLC, a Delaware limited liability company, is an affiliate and serves as the general partner to QVT International Feeder Fund, QVT International Intermediate Fund, QVT Master Fund, QVT Associates Feeder Fund, QVT Overseas Intermediate Fund, Quintessence Overseas Feeder Fund, Quintessence Overseas Intermediate Fund, Quintessence Master Fund, Quintessence Associates Feeder Fund, Quintessence Global Feeder Fund and Quintessence Global Intermediate Fund.

QVT Mount Auburn Associates LLC, a Delaware limited liability company ("Mount Auburn Associates"), is an affiliate and serves as the general partner to QVT Mount Auburn Real Estate Fund LP, a Delaware limited partnership ("Mount Auburn Domestic Fund") and QVT Mount Auburn Real Estate Century L.P., a Cayman Islands exempted limited partnership ("Mount Auburn Overseas Fund"). QVT Mount Auburn Capital LP ("Mount Auburn Capital"), is an affiliate and serves as investment manager to the Mount Auburn Domestic Fund and the Mount Auburn Overseas Fund. Mount Auburn Associates and Mount Auburn Capital represent a joint venture between the Adviser and Mount Auburn Capital Partners LLC, which is an affiliate of Mount Auburn Partners, LLC.

Ashokan Associates GP LLC, a Delaware limited liability company ("Ashokan Associates"), is an affiliate and serves as the general partner to Ashokan Master Fund, Ashokan Associates Feeder Fund and Ashokan Overseas Feeder Fund.

Other Affiliated Foreign Advisers

In addition to the above affiliated general partner, investment management and management companies, the Adviser retains and provides compensation to the following affiliated advisers: (i) QVT Financial LLP, a London-based affiliate which is registered with the U.K. Financial Services Authority and with the Securities and Exchange Board of India; (ii) QVT Asia Pacific Limited, a Taipei-based affiliate; (iii)

QVT Advisors Private Limited, a New Delhi-based affiliate ("QVT India"); and (iv) QVT Financial Singapore Pte. Ltd., a Singapore-based affiliate.

Transaction Based-Compensation

The Adviser or its Affiliates may receive directors' fees, break-up fees and other fees in connection with a Private Fund's investments. The amount received by the Adviser or its Affiliates will typically reduce dollar-for-dollar the management fees, incentive fees, incentive allocations or carried interest to be received.

QVT India may from time to time provide to third parties administrative and research services as well as assistance in connection with corporate restructurings. The opportunity to provide such services to third parties may arise based on the fact that QVT India is providing substantially the same services to the Adviser's Clients with respect to an investment owned by such Clients. QVT India will retain any compensation it receives from third parties for those services.

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

Certain Clients may invest in pooled investment vehicles and establish managed accounts that are managed or advised in a joint venture arrangement between the Adviser and/or its Affiliates and a third-party (collectively, the "Affiliated Funds"). The Adviser will waive a portion of the management fees and incentive allocations payable by such Clients, in amounts equal to any management fee, incentive fee and/or incentive allocation assessed by such Affiliated Funds or, to the extent necessary, will take such other actions as may be needed so that the Clients do not bear management fees, incentive fees and/or incentive allocations with respect to Affiliated Funds in excess of such fees and allocations set forth in such Client's offering memorandum. The current Affiliated Funds in which certain Clients have invested are Mount Auburn Domestic Fund and Mount Auburn Overseas Fund, which pursue capital appreciation and current income through the investment in and management of a diversified portfolio of distressed and undervalued real estate and real estate-related investments. Notwithstanding the foregoing, the management fee and the incentive allocation of a Client will not be waived, and such other actions described above will not be taken, in connection with an investment in an Affiliated Fund, to the extent that the management fee, incentive fee and/or incentive allocation assessed by such Affiliated Fund is being paid or allocated to a third-party that is unaffiliated with the Adviser.

