

## **COVER PAGE**

### **VERITION FUND MANAGEMENT LLC And HAO ADVISORS, LLC Form ADV Part 2A: Firm Brochure**

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**This brochure provides information about the qualifications and business practices of Verition Fund Management LLC and HAO Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at 203-742-7700.**

**The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.**

**Verition Fund Management LLC's and HAO Advisors, LLC's registration with the SEC does not imply that any of its principals or employees possess a particular level of skill or training in the investment advisory business or any other business.**

**Additional Information about Verition Fund Management LLC and HAO Advisors, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **ITEM 2. MATERIAL CHANGES**

The last annual amendment of the Part 2A of Form ADV for Verition Fund Management LLC and HAO Advisors, LLC was made in March 2017. Since March 2017, Verition has made the following material changes to its Form ADV Part 2A:

- We have added a separately managed account client. Updating changes to reflect this new client have been made throughout the brochure.
- We have added disclosure under Item 5 regarding a fee payable to Verition Fund Management LLC by investors in certain funds advised by Verition Fund Management LLC.
- We have added allocation-related disclosure under Item 11 regarding the Partners Master Fund (as defined under Item 4)—a committed capital style fund with a master-feeder structure that pursues a minority shareholder corporate events strategy.
- Ted Hagan, Chief Financial Officer and Chief Compliance Officer no longer holds these positions effective July 7, 2017 due to his retirement from Verition. William Anderson has been appointed Chief Financial Officer and Amy Barrett has been appointed Chief Compliance Officer.

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#### **ITEM 4. ADVISORY BUSINESS**

Verition Fund Management LLC (“**Verition**,” the “**Filing Adviser**” or the “**Manager**”), a Delaware limited liability company, began operations in October 2008. The sole equity owner of Verition is Verition Fund Management NY, Inc. Nicholas Maounis along with trusts for the benefit of family members of Mr. Maounis are the sole equity owners of Verition Fund Management NY, Inc. HAO Advisors, LLC (the “**Relying Adviser**”), a Delaware limited liability corporation, is an affiliate of Verition that also acts as an investment manager. The Relying Adviser commenced operations in December 2016. The sole economic member of HAO Advisors, LLC is Cheng Zhang. Unless otherwise indicated, the discussion of Verition’s advisory business in this brochure generally includes the advisory business of HAO Advisors, LLC.

The Filing Adviser and the Relying Adviser conduct a single advisory business and are registered with the SEC as part of a single registration. All investment advisory activities of the Filing Adviser and the Relying Adviser are subject to the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”) and the rules thereunder, and any persons acting on behalf of the Filing Adviser or the Relying Adviser are subject to the supervision and control of the Filing Adviser and adhere to the Filing Adviser’s compliance manual and policies and procedures with respect to any such investment advisory activities.

Verition serves as the manager for and provides discretionary investment advisory services to several private funds and a separately managed account.

The funds currently offered to outside investors include Verition Multi-Strategy Fund LLC, a Delaware limited liability company, which is referred to in this brochure as the “**U.S. Multi-Strategy Feeder**,” and Verition International Multi-Strategy Fund Ltd., a Cayman Islands exempted company, which is referred to in this brochure as the “**Offshore Multi-Strategy Feeder**.” The U.S. Multi-Strategy Feeder and the Offshore Multi-Strategy Feeder are collectively referred to as the “**Multi-Strategy Feeder Funds**.” The Multi-Strategy Feeder Funds generally pool their resources by investing in both Verition Multi-Strategy Master Fund Ltd., a Cayman Islands exempted company, which is referred to in this brochure as the “**Multi-Strategy Master Fund**”, and Verition Canada Master Fund Ltd., a Cayman Islands exempted company, which is referred to in this brochure as the “**Canada Master Fund**”. The Multi-Strategy Master Fund and the Canada Master Fund are collectively referred to as the “**Multi-Strategy Master Funds**”.

In addition to the Multi-Strategy Feeder Funds, Verition Fund Management LLC offers Verition Partners Fund LLC, a Delaware limited liability company, which is referred to in this brochure as the “**U.S. Partners Feeder**,” and its offshore counterpart, Verition International Partners Fund Ltd. a Cayman Islands exempted company, which is referred to in this brochure as the “**Offshore Partners Feeder**.” The U.S. Partners Feeder and the Offshore Partners Feeder generally pool their resources by investing in Verition Partners Master Fund Ltd., a Cayman Islands exempted company, which is referred to in this brochure as the “**Partners Master Fund**,” or they may invest directly.

The Multi-Strategy Feeder Funds, the U.S. Partners Feeder and the Offshore Partners Feeder are collectively referred to in this brochure as the “**Feeder Funds**”. The Multi-Strategy Master Fund, the Canada Master Fund and the Partners Master Fund are collectively referred to in this brochure as the “**Master Funds**”. Together, the Multi-Strategy Feeder Funds and the Multi-Strategy Master Funds are referred to in this brochure as the “**Multi-Strategy Funds**”. The U.S. Partners Feeder, the Offshore Partners Feeder, and the Partners Master Fund are collectively referred to in this brochure as the “**Partners Funds**.” All of the above funds are together referred to in this brochure as the “**Funds**,” and the Funds and the separately managed account (the “**SMA**”) are together referred to in

this brochure as the “**Clients.**”

Verition acts as investment manager for the Master Funds, the Offshore Multi-Strategy Feeder and the Offshore Partners Feeder. Verition acts as the manager of the U.S. Multi-Strategy Feeder and the U.S. Partners Feeder. The Funds are pooled investment vehicles managed in accordance with the investment objectives described in their respective offering documents and are not tailored to any particular investor. Information about each Fund can be found in its offering documents. Verition manages the SMA in accordance with negotiated guidelines and restrictions regarding investments and other investment criteria as set forth in the applicable investment management agreement. On behalf of the Funds, Verition trades a variety of securities, futures, derivatives and other instruments, including stocks, convertible securities, bonds, structured instruments and over-the-counter, or “OTC,” derivatives given that the Funds implement a diversified range of alternative investment trading strategies. Verition’s affiliate, Verition Advisors (Canada) ULC, acts as sub-advisor to the Canada Master Fund. Verition takes both long and short positions in these instruments. There are no material limitations on the instruments that Verition trades on behalf of the Funds and the Funds are subject to no formal diversification policies. Verition has full discretion in trading on behalf of the Funds. It does not require, and does not seek, approval from the Funds or the investors in the Funds with respect to its trading. Verition does not tailor its advisory services to the individual needs of investors in the Funds, and investors in the Funds may not impose restrictions on investing in certain securities or types of securities.