Multiple Fee Layers

In executing its investment strategies, the Adviser, on behalf of certain of the Private Funds, has entered into a strategic investment agreement (the "Strategic Investment") with a specialized market intermediary, acting as the third-party manager of an investment vehicle formed for the exclusive benefit of such Private Funds, which arrangement should complement the Private Funds' expertise and enhance the Private Funds' ability to access specific investment opportunities. This Strategic Investment may, however, limit the Adviser's ability to exercise day-to-day management control of investments made through this relationship although the Adviser has the right to exercise substantial control over acquisition and disposition of investments under the terms of the Strategic Investment. The Adviser's management fees, incentive fees

and/or incentive allocations will not be waived or reduced in connection with this arrangement, and will result in three or more levels of fees and expenses (i.e., potentially (i) at the level of the underlying investments, (ii) at the level of the third-party manager of the Strategic Investment, and (iii) at the level of the Private Fund) being charged to Clients in connection with those investments made through the Strategic Investment. Under the terms of the Strategic Investment, the relevant Private Funds are responsible for funding investments approved in writing by Adviser and certain management fees, incentive fees and indemnification obligations.

The Private Funds may make direct purchases of shares or interests in other Private Funds on the secondary market. In addition, the Private Funds may purchase investments that contain or that have invested in one or more Private Funds. The Adviser will not waive any management fees, incentive fees and/or allocations, respectively assessed by such Private Funds.

ITEM 11
CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS
AND PERSONAL TRADING

A. Code of Ethics.

This Item 11(A) provides a general overview of the Adviser's Code of Ethics.

The Advisers are committed to the highest standards of ethical conduct. The Code of Ethics specifies and prohibits certain types of transactions deemed to create actual conflicts of interest, the potential for conflicts, or the appearance of conflicts, and establishes general guidelines for the conduct of all of the Adviser's employees and partners (collectively, "Advisory Personnel") as well as clearance and/or reporting requirements and enforcement procedures.

The Adviser will provide a copy of the Code of Ethics to any Client or prospective client upon request.

Advisory Personnel are required to certify their compliance with the Compliance Manual, including the Code of Ethics, on an annual basis.

The Adviser has implemented a Personal Trading Policy in the Adviser's Code of Ethics, which is incorporated by reference to the Adviser's Compliance Manual (the "Compliance Manual"), that prohibits Advisory Personnel from engaging in personal securities transactions without obtaining prior approval, subject to certain limited exceptions. The Adviser has created a Personal Trading Committee charged with the implementation of the Personal Trading Policy. Exceptions to the pre-approval and reporting requirements on personal trading generally include: (i) direct obligations of the U.S. government (*e.g.*, U.S. treasury securities); (ii) bank certificates of deposit and high-quality short-term debt obligations; (iii) shares issued by money-market funds; (iv) shares of open-end mutual funds registered in the U.S. that are not advised or sub-advised by the Adviser or its Affiliates; and (v) shares issued by unit investment trusts that are invested exclusively in one or more open-end mutual funds registered in the U.S., none of which are funds advised or sub-advised by Adviser or its Affiliates. Also, certain personal securities transactions in connection with which Advisory Personnel exercise no investment decision-making authority or that take place in accounts over which Advisory Personnel have no direct or indirect influence, control or discretion, are not subject to the pre-approval or reporting requirements set forth in the Personal Trading Policy. In addition, Advisory Personnel are permitted to trade the following types of investments without obtaining pre-approval; *provided, however*, that any such transaction must be reported to the Adviser in accordance with the Adviser's procedures: (i) broad-based ETFs, as determined by a distinct list compiled by the Personal Trading Committee; (ii) short sales of broad-based ETFs (as defined by the aforementioned list) or broad-based market indexes such as the S&P 500; (iii) options on broad-based ETFs (as defined by the aforementioned list) and index options; (iv) physical commodities; and (v) foreign currencies. Consistent with the foregoing policies, it is possible that Advisory Personnel will buy or sell securities or other instruments of the type or kind of securities or other instruments also recommended to the Clients in addition to buying or selling securities and instruments not recommended to the Clients.

The Managing Members of the general partner of the Adviser (the "Managing Members") and certain partners of the Adviser formed Fourth Avenue Capital Partners LP, a Delaware limited partnership ("Fourth Avenue"), in February 2008. Fourth Avenue makes investments on behalf of the Managing Members and certain other participating Advisory Personnel. Fourth Avenue primarily pursues investment opportunities in hedge funds, funds of hedge funds, private equity funds and private equity or illiquid investments managed by third parties but may also invest in other illiquid or long-term investment opportunities in both private and public companies. All investments by Fourth Avenue are subject to pre-approval by the Personal Trading Committee. The Personal Trading Committee is responsible for determining and addressing any conflicts that may arise out of Fourth Avenue's investment activities or the investment activities of any Advisory Personnel. It should be noted that each member of the Personal Trading Committee participates and may in the future participate (either directly or indirectly), in Fourth Avenue investments.

Investments made by Fourth Avenue may overlap with investments recommended by the Adviser to the Clients. To the extent the Adviser determines that any investment is an appropriate investment opportunity for one or more Clients and Fourth Avenue, based on their respective portfolio compositions, risk tolerances and liquidity needs, the Adviser's compliance department (on behalf of the Adviser) will document the suitability analysis and the opportunity to invest will first be allocated to such Clients in accordance with the Adviser's allocation procedures. Fourth Avenue will make its contemplated investment only after the Clients' contemplated subscriptions for the investment, if any, are filled. To the extent the Adviser determines that any investment is not an appropriate investment opportunity for the Clients, but is an appropriate investment opportunity for Fourth Avenue, the Adviser's compliance department (on behalf of the Adviser) will document the analysis regarding the suitability of such investment.

Prior to Fourth Avenue making a withdrawal or redemption request from an investment also held by one or more Clients, the Managing Members (on behalf of the Adviser) will consider whether it also would be appropriate for other invested Clients to withdraw or redeem from the investment, based on the Clients' respective needs and requirements. The Adviser's compliance department (on behalf of the Adviser) will document the analysis of any such withdrawal or redemption requests. If Fourth Avenue's withdrawal or redemption request is deemed appropriate, then, as a general matter, the Adviser will make withdrawal or redemption requests *pro rata* among the invested Clients and Fourth Avenue, based on their respective investment amounts or respective holdings of such position, as applicable. To the extent the capacity for withdrawals or redemptions is limited with respect to a particular investment such that aggregating Fourth Avenue's and the invested Clients' requests for withdrawal or redemption could result in the invested Clients' inability to fully liquidate their positions, the Adviser will first request withdrawals or redemptions for the invested Clients, on a *pro rata* basis, and only after the invested Clients' orders are filled will Fourth Avenue request withdrawal or redemption.

A Client's existing investments and relationships may generate new investment opportunities for such Client, other Clients, Advisory Personnel, affiliates of the Adviser and Fourth Avenue. If the Adviser determines, in its sole discretion, that such an investment would not be an appropriate investment opportunity for a Client,

then other Clients, Advisory Personnel, affiliates of the Adviser and/or Fourth Avenue may participate in such investment. The Personal Trading Committee is responsible for determining and addressing any conflicts that may arise out of Fourth Avenue's or Advisory Personnel's investment activities.

In recognition of the trust and confidence placed in the Adviser by the investors in the Private Funds and to give effect to the Adviser's belief that its operations should be directed to the benefit of the Clients, the Adviser adopted the following general principles to guide the actions of its Advisory Personnel:

- (i) Client interests come first. Advisory Personnel must scrupulously avoid serving their own personal interests ahead of the interests of the Clients and their investors.
- (ii) Avoid taking advantage. Advisory Personnel may not make personal investment decisions based on their knowledge of the Clients' holdings or transactions.
- (iii) Safeguard confidential information. Information relating to the Clients' or their investors' securities and financial circumstances must be kept confidential and safeguarded in accordance with the Adviser's Privacy Policy and Implementing Procedures and may not be used in any way except for the purposes intended by the Adviser.
- (iv) Exercise independent decision-making. Independence in the investment decision-making process must be maintained at all times.
- (v) Properly handle conflicts of interests. Advisory Personnel must handle potential conflicts of interest in a manner consistent with the Adviser's fiduciary duty and must not abuse their positions of trust and responsibility. Among other things, the Adviser seeks to handle potential conflicts of interests through the personal trading pre-approval and reporting requirements established in the Code of Ethics. If Advisory Personnel are uncertain whether a real or apparent conflict exists in any particular situation, they are to consult immediately with the Adviser's compliance and legal departments.