As of December 31, 2017, Verition managed a net asset value of approximately \$464.5million, all of which is managed on a discretionary basis.

## **ITEM 5. FEES AND COMPENSATION**

Verition’s fee schedule is omitted because this brochure is being delivered only to “qualified purchasers,” as defined in section 2(a)(51)(A) of the Investment Company Act of 1940 (the “Investment Company Act”).

### **Management Fee**

Verition receives a management fee from the U.S. Partners Feeder, the Offshore Partners Feeder and certain classes of the Multi-Strategy Feeder Funds.

The management fee paid by certain classes of the Multi-Strategy Feeder Funds, payable monthly in arrears, are equal to a percentage of the total month-end net asset value prior to any reduction for any profit allocation/performance fees not yet made or for the management fee then being calculated.

The Multi-Strategy Feeder Funds have certain share classes, the “**Initial Classes**” and the “**Modified Classes**”. Each Modified Class has two sub-classes: one for investors who have elected to participate in the allocation of capital by Verition to certain portfolio managers to engage in certain strategies that represent a subset of the Multi-Strategy Funds’ investment strategies (each, a “**Specialty Strategy**”) and one for investors who have elected not to participate in the Specialty Strategies. The management fees are paid by the Modified Classes only and are first applied to pay any pass-through costs, which are described under “Pass-Through Costs” below, that would have been allocated to them if they had the same fee structure as the Initial Classes. To the extent that the management fee is not sufficient to defray these pass-through costs, the Initial Classes will bear the shortfall; to the extent that the management fee exceeds the pass-through costs, the management fee will effectively pay not only the Modified Classes allocable share of the pass-through costs but also a portion of the pass-through costs that otherwise would be allocated to the Initial Classes. If the management fee exceeds the pass-

through costs that would be allocated to the Modified Classes were they subject to pass-through costs and the pass-through costs actually allocated to the Initial Classes, the remaining management fee will be retained by the Manager. The Multi-Strategy Funds' fees and compensation are described in more detail in their offering documents.

The U.S. Partners Feeder and the Offshore Partners Feeder pay Verition a management fee equal to a percentage of the total capital contributions required by a capital call and used to make a particular investment. The management fee, if any, received by Verition for the U.S. Partners Feeder and the Offshore Partners Feeder is calculated and payable upon a capital call but is payable separately from the capital call. The management fee is generally payable within a specified number of days after a capital call.

The terms for payment of management fees regarding a separately managed account client are negotiated on an account-by-account basis and set forth in the applicable investment management agreement or other similar agreement. Such fees may be paid in advance. To the extent any such fees have not been earned upon termination of the investment management agreement, Verition will refund such fees *pro rata*, minus reasonable expenses.

#### Performance-Based Compensation

Verition receives a profit allocation and a performance fee from investors in the Multi-Strategy Feeder Funds for its advisory services. The profit allocation and performance fee are each equal to a percentage of the new appreciation of the investor's account subject to a high water mark. The profit allocation and performance fee, if any, received by Verition is calculated monthly and deducted from accounts each December 31.

Verition receives a carried interest from the Partners Funds for its advisory services, as the Partners Funds realize proceeds on their investments and distribute those proceeds. The carried interest generally consists of a share of the proceeds with regards to a particular investment after investors have received a return of the capital contributed to the relevant investment.

Once paid or distributed to Verition, any performance-based compensation received is generally not subject to reversal. However, in the unlikely event that Verition receives excess distributions in respect of a particular investment for the Partners Funds, Verition will return such excess to the Funds for distribution to investors on *pro rata* basis.

HAO Advisors, LLC receives an annual allocation of a portion of the net trading profits attributable to the account it manages on behalf of the Multi-Strategy Master Fund.

The terms for payment of performance-based compensation regarding a separately managed account client are negotiated on an account-by-account basis and set forth in the applicable investment.

#### Funds Trading, Operating and Administrative Costs

In addition to a management fee, if any, the Funds pay their ongoing trading, operating and administrative costs, including, but not limited to: organizational and initial offering costs; investment costs and all other trading costs, including, without limitation, all brokerage commissions, clearing and settlement charges, all other costs of executing transactions, interest on margin accounts and other indebtedness, borrowing charges on securities sold short, interest expenses, investment-related travel and lodging expenses, financing charges and applicable withholding and other taxes, related to the purchase, sale, transmittal or custody of investment assets and related items, as well as the costs associated with obtaining and maintaining the regulatory licenses, exchange memberships and credit

ratings; costs associated with maintaining trading co-location sites and data transmission and communications equipment used in connection with trading and research activities; all research-related expenses, including, without limitation, market data, news and quotation equipment and services; on-going costs of investment assets, if any, such as fees applicable to investments in exchange traded funds, or “ETFs”; all legal costs, including, without limitation, investment and litigation-related costs; accounting, auditing and tax preparation costs; costs of preparing, printing and distributing annual and periodic reports, marketing materials and other investor communications; any taxes, licenses and duties payable in any jurisdiction in connection with the Funds’ operations; insurance costs, including the premiums paid for directors and officers, errors and omissions and other comparable insurance for the Manager, Mr. Maounis, certain individuals and entities affiliated with the Manager and third parties providing services to the Funds; fees and expenses of the administrator and other third parties providing administrative, accounting, operations and valuation services, including any valuation agent; employee recruiting costs; fees and out-of-pocket costs of any services providers incurred in performing services for the Funds; professional fees and expenses, including, without limitation, fees and expenses of consultants and experts, fees of any shareholders’ representative; costs of paying agency, transfer agency and accounting verification services, if any; costs associated with regulatory compliance related to Verition’s management of the Funds, including, without limitation, costs of compliance programs, including employee-related compliance tracking systems, proxy voting, and e-mail retention, examinations, education and training; costs related to due diligence or reporting; directors’ fees; costs relating to regulatory inquiries and regulatory filings, including expenses associated with regulatory and other reports that Verition determines are required as a result of Verition’s management of the Funds, such as Form PF, registrations and other filings related to the Funds; payments made in satisfaction of indemnification obligations to employees or third parties; all ongoing costs of maintaining a Fund’s investment in a security of a company that is the target of a buyout or merger transaction; all costs incurred in the course of a petition for a court to determine fair value of shares of a company whether settled or not; compensation paid to third party managers; and extraordinary costs, if any, as determined in Verition’s absolute discretion.

Each Feeder Fund that invests in a Master Fund also pays its *pro rata* share of all of the allocable costs of that Master Fund.