The Code of Ethics requires that Advisory Personnel disclose any situation, including situations pertaining to Advisory Personnel's family members, which reasonably could be expected to give rise to a conflict of interest. The Code of Ethics also contains general prohibitions against fraud, deceit and manipulation, as well as additional restrictions and requirements regarding gifts, entertainment and outside activities. Subject to certain limited exceptions, the Code of Ethics requires that any gift provided to or accepted from any employee of a broker-dealer, investor, prospective investor, an individual appointed by the Adviser to serve as an independent director, data provider, accounting firm, law firm or any other person or entity that does or seeks to do business with or on behalf of the Adviser must be reported to the Adviser's compliance department.

Certain Advisory Personnel serve as directors of portfolio companies in which a Client invests. In such capacity, such Advisory Personnel may have competing

fiduciary duties with respect to acting in the best interest of a Client and in the best interest of portfolio companies.

The Adviser has charged its compliance department with the implementation of the policies in the Compliance Manual. The policies and procedures contained in the Compliance Manual are designed to (i) highlight the Adviser's responsibilities under the Advisers Act and the role of Advisory Personnel in executing those responsibilities; and (ii) detect and prevent violations of certain other applicable laws, including the laws designed to prevent the misuse of material, non-public information. In furtherance thereof, the Compliance Manual prohibits Advisory Personnel from misusing material non-public information and/or non-public proprietary information, and sets forth the "Insider Trading Prevention Policies and Procedures" to restrict the flow of material non-public information. Such procedures include a requirement that Advisory Personnel notify the Adviser's compliance department if they have any reason to believe that a violation has occurred or is about to occur.

B. Securities in Which You or a Related Person Has a Material Financial Interest.

On occasion, the Adviser may, on behalf of the Clients, engage in cross trades. If the Adviser determines that it is advisable to engage in such a cross trade, the Adviser will (i) provide and document the rationale for the cross trade, and will ensure that the trade is in the respective best interest of the Clients involved; (ii) ensure that the transaction is consistent with the duty to obtain best execution; and (iii) rely on the Advisers' valuation procedures to determine the appropriate price at which to effect the transaction. The Adviser will receive no transaction-based compensation in connection with cross trades (other than incentive allocations/fees and management fees received in the ordinary course of business). To the extent a cross trade may be viewed as a principal transaction due to the ownership interest in a Client by the Adviser or its Advisory Personnel, the Adviser will either not effect such transactions or comply with the requirements of Section 206(3) of the Advisers Act, including that the Adviser will notify the Clients (or an independent representative of the Clients) in writing of the transaction and obtain the consent of the Clients (or an independent representative of the Clients).

From time to time, a Client may enter into a participation agreement, forward contract or other derivative granting an economic interest with respect to an investment in exchange for value to one or more other Clients in accordance with a pre-arranged allocation schedule. There are a number of reasons why the Adviser might pre-arrange an allocation where an investment opportunity is participated between or among the Clients at the time of an investment rather than allocate such investment directly to each participating Client. The Adviser does not consider such a pre-arranged participation arrangement between or among the Clients to constitute a cross trade for purposes of the Advisers Act.

See also response to Item 10(D).

C. Investing in Securities That You or a Related Person Recommends to Clients.

See response to Item 11(A).

D. Conflicts of Interest Created by Contemporaneous Trading.

To the extent that an investment is appropriate for one or more Clients managed by the Adviser or its Affiliates, the investment generally will be allocated among the participating Clients *pro rata* based on the Client's respective net asset value as of the beginning of the month. For unwinds or closings of positions pursuant to normal-course sales, allocations among the participating investment accounts are generally made *pro rata* based on the proportion of the positions held by each Client at the time of the unwind or closing. However, the Adviser (and/or its Affiliates) may, in its sole discretion, make non-*pro rata* allocations or no allocation at all, among the Clients based on, among other things, (i) in the case of a hedging transaction, to reflect the *pro rata* allocation at which the hedged position was initiated; (ii) the risk tolerance of a Client is greater than that of another Client (*i.e.*, a Client seeks more concentrated, longer-term, less liquid and/or more volatile positions); (iii) specific investment restrictions applying to investments by certain Clients and not others; (iv) available cash and liquidity requirements may differ among the Clients (*e.g.*, disparity in degree of leverage of an account relative to other accounts); (v) *pro rata* allocations would result in odd-lots or a *de minimis* allocation to one or more Clients; (vi) tax, legal or regulatory considerations making it disadvantageous, impracticable or imposing legal and/or regulatory burdens, in allocating an investment to a particular Client; (vii) a Client provides specific directions with respect to the management of its portfolio including an accelerated liquidation of its investment positions; (viii) in the case of a follow-on investment, to allocate in accordance with the original allocation of the investment; or (ix) to reflect the product- or sector-focus of an existing or new Client. Non-*pro rata* allocations must be approved by a Managing Member and reviewed by the Adviser's Chief Compliance Officer. Because the Adviser and/or its Affiliates may make non-*pro rata* allocations, Client accounts managed by the Adviser or its Affiliates may produce results that are materially different from each other.