As noted above, the Funds are charged brokerage commissions, bid-ask spreads and other transaction costs and expenses in connection with their trading and investment activities, and custodian fees for the Funds’ assets held in cash or securities at various banks, broker-dealers and other financial institutions. The Funds’ trading program generates transaction costs for the Funds that may be higher as a percentage of equity than those of other private investment funds. For a discussion of the brokerage arrangements that Verition enters into on behalf of the Funds, see “Brokerage Practices.”

The terms for payment of expenses regarding a separately managed account client are negotiated on an account-by-account basis and set forth in the applicable investment management agreement or other similar agreement.

#### Specialty Compensation.

The certain classes of the U.S. Multi-Strategy Feeder and the Offshore Multi-Strategy Feeder participating in the Specialty Strategies (as defined above) bear specialty compensation, including incentive-based compensation, of the portfolio managers implementing each Specialty Strategy and certain other employees of Verition, irrespective of the overall performance of the relevant Multi-Strategy Fund, any other Specialty Strategy and, with respect to non-incentive-based compensation, such Specialty Strategy.

The specialty compensation for a particular Specialty Strategy will include the compensation of employees who are involved in the implementation and execution of that Specialty Strategy, including a portion of salaries and bonuses of Verition employees attributable to their involvement in the implementation and execution of that Specialty Strategy, as determined in Verition's discretion. The Verition employees whose salaries and bonuses will be included in specialty compensation include, in addition to analysts and portfolio managers, other employees such as operational and financial personnel, based on activities that in any way assist in the operation, risk management, oversight, implementation or execution of the relevant Specialty Strategy. Without limitation, these activities may include negotiating transaction documents, assisting in any Specialty Strategy-related legal proceedings in which a Multi-Strategy Fund may be involved or other activities performed on behalf of the applicable Specialty Strategy as determined in Verition's sole discretion. In determining whether and to what extent to treat a portion of salaries and bonuses of Verition employees as specialty compensation relating to one or more Specialty Strategies, Verition will consider factors including, but not limited to, the amount of time Verition anticipates the applicable employees will dedicate or have dedicated to the applicable Specialty Strategies and other contributions made to such Specialty Strategies and, to the extent an employee's bonus is tied to the profitability of Verition, the profitability of a Specialty Strategy.

The incentive-based compensation component of the specialty compensation is payable only out of the profits generated by the associated Specialty Strategy. The non-incentive-based compensation component of the specialty compensation will be payable regardless of the profitability of the respective Specialty Strategy and thus, in the event a Specialty Strategy fails to generate sufficient profit, will offset any profits that may be attributable to other Specialty Strategies or non-Specialty Strategies, or if such other strategies are not sufficiently profitable, result in losses to those investors participating in the Specialty Strategies.

#### Pass-Through Costs.

Certain classes of the Multi-Strategy Feeder Funds pay the pass-through costs described below while other classes pay a flat-rate management fee (as described above) and do not bear any portion of the pass-through costs. The Partners Funds do not pay the pass-through costs; they pay only direct fund expenses and a carried interest and management fee.

The Manager's direct and indirect trading, general operating and administrative costs, as well as those of certain entities and individuals affiliated with Verition in providing services to each Fund, that are paid by certain classes of the Multi-Strategy Feeder Funds include, without limitation, costs of: employee compensation (including salaries and draw, bonuses and benefits, severance arrangements, relocation arrangements, and non-competition covenant costs) paid by Verition (other than employee compensation included within specialty compensation for this purpose); depreciation, office rent, utilities, information systems, equipment rental, computer hardware and software, other overhead costs and the costs of general operating assets, including leasehold improvements, internet access, servers and data transmission lines and communications equipment used for general business purposes, furniture and fixtures; general operations and administration of Verition's business; any service providers performing services for Verition; regulatory filings, registrations, taxes and licenses of Verition; legal, accounting, auditing and other professional services, including consulting services, of Verition; outside risk vendors; other travel and entertainment; insurance costs; and any extraordinary expenses and other similar fees paid by Verition (as determined in Verition's absolute discretion).

Verition may allocate pass-through costs relating specifically to one class to that class rather than all classes. Verition determines which costs to designate as pass-through costs and which to designate as trading, operating and administrative costs. All pass-through costs borne by the Multi-Strategy Feeder



Funds are estimated by Verition at the beginning of each year (subject to adjustments by Verition during the course of the year) and then charged to the Multi-Strategy Funds pro rata over the course of the year at the end of each month.

Negotiation of Fees; Waivers. Compensation payable to Verition is generally not negotiable, but under certain circumstances, Verition may, in its discretion, waive all or a portion of its management fee, incentive compensation and/or expenses for a particular investor.

#### **ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Clients generally pay both management fee and performance-based compensation, although some Clients or investors may pay a reduced or no management fee or performance-based compensation. Managing assets for different Clients with different fee structures, including, *e.g.*, the side-by-side management of a Client that pays performance-based compensation and one that does not or of a Client that pays higher performance-based compensation than another, creates a conflict of interest for an adviser. Such an arrangement creates an incentive for an adviser to favor accounts with the most profitable performance-based compensation structure. These arrangements give rise to conflicts of interest regarding:

- The allocation of investment opportunities; and
- Transactions among such Clients (*i.e.*, cross trades).

Consequently, when trading on behalf of multiple Clients with differing compensation arrangements, Verition endeavors to allocate investment opportunities among Clients in a fair and equitable manner so that over time, Verition treats Clients fairly and no Client is systematically disadvantaged. Verition's trade allocation for any given Client may vary based on, among other things, differences in Clients' investment objectives, capital constraints and any scheduled increase or decrease of any particular Client's assets under management. Verition has adopted policies and procedures governing the identification, assessment and monitoring of conflicts of interest and policies and procedures to address the allocation of investment opportunities. In addition, members of Verition's senior management will routinely consult with one another for the purpose of identifying conflicts and assessing the fairness of investment allocations. The performance-based compensation received by Verition creates a conflict between Verition's interest in earning a profit in the short term with the long-term interests of the Funds and their investors and the SMA. Specifically, Verition has an incentive to invest assets in investments that are riskier or more speculative than would be the case if Verition were only compensated based on a flat percentage of capital, because these investments may allow Verition to collect larger performance-based compensation.

#### **ITEM 7. TYPES OF CLIENTS**

Verition provides discretionary investment advice to the Funds. The investors in the Funds may consist of high net worth individuals, funds of funds, institutional investors and trusts. The U.S. Multi-Strategy Feeder and the U.S. Partners Feeder limit their investors to persons who are both "qualified purchasers" as defined in the Investment Company Act of 1940 and "accredited investors" as defined in the Securities Act of 1933. Investors in the Offshore Multi-Strategy Feeder and the Offshore Partners Feeder must either be both qualified purchasers and accredited investors, or non-United States persons. The minimum initial investment in the Funds varies depending on the Fund, and ranges from \$1,000,000 to \$5,000,000.

Verition also provides discretionary investment advice to a separately managed account in accordance

with negotiated guidelines and restrictions regarding investments and other investment criteria as set forth in the applicable investment management agreement.

Verition may, in its sole discretion, waive any of the minimum investment requirements specified above.

## **ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **Investment Strategies**

On behalf of the Multi-Strategy Funds and other Clients, Verition implements a diversified range of alternative investment trading strategies as described below. The different classes of the Multi-Strategy Feeder Funds may have different participation in these alternative investment trading strategies. On behalf of the Partners Funds, Verition implements a minority shareholder corporate events strategy that is one of the several strategies used by the Multi-Strategy Funds.

### **Quantitative Strategy**

The quantitative strategy is systematic in nature, buying “long” a security, or basket of securities, options or futures, and selling “short” other securities, options or futures contracts, or baskets, in an attempt to capitalize on financial market anomalies that occur when the prices of these securities, options or futures deviate from their perceived relationships in anticipation of profiting from a reversal in the prices of such securities, options or futures to their expected values.

On behalf of its Clients, Verition also opportunistically invests based on its market judgment and experience. While the opportunistic trading may be based on quantitative models, there are no material limitations on the discretionary trading in which Verition may engage pursuant to Verition’s qualitative systems.

### **Credit Strategy**

On behalf of its Clients, Verition deploys several credit strategies attempting to capitalize on perceived market inefficiencies and mispricings in securities, loans and/or derivatives driven by issuer, industry, credit tranche, regulatory and/or market-specific conditions. These credit strategies may include long and short trading and investing in various credit products employing fundamental value analysis, technical analysis, capital structure arbitrage, relative value, distressed control, event-driven, directional, mosaic analysis and other related strategies. Verition may execute these strategies utilizing a range of credit products including investment grade bonds, crossover bonds, high-yield bonds, leveraged loans, participations, unsecured claims, credit derivatives, indices and structured products. Verition may utilize hedging strategies in an effort to control volatility and improve risk-adjusted returns.

On behalf of its Clients, Verition invests, both long and short, in loans, securities and other instruments of companies in financial and/or operational distress unable to access the traditional capital markets or otherwise in precarious financial conditions. The markets in stressed and distressed loans, securities and other instruments are inefficient and information is not equally accessible to all market participants, creating substantial and often inconsistent profit opportunities. Verition may, from time to time, elect to attempt to take a “control position” in a company in default or going into bankruptcy in an effort to direct the reorganization of the company to the Funds’ advantage.

### **Long-Short Equity Strategy**

On behalf of its Clients, Verition takes both long and short positions in equity securities Verition believes to be under or overvalued. Verition may implement the long-short equity strategy in a broad range of market sectors, including, but not limited to: consumer goods, cyclicals, financials, healthcare, REITs, technology and/or utilities, industrials and energy. Verition may, at times, use options and credit-sensitive instruments to tailor positions more precisely to the strategy's fundamental investment conviction.

In particular, on behalf of its Clients, Verition may invest on a global basis across the capital structure of companies related to global technology, telecommunications and media, referred to collectively as "technology." At times, Verition may implement a paired-trade strategy in an attempt to control exposures and mitigate the impact of the market. Verition believes that there are many pair-traded opportunities in technology for which the products and services of one company are displacing those of another.

Long-short equities portfolio composition is fundamentally driven, but influenced by technical factors affecting individual names. Although the combination of long and short positions may provide an element of protection against, though not an elimination of, directional market exposure, Verition does not attempt to neutralize the amount of long and short positions held by a Client will typically have a net long or net short bias at any point in time. Verition expects that its Clients' long-short equities portfolio will typically have a long directional bias, although the portfolio may be net short from time to time.

### **Convertible Investing Strategy**

Verition actively tracks both credit and equity markets in order to identify capital structure pricing inefficiencies in the convertible bond universe. Verition employs predominantly market neutral strategies, but may also invest in directional opportunities. Verition's convertible investing strategies include both relative value trading and capital structure arbitrage. The relative value component of the convertible investing strategy involves taking offsetting positions in two similar issuers that Verition believes will either diverge or converge to an expected level. The capital structure arbitrage component of the convertible investing strategy involves purchasing different securities within the capital structure of a single issuer, in an attempt to profit from the relative mispricing of the securities within a company's capital structure.

### **Event-Driven Trading Strategy**

On behalf of its Clients, Verition invests in positions intending to profit from the consummation of a given corporate event, *e.g.*, a takeover, merger, reorganization or conclusion of material litigation, or based upon the perception of a potential pending corporate event. Investments may be acquired passively in the secondary market, acquired through participation in merger and acquisition activity, or acquired with a view toward actively participating in a re-capitalization or restructuring plan. Verition may actively attempt to modify or improve a restructuring plan with the intent of improving the value of the relevant securities upon consummation of a restructuring. Additionally, Verition may take an active role and seek representation in management on a board of directors or a creditors' committee. In order to achieve these objectives Verition may purchase, sell, exchange or otherwise deal in and with restricted or marketable securities including, without limitation, any type of debt security, preferred or common stock, warrants, options and hybrid instruments.

### **Merger Arbitrage Strategy**

On behalf of its Clients, Verition invests in the securities of publicly-traded companies involved in

prospective and definitive mergers or corporate combinations, acquisitions, cash tender offers, exchange offers or corporate recapitalizations in the expectation of profiting from the difference between the price of such securities at the inception of the investment and the price of such securities in expectation of or upon consummation of particular events.

### **ETF Arbitrage Strategy**

On behalf of its Clients, Verition seeks to exploit pricing inefficiencies between the public trading price of the shares of an ETF and the actual net asset value of the shares. The net asset value per share of an ETF will change as fluctuations occur in the market value of the ETF's portfolio. The public trading price of ETF shares, however, may be different from the actual net asset value of such shares, *i.e.*, ETF shares may trade at a premium over, or a discount to, the net asset value of the shares. Consequently, Clients may be able to purchase or redeem ETF shares at a discount or a premium to net asset value. Any difference in the public trading price and net asset value of ETF shares will present Verition with an arbitrage opportunity. The exploitation of such arbitrage opportunities by Verition and other market participants, including those with greater market information, however, should tend to cause the public trading price to track net asset value per share closely over time, thus limiting the opportunities for arbitrage.