Certain Client accounts managed by the Adviser and its Affiliates have tax considerations that limit the types of investments such Clients may make and that impact the method by which such Clients must structure their investments. As a result of tax considerations, Client accounts may end up investing in different levels of the capital structure of the same portfolio company.

See also response to Item 11(A).

ITEM 12 BROKERAGE PRACTICES

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

The Adviser (or its Affiliates) has complete discretion in deciding which brokers and dealers the Clients will use and in negotiating the rates of compensation the Clients will pay. The Adviser or its Affiliates will effect transactions with broker-dealers ("Brokers") that (with respect to U.S. securities) are registered with the SEC and are members of the Financial Industry Regulatory Authority. In choosing a particular Broker to execute an order, the Adviser or its Affiliates will take into account the relative importance of the execution factors listed below, as applicable, in addition to any other relevant factors, against the characteristics of the particular order and the available execution venues or intermediaries to which that order can be directed: (i) price; (ii) Broker's expertise and ability to source the specific securities or sectors in which the Adviser seeks to trade; (iii) liquidity of the market for the security; (iv) Broker's willingness to provide margin debt/leverage; (v) Broker's service and promptness of execution; (vi) timeliness of execution; (vii) cost of execution; (viii) Broker's ability to maintain confidentiality/anonymity; (ix) the financial strength, integrity, reputation and stability of the Broker or counterparty; (x) quality, comprehensiveness, timeliness, and frequency of available research and market information provided by the Broker; (xi) Broker's ability to execute transactions (and commit capital) of size in liquid and illiquid markets without disrupting the market for the security; (xii) adequacy of the Broker's trading and operational infrastructure, technology and capital; (xiii) Broker's ability and willingness to correct its own errors; (xiv) Broker's ability to accommodate any special execution or order handling requirements that may surround a particular transaction; (xv) responsiveness; (xvi) nature of the security and available market makers; and (xvii) objectives of managed account clients.

The Adviser has created a Trade Oversight Committee charged with the responsibility of evaluating systematically the execution performance of the Adviser's Brokers.

1. Research and Other Soft Dollar Benefits.

The Adviser or its Affiliates will attempt to negotiate the lowest available commission rates commensurate with the assurance of reliable, high quality brokerage services; however, the Adviser or its Affiliates may select Brokers that charge a higher commission or fee than another Broker would have charged for effecting the same transaction; *provided*, that the selection of a Broker will be made on the basis of best execution and the factors listed above. Such execution services, research, investment opportunities or other services may be deemed to be "soft dollars"; however, the Adviser or its Affiliates have not entered into written soft dollar arrangements.

The provision by a Broker of research and other services and property to the Adviser creates an incentive for the Adviser or its Affiliates to select such Broker since the Adviser and its Affiliates would not have to pay for such research and other services and property as opposed to solely seeking the most favorable execution for a Client.

Any research, services or property provided by a Broker may benefit any Client of the Adviser and such benefits may not be proportionate to commission dollars spent by such Client to obtain such research, services or property.

2. Brokerage for Client Referrals.

As discussed above, subject to best execution, the Advisers may consider, among other things, capital introduction, marketing assistance and other services or items in selecting broker-dealers for Client transactions.

3. Directed Brokerage.

The Adviser does not recommend, request or require that a Client direct the Adviser to execute transactions through a specified broker-dealer.