### **Special Situations Strategy**

On behalf of its Clients, Verition, from time to time, invests and participates in special situations. Access to certain of these situations may derive from proprietary relationships of key personnel who have substantial experience in the sourcing, evaluation and trading of convertible securities and private financings. Special situation investments may be made in companies that are in distress or are "orphaned companies" that do not attract sufficient analyst or institutional attention to have ready access to the public capital markets. Verition uses credit analysis and structuring expertise to create equity-linked and debt instruments which attempt to provide opportunities for attractive risk-adjusted returns. Verition also expects Clients will attempt to take advantage of situations in which interim "bridge" lenders find themselves unable to close out their position due to the inability of the borrower to refinance their loans.

### **Exchange Membership Strategy**

On behalf of its Clients, Verition invests in futures, equity and/or options exchange memberships for the purposes of garnering exchange discounts and/or for investment purposes. Verition may use the exchange memberships to enter into floor trades for Clients' accounts. By virtue of their presence on the floor of the exchange, floor traders may have greater access to information on markets and are not subject to some of the fees charged to non-member customers.

### **Technical Strategy**

The trading strategies utilized by Verition on behalf of its Clients may employ technical factors, *i.e.*, the analysis of historical and current market data. Technical strategies are subject to the risk that unexpected fundamental factors or other factors may dominate the market during certain periods. The influx of different market participants, structural changes in the markets, the introduction of new financial products and other developments could materially adversely affect the profitability of technical strategies.

### **Fundamental Strategy**

On behalf of its Clients, Verition employs fundamental analysis, which posits that markets are

imperfect and that mispricing can be identified between prevailing market prices and those indicated by underlying economic data. Fundamental analysis is subject, however, to the risk of inaccurate or incomplete market information, as well as the difficulty of predicting prices based on such information. Furthermore, even if the analyst is able successfully to identify mispricing on the basis of fundamental factors, there is the additional uncertainty of predicting the duration of such mispricing and, accordingly, when or whether it will be profitable to invest so as to profit from them. Fundamental investing is subject to significant losses when market sentiment leads to investment assets' market prices being materially discounted from the level indicated by fundamental analysis, as in the case of "flights to quality" when the demand for investment assets other than government securities diminishes to a degree significantly in excess of that indicated by the fundamental differences between government and other securities, or when technical factors, such as price momentum or option expirations, dominate the market.

### **Volatility Arbitrage Strategy**

On behalf of its Clients, Verition takes positions, often highly complex, in options and other derivatives in an attempt to capture changes in implied market volatility, which is a principal component of the pricing of these instruments. Verition seeks to monetize such opportunities through the use of both fundamental analysis of the issuing companies and quantitative option and security valuation techniques.

### **Emerging Markets Strategy**

On behalf of its Clients, Verition invests, directly or indirectly, in securities of non-U.S. issuers — in particular those in emerging markets — which involve certain special risks, including political or economic instability, the risk of confiscatory government actions, price volatility, and the lack of, or different, regulations applicable to such investments as compared to U.S. investments. As compared to U.S. entities, entities in emerging markets generally disclose less financial and other information publicly, and are subject to less stringent and less uniform accounting, auditing and financial reporting standards. Also, it may be more difficult to obtain and enforce legal judgments against emerging market entities than against U.S. entities.

### **Minority Shareholder Corporate Events**

On behalf of its Clients, Verition identifies and invests in the securities, generally in the form of common and/or preferred stock, of public companies that are the target of a buyout or merger transaction, where Verition believes that the merger consideration being offered in such a buyout or merger transaction is below "fair value" as Verition believes would be determined by the relevant state court in a proceeding. These court proceedings may take several years to conclude. Such investments may be made in any number of market sectors, industries and capitalization ranges. However, at any given time such investments may be concentrated in one or a strictly limited number of sectors or industries.

### **Seed Investments**

On behalf of its Clients, Verition enters into arrangements under which a Client acquires an equity stake or a revenue or a profit interest in a third-party manager and may provide "seed capital" to a third-party manager in exchange for an interest in the revenue or profits generated by the third-party manager.

## **Asset Allocation**

As Clients implement or modify strategies, an important component of Verition's overall management of the Clients' portfolio may be allocating its capital and risk among the different strategies.

There are certain market conditions that are less favorable to certain strategies than others. By analyzing current market conditions, as well as forming an opinion concerning likely short- to medium-term market conditions in the future, Verition may attempt to bias a Clients' combination of strategies towards those which appear to have the greater likelihood of profitability over the foreseeable future.

During sustained periods, Verition may not reallocate a Clients' capital among different strategies, particularly when Verition has little confidence in its opinion concerning short- to medium-term market conditions so that reallocations would not only result in significant transaction costs, but also could bias the portfolio toward strategies beginning to underperform and away from those beginning to outperform.

## **Risk Management**

Risk management is an important component of any alternative investment strategy. However, Verition does not apply any formal risk control or diversification policies.

Verition does not, in general, attempt to hedge all market or other risks inherent in a Clients' positions, and hedges certain risks only partially, if at all. Verition may choose not to hedge certain risks or determine that hedging is economically unattractive—either in respect of particular positions or in respect of the Clients' overall portfolio. Verition may enter into hedging transactions with the intention of reducing or controlling risk. Even if Verition is successful in doing so, the hedging is likely to reduce the Funds' returns. Furthermore, it is possible that hedging strategies will not be effective in controlling risk, due to unexpected non-correlation, or even positive correlation, between the hedging instrument and the position being hedged, increasing rather than reducing both risk and losses. Furthermore, to the extent that any trading strategy involves the use of over-the counter derivatives transactions, the strategy would be affected by implementation of the various regulations adopted pursuant to the Dodd Frank Wall Street Reform and Consumer Protection Act. Although Verition may rely on diversification to control these risks to the extent that Verition believes it is desirable to do so, the Clients may not be subject to any formal diversification policies.

In implementing its investment strategies, Verition, on behalf of its Clients — in order to expand the expertise available to investors beyond Verition's own resources — may enter into joint venture or co-investment arrangements, participate in pooled investment vehicles and/or invest capital with unaffiliated advisers or investment managers. In the case of a Clients' third-party ventures, Verition may have limited knowledge of the underlying positions held by such ventures and therefore may not have a basis on which to establish any hedging positions.