B. Aggregated Orders for Various Client Accounts.

The Adviser generally executes transactions on an aggregated basis, because the Adviser believes that doing so allows it to obtain best execution, to negotiate more favorable commission rates or other transaction costs than it might have otherwise paid had such orders been placed independently, and to provide the most fair allocation to the Clients. The Adviser will aggregate orders unless aggregation is inconsistent with the investment guidelines and restrictions of each Client for which trades are being aggregated. Each Client that participates in an aggregated order will participate at the average price for all of the Adviser's transactions in that security on a given business day, with transaction costs shared *pro rata* based on each Client's participation in the transaction. Similarly, if an order on behalf of more than one Client cannot be fully executed under prevailing market conditions, the investment will be allocated among the Clients on a basis that the Adviser considers equitable. The Adviser will not reallocate or rebalance existing trades to reflect changes in the current proportion of net asset value as of the beginning of the month of a Client, unless such reallocation or rebalancing is approved by a Managing Member or the Chief Financial Officer of the Adviser or its Affiliates.

Trade errors may occur as a result of mistakes made on the part of an executing broker or the Adviser or its Affiliates, including, but not limited to, its portfolio managers and traders. Trade errors are corrected by the Adviser as soon after discovery as is reasonably practicable and in such a manner as to mitigate any profit and loss as a result of trade errors. The Adviser strives to correct all trade errors prior to settlement. Any profit that results from a trade error is left in the account of the applicable fund or account. To the extent a trade error is caused by a counterparty, such as a broker, the Adviser may attempt to recover any loss associated with such error from such counterparty, if the Adviser, in its sole discretion, determines that it would be in the best interest of a Client to attempt such recovery, taking into consideration various factors, including, but not limited to, such Client's ongoing relationship with such counterparty, the likelihood of obtaining such recovery, the capital position of such counterparty, and where such counterparty executed the relevant trade on an agent or riskless principal basis the extent to which it can recover from its counterparty on the other side of the trade.

The Clients (and not the Adviser) will be responsible for any losses resulting from trade errors and similar human errors, absent fraud, willful misconduct or gross negligence. Trade errors might include, for example, (i) the placement of orders (either purchases or sales) in excess of the amount of securities the Adviser intended to trade on behalf of the Clients; (ii) the sale of a security when it was intended to have been purchased; (iii) the purchase of a security when it was intended to have been sold; (iv) the purchase or sale of the wrong security; (v) typographical or drafting errors related to derivatives contracts or similar agreements; (vi) the purchase or sale of a security contrary to regulatory restrictions or investment guidelines or restrictions of the Clients; and (vii) the allocation of a security to an account for which it is not suitable. Given the nature of a Client's business, investors are advised that trade errors (and similar errors) will occur and that the Clients, in such cases, will be responsible for any resulting losses, even if such losses result from the negligence (but not gross negligence) of the Adviser or its Affiliates.

ITEM 13
REVIEW OF ACCOUNTS

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

The Adviser performs various daily, weekly, monthly, quarterly and periodic reviews of each Client's portfolio. Such reviews are conducted by the members of the Adviser's investment team (in particular, the Investment Committee, as well as all portfolio managers and investment analysts) and members of the Adviser's Risk Committee.

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

A non-periodic review of a Client account may be triggered by any unusual activity or special circumstances.

C. Content and Frequency of Account Reports to Clients.

All investors in the Private Funds receive from the Adviser or its Affiliates annual audited financial reports. Investors in certain Private Funds receive monthly unaudited information regarding the Clients' performance, monthly statements reflecting the value of each investor's capital account and bi-weekly performance estimates. The Adviser generally provides investors with unaudited information regarding the Clients' monthly performance within several business days of the end of each month and will use its best efforts to send such information within five business days of the end of each month. Investors in Ashokan Associates Feeder Fund and Ashokan Overseas Feeder Fund may receive quarterly update reports providing summary performance and other information.

ITEM 14
CLIENT REFERRALS AND OTHER COMPENSATION

A. Economic Benefits for Providing Services to the Clients.

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

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

Neither the Adviser nor any related person directly or indirectly compensates any person for Client referrals. However, the Adviser or its affiliates may in the future enter into arrangements with third party placement agents or distributors to solicit investors in the Private Funds and such arrangements will generally provide for the compensation of such persons for their services at the Adviser's expense.

ITEM 15
CUSTODY

All Clients, with the exception of the Ashokan Associates Feeder Fund and Ashokan Overseas Feeder Fund, are pooled investment vehicles which are subject to annual audits and which deliver audited financial statements to their respective investors within 120 days of the applicable fiscal year-end. The Ashokan Associates Feeder Fund and Ashokan Overseas Feeder Fund are subject to annual audits and deliver audited financial statements to their respective investors within 180 days of the applicable fiscal year-end. Investors should carefully review the financial statements.