To the extent that Verition hedges, its hedges may not be static but rather may need to be continually adjusted based on Verition's assessment of market conditions, as well as the expected degree of non-correlation between the hedges and the portfolio being hedged. The success of Verition's hedging strategies will depend on Verition's ability to implement these strategies efficiently and cost-effectively, as well as on the accuracy of Verition's ongoing judgments concerning the hedging positions to be acquired by a Client.

## **Material Risks of Verition's Strategies**

Investing in securities and derivatives involves a risk of loss that investors and Clients should be prepared to bear. The following is a summary of some of the material risks associated with the strategies expected to account for a significant portion of the Clients' trading. This summary does not attempt to describe all of the risks associated with the strategies set forth herein or an investment in the Funds or by a Client. Although no summary can fully describe all of the risks associated with investments based on these strategies, the confidential private placement memoranda/confidential offering memoranda for the Feeder Funds contain a more complete description of the risks associated with an investment in the applicable Fund.

*Reliance on Corporate Management and Financial Reporting.* Some of the strategies rely, in substantial part, on the financial information made available by the issuers. Verition will have no ability to verify independently the financial information disseminated by these issuers and depends upon the integrity of both the management of these issuers and the financial reporting process in general in making investments for its Clients. Investors, such as the Funds and other Clients, have incurred material losses in the past as a result of corporate mismanagement, fraud and accounting irregularities.

*Quantitative Trading.* Verition's quantitative strategy is based on statistical models which attempt to identify both absolute and relative mispricing. These models must be continually updated in response to changing market scenarios, participants and conditions. There is substantial competition in the quantitative trading sector, and numerous competitors have intellectual property resources many times greater than those which are available to Verition.

*Credit Trading.* Credit trading involves the risks not only of interest-rate changes and the creditworthiness of issuers in which some of the Clients invest but also — as was made evident during the "credit crisis" of 2007-2009— market liquidity as well as the unwillingness of lenders to provide financing due to widespread uncertainty concerning the balance sheet integrity of potential borrowers.

Credit trading is typically done on a highly leveraged basis and is particularly susceptible to the disparity between the price which dealers are willing to quote for a position and actually transact in it. Credit trading may involve materially greater risk than many other alternative strategies.

*Quoted Value/Transaction Value Disparity.* A Client's portfolio may include substantial positions for which there is only a single broker-dealer quoting prices, which may be preliminary, or "soft." In the absence of actual sale transactions, it is difficult for Verition to test the reliability of preliminary quotes even when multiple broker-dealers are providing "bid" and "ask" prices. Furthermore, if it becomes necessary for the Client to liquidate certain of such securities, for example, to pay margin calls, the sales price may be dramatically less than expected — resulting in a revaluation of the portfolio and possible additional margin calls, and the possibility of a total loss of the portfolio.

*Special Situations Trading.* Special situations strategies generally are based on the expected occurrence of an impending event such as a merger, reorganization or spin-off. Accordingly, special situation investors are subject to material non-consummation risk. If the contemplated transaction does not occur, this strategy is likely to incur major losses. Often there is little, if any, means of successfully hedging non-consummation risk.

To the extent that Verition uses activist investing strategies, Clients may face increased litigation risk. Verition's investment activities may include activities that are hostile in nature and subject some of the Clients to the risks of becoming involved in litigation by third parties. This risk may be greater where the Clients exercise control or significantly influence the company's direction. The expense of defending against claims and paying any amounts pursuant to settlements or judgments would be directly borne by the Clients. Further, ownership of companies over certain threshold levels involves additional filing requirements and substantive regulation of such owners, and if Verition, on behalf of the Clients, fails to comply with all of these requirements, such Clients may be forced to disgorge profits, pay fines or otherwise bear losses or other costs from the failure to comply.

*Spread or Arbitrage Trading.* Spread and arbitrage trading attempts to capitalize on mispricings between related assets. To the extent the price relationships between such positions remain constant, no gain or loss on the positions will occur. Moreover, an unexpected change in the price differential between these positions could cause losses which are significantly magnified by the high degree of leverage typically applied to this type of trading.

*Spread or Arbitrage Trading with Swaps.* Spread and arbitrage trading attempts to neutralize directional exposure to volatility by taking offsetting positions in swaps and other co-integrated and highly liquid instruments. To the extent the price relationships between such positions remain stable, there should be little to no directional exposure to volatility. However, an unexpected change in the correlation between these positions could cause losses which are significantly magnified by the high degree of leverage typically applied to this type of trading.

*Relative Value Strategies.* The success of any relative value trading in which some of the Clients engage will involve Verition's attempt to exploit relative mispricings among interrelated instruments. These mispricings are typically small in absolute terms, so that Verition is likely to use substantial leverage in these strategies in order to have a realistic opportunity to generate the profits it seeks. Although relative value positions are considered to have a lower risk profile than directional trades, relative value strategies are by no means without risk. Mispricings, even if correctly identified, may not converge within the time frame within which the Clients are practically able to maintain its positions. Even pure "riskless" arbitrage — which is rare — can result in significant losses if the arbitrage cannot be sustained, due, for example, to margin calls, until expiration. Relative value strategies are subject to the risks of disruptions in historical price relationships, the restricted availability of credit and the obsolescence or inaccuracy of its or third-party valuation models. Market disruptions may also force these Clients to close out one or more positions.

*Event-Driven Investing.* Event-driven strategies focus on investing in positions whose profitability depends on the result of some significant corporate event, for example, a merger, tender offer, exchange offer or liquidation, occurring. Corporate events are affected by numerous factors — including not only market movements but also regulatory intervention, shareholder votes and changes in interest rates and economic outlook — that can have a particularly adverse effect on even the most apparently safe risk arbitrage investments. The risk of non-consummation in such transactions is high, and unexpected outcomes can lead to substantial losses.

*Directional Trading.* Directional trading strategies are designed to profit from forecasting absolute price movements in a particular instrument. Predicting future prices is inherently uncertain, and the losses incurred, if the market moves against a position, will often not be hedged. The speculative aspect of attempting to predict absolute price movements is generally perceived to exceed that involved in attempting to predict relative price fluctuations or mispricings.



*Structured Finance Risks.* A number of the investment assets purchased by some of the Clients may be “structured finance” products, such as collateralized debt obligations, collateralized loan obligations or participating notes. Structured finance products distance the purchaser from the underlying assets which are intended to generate the returns of the product. In many cases, it has proven difficult, if not impossible, to identify and/or locate certain of such underlying assets. In addition, the financial structure eliminates any rights of the ultimate investors, such as these Clients, to take action with respect to the underlying assets. Often it is difficult to determine exactly what components of the underlying assets the ultimate investors might actually own in different scenarios. Some of the Clients will be subject not only to economic risk, but to the risk of the financial structures in which it participates.

*Trading on Non-U.S. Markets.* Verition may trade on markets outside the U.S. on behalf of some of the Clients. Trading on such markets is not regulated by any U.S. government agency and may involve additional risks not applicable to trading on U.S. exchanges. For example, certain non-U.S. exchanges may be substantially more prone to periods of illiquidity than the U.S. markets due to a variety of factors. Also, some non-U.S. markets, in contrast to U.S. exchanges, are “principals’ markets” similar to the forward markets in which performance is the responsibility only of the individual member with whom the trader has entered into a trade and not of any exchange or clearing corporation. In these cases, the Clients will be subject to the risk of the inability or refusal to perform with respect to the individual member with whom these Clients have entered into a trade.

Clients may not have the same access to certain trades as do various other participants in markets outside the U.S. Trading on non-U.S. exchanges also involves the additional risks of expropriation, burdensome or confiscatory taxation, moratoriums, exchange or investment controls and political or diplomatic disruptions, each of which might materially adversely affect the Clients’ trading activities. In trading on non-U.S. exchanges, some of the Clients are also subject to the risk of changes in the exchange rates between the U.S. dollar and the currencies in which the non-U.S. contracts are settled.

*Leverage.* Some Clients trade on a highly leveraged basis, both through borrowings and through the significant degree of leverage typically embedded in derivative instruments. Losses incurred on such Clients’ leveraged investments increase in direct proportion to the degree of leverage employed. Such Clients also incur interest expense on the borrowings used to leverage their positions.

*Financing Arrangements; Availability of Credit.* The use of leverage is integral to some Clients’ strategies, and such Clients depend on the availability of credit in order to finance their portfolio. There can be no assurance that the Clients will be able to maintain adequate financing arrangements under all market circumstances. As a general matter, the banks and dealers that provide financing to such Clients can apply essentially discretionary margin, haircut, financing, security and collateral valuation policies. Changes by banks and dealers in these policies, or the imposition of other credit limitations or restrictions, whether due to market circumstances, governmental, regulatory or judicial action or other factors, may result in margin calls, loss of financing, forced liquidation of positions at disadvantageous prices, termination of swap and repurchase agreements and cross defaults to agreements with other dealers. These adverse effects may be exacerbated in the event that the limitations or restrictions are imposed suddenly and/or by multiple market participants at or about the same time. The imposition of these limitations or restrictions could compel the Clients to liquidate all or a portion of its portfolio at disadvantageous prices.

*Portfolio Turnover.* On behalf of its Clients, Verition may invest on the basis of short-term

market considerations. The turnover rate of such positions may be significant, potentially involving substantial brokerage commissions and fees. In addition, frequent trading may result in such Clients being “whipsawed” — trading out of positions starting to be profitable and into positions starting to be unprofitable.

*Short Sales.* As an integral part of its quantitative strategy, as well as of other strategies that Verition may employ, some Clients routinely sell securities “short.” A short sale is effected by selling a security that such Clients do not own, or selling a security which the Client owns but does not deliver upon consummation of the sale. In order to make delivery to the buyer of a security sold short, such Client must borrow the security. Short selling is subject to a theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. There can be no assurance that the securities necessary to cover the short position will be available for purchase by the Client. In addition, purchasing securities to close out the short position can itself cause the price of such securities to rise further, thereby increasing any loss incurred by the Client. Furthermore, the Client may be forced to close out a short position prematurely if a counterparty from which the Client borrowed securities demand their return, resulting in a loss on what might otherwise have been a profitable position.

During the severe market disruptions following the bankruptcy of Lehman Brothers in September 2008, securities regulators in a number of countries imposed bans on the short-selling of financial sector equities. Short selling constitutes an integral component of a number of Verition’s strategies, and any regulatory limitations on short-selling which may result from market disruptions could materially adversely affect Verition’s ability to implement its strategies for the benefit of the Clients. Short selling may be subject to further regulatory restrictions, or even bans.

*Equity Securities.* Numerous inter-related and difficult-to-quantify economic factors, as well as market sentiment, subjective and extraneous political, climate-related and other factors, influence the cost of equities; there can be no assurance that Verition will be able to predict future equity price levels correctly.

*Futures Contracts.* The low margin deposits normally required in futures contract trading, which is typically between 2% and 20% of the value of the contract purchased or sold, permit an extremely high degree of leverage. Like other leveraged investments, any futures trade may result in losses in excess of the amount invested. Futures and related options generally can only be traded while the exchange in question is open and are often subject to daily price fluctuation limits which restrict the maximum amount by which the price of a contract can move during a given trading day. These “daily limits” can create significant illiquidity as once the market has moved to the “daily limit” it becomes extremely expensive, as well as difficult if not impossible, to close out positions against which the market is moving. The governing bodies of the various futures exchanges also may intervene so as to limit trading or require the liquidation of certain positions, resulting in major losses for affected market participants.

*Debt Securities.* Debt securities may be subject to price volatility due to various factors including, but not limited to, changes in interest rates, market perception of the creditworthiness of the issuer and general market conditions. In addition to “high investment grade” debt securities, Verition may cause some Clients to invest in “low investment grade” or “non-investment grade” debt securities, which are typically subject to greater market fluctuations and risks of loss both in respect of income and principal than lower yielding, “investment grade” securities. The prices of the “low-investment grade” or “non-investment grade” securities acquired by the Clients are often influenced by many of the same unpredictable factors which affect equity prices.

In addition to the general sensitivity of debt securities to overall interest-rate movements, debt securities involve a fundamental credit risk based on the relevant issuer's ability to make principal and interest payments.

*Distressed and High Yield Securities.* Some Clients may invest in the securities of issuers in weak financial condition, experiencing poor operating results, needing substantial capital investment, perhaps having negative net worth, facing special competitive or product obsolescence problems or involved in bankruptcy or reorganization proceedings. Investments of this type may involve specialized financial and business risks that can result in significant or even total losses. Among the risks inherent in investments in financially troubled issuers is the fact that it is frequently difficult to obtain reliable information as to their true financial condition. The market prices of distressed and high yield securities are subject to abrupt and erratic market movements and excessive price volatility, and unusually wide "bid-ask" spreads.