ITEM 16
INVESTMENT DISCRETION

The Adviser or its Affiliates have been appointed as the investment manager, management company, manager or general partner of the Clients with discretionary trading and investment authorization. The Adviser or its Affiliates have full discretionary authority with respect to investment decisions, and its advice with respect to the Clients is made in accordance with the investment objectives and guidelines as set forth in the Clients' respective private placement memoranda, if any, investment management agreement or other organizational document. The Adviser or its Affiliates assume discretionary authority to manage the Clients through the execution of investment management agreements or through the organizational documents of the Clients (*e.g.*, limited partnership agreements).

ITEM 17

VOTING CLIENT SECURITIES

Rule 206(4)-6 under the Advisers Act requires registered investment advisers that exercise voting authority over client securities to implement proxy voting policies. In compliance with that rule, the Advisers have adopted proxy voting policies and procedures (the "Proxy Policies"). The Proxy Policies provide that the Adviser shall use reasonable care and diligence to monitor corporate events that call for exercise of a vote, and to cast votes in a manner that it believes is in the Clients' best interest and ultimately maximizes the value of the Clients' investments. While the decision whether or not to vote a proxy must be made on a case-by-case basis, the Adviser generally does not vote a proxy if it believes the proposal is not material to the investment strategy employed on behalf of the relevant Client or the proposal is relating to issuers in which the size of the positions held on behalf of the relevant Client(s) is relatively small. In the situations where the Adviser does vote a proxy, the Adviser generally votes proxies in accordance with specified guidelines set forth in the Proxy Policies. It is possible that conflicts (or appearance of conflicts) may arise between the interests of the Clients, on the one hand, and the interests of the Adviser and its Affiliates, on the other, in voting a proxy. It is also possible that such a conflict (or appearance of conflict) may arise between Clients. The Adviser will endeavor to identify any such conflicts and address matters involving such conflicts as follows:

(1) the portfolio manager is responsible for bringing any proxy vote that the portfolio manager determines may involve a conflict (or an appearance of a conflict) to the Adviser's compliance and legal departments, who will decide whether the vote should be elevated to the Managing Members of the Adviser. A vote will be elevated to the Managing Members when the Adviser's compliance and legal departments determine that (a) the vote involves a conflict (or appearance of conflict) between the Adviser and its Client(s) or (b) the vote involves a conflict (or perceived conflict) between Clients. When a vote is elevated to the Managing Members, at least two Managing Members, in consultation with the Adviser's compliance and legal departments, will decide the final voting instructions. The Managing Members will base all voting decisions on their judgment of what will best maximize value for the Clients that beneficially own the securities or investment that are the subject of the vote.

(2) The Adviser's compliance and legal departments also will seek to identify conflicts or apparent conflicts by:

(a) periodic review to determine whether any of the following are corporate entities that may be the subject of a proxy vote:

- (i) investors in the Clients managed by the Adviser;
- (ii) other parties that have a material relationship with the Adviser (for example, the Adviser's prime brokers and regular market counterparties); and

(iii) public companies whose representatives may be deemed to have a close personal relationship to Advisory Personnel.

(b) periodic review of the information reported annually by the Advisory Personnel, together with any updates to such information, provided pursuant to the Adviser's procedures regarding Advisory Personnel's relationships with participants in proxy contests, corporate directors or candidates for directorships (for example, a partner of the Adviser may have a spouse or other close relative who is standing for election as a corporate director for a company in which a Client is invested).

(3) If the Adviser's compliance and legal departments identify any conflict or apparent conflict in connection with a particular investment, the Adviser's compliance and legal departments will inform the portfolio manager responsible for the investment and any vote in connection with such investment will be handled in accordance with paragraph (1) above.

(4) In certain cases, in consultation with the Adviser's compliance and legal departments, the portfolio manager or the Managing Members of the Adviser may determine that the Adviser should seek the advice of an independent third party regarding the voting of a proxy.

Clients may request a copy of the Proxy Policies and/or information regarding the manner in which the Adviser has voted with respect to any particular proxy by contacting the Adviser.

ITEM 18
FINANCIAL INFORMATION

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