*Derivatives in General.* Some Clients may make use of various derivative instruments, such as convertible securities, options, futures, forwards and interest rate, credit default, total return and equity swaps. The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage sometimes embedded in such instruments. The derivatives markets are frequently characterized by limited liquidity, which can make it difficult as well as costly to close out open positions in order either to realize gains or to limit losses. The pricing relationships between derivatives and the instruments underlying such derivatives may not correlate with historical patterns, resulting in unexpected losses.

Use of derivatives and other techniques such as short sales for hedging purposes involves certain additional risks, including: dependence on the ability to predict movements in the price of the securities hedged; imperfect correlation between movements in the securities on which the derivative is based and movements in the assets of the underlying portfolio; and possible impediments to effective portfolio management or the ability to meet short term obligations because of the percentage of a portfolio's assets segregated to cover its obligations. In addition, by hedging a particular position, any potential gain from an increase in the value of the position may be limited.

*Swaps and Similar Derivatives.* Swap contracts and similar derivative contracts are not currently traded on exchanges; rather, banks and dealers act as principals in these markets. As a result, a Client may be subject to the risk of the inability or refusal to perform with respect to such contracts on the part of their counterparties. Participants in the swap markets are not required to make continuous markets in the swap contracts they trade.

*Options.* Trading options is highly speculative and may entail risks that are greater than investing in other securities. Prices of options are generally more volatile than prices of other securities. In trading options, Verition speculates on market fluctuations of securities and securities exchange indices while investing only a small percentage of the value of the securities underlying the option. A change in the market price of the underlying securities or underlying market index will cause a much greater change in the price of the option contract. In addition, to the extent that Verition purchases options that it does not sell or exercise, some of the Clients will suffer the loss of the premium paid in the purchase. To the extent Verition sells options and must deliver the underlying securities at the option price, the Clients have a theoretically unlimited risk of loss if the price of such underlying securities increases. If Verition must buy those underlying securities, the Clients risk the loss of the difference between the market price of the underlying securities and the option price. Any gain or loss derived from the sale or exercise of an option will be reduced or increased, respectively, by the amount of the premium paid. The expenses of option investing include commissions payable on the purchase and on the exercise or sale of an option. Furthermore,

the risk of nonperformance by the obligor on an option may be greater and the ease with which Verition can dispose of such an option may be less than in the case of an exchange traded option.

Verition may cause the Clients to buy or sell OTC options — options on securities that are not traded on a securities exchange and are not issued or cleared by an internationally recognized clearing corporation. The risk of nonperformance by the obligor on such an option may be greater, and the ease with which Verition can dispose of such an option may be less, than in the case of an exchange traded option issued by an internationally recognized clearing corporation.

*Forward Contracts.* Some Clients may trade deliverable forward contracts in the interbank currency market. These deliverable forward contracts are not currently traded on exchanges; rather, banks and dealers act as principals in these markets. As a result of the Dodd Frank Wall Street Reform and Consumer Protection Act, the U.S. Commodity Futures Trading Commission (the “CFTC”) now regulates non-deliverable forwards, including many deliverable forwards under which the parties do not take delivery. Changes in the forward markets may entail increased costs and result in burdensome reporting requirements. There is currently no limitation on the daily price movements of forward contracts. Principals in the forward markets have no obligation to continue to make markets in the forward contracts traded. The imposition of credit controls by governmental authorities or the implementation of regulations might limit such forward trading to less than that which Verition would otherwise recommend, to the possible detriment of some of the Clients.

*Credit Default Swaps.* Some Clients may purchase and sell credit derivatives contracts — primarily credit default swaps — both for hedging and other purposes. The typical credit default swap contract requires the seller to pay to the buyer, in the event that a particular reference entity experiences specified credit events, the difference between the notional amount of the contract and the value of a portfolio of securities issued by the reference entity that the buyer delivers to the seller. In return, the buyer agrees to make periodic payments equal to a fixed percentage of the notional amount of the contract. The Clients may also sell credit default swaps on a basket of reference entities as part of a synthetic collateralized debt obligation transaction.

As a buyer of credit default swaps, the Clients will be exposed to the risk that deliverable securities will not be available in the market, or will be available only at unfavorable prices, as would be the case in a so-called “short squeeze.” As a seller of credit default swaps, the Clients will incur leveraged exposure to the credit of the reference entity and is subject to many of the same risks it would incur if it were holding debt securities issued by the reference entity. However, the Clients will not have any legal recourse against the reference entity and will not benefit from any collateral securing the reference entity’s debt obligations. In addition, the credit default swap buyer will have broad discretion to select which of the reference entity’s debt obligations to deliver to the Clients following a credit event and will likely choose the obligations with the lowest market value in order to maximize the payment obligations of the Clients.

Credit default swaps generally trade on the basis of theoretical pricing and valuation models, which may not accurately value the swap positions when established or when subsequently traded or unwound under actual market conditions.

*Sovereign Debt.* Some Clients may invest in debt securities issued by the U.S. Government, or guaranteed by the U.S. Government or any agency thereof. Some of the Clients also may invest in non-U.S. government debt securities, which include debt obligations issued or guaranteed by national, state or provincial governments, political subdivisions or quasi-governmental or supranational entities.

Non-U.S. government debt securities may involve a high degree of risk and governmental entities may default on or restructure their obligations. Certain sovereign debt may have non-investment grade ratings or be in distress or even default.

Governments frequently intervene in the markets by changing the interest rates payable on their sovereign debt.

*Bank Loans and Participations.* Some Clients may invest in fixed and floating-rate bank loans and participations. The special risks associated with these obligations include: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) environmental liabilities that may arise with respect to collateral securing the obligations; (iii) adverse consequences resulting from participating in such investments with other institutions with less available cash to fund their obligations; and (iv) limitations on the ability of an investor in such participations directly to enforce its rights with respect to these instruments.

*ETFs.* The public trading price of ETF shares may be different from the net asset value of the shares and similarly the public trading market price per ETF share may be different from the net asset value per ETF share. Verition's ETF arbitrage strategy is designed to profit from such deviations. The exploitation of these arbitrage opportunities should tend to cause the public trading price to track net asset value per share closely over time, thus limiting the opportunities for arbitrage.

ETF shares are listed for trading on exchanges. Trading in such shares may be halted due to market conditions or, in light of exchange rules and procedures, for reasons that, in the view of the relevant exchange, make trading in the ETF shares inadvisable. In addition, trading is subject to trading halts caused by extraordinary market volatility pursuant to "circuit breaker" rules that require trading to be halted for a specified period based on a specified market decline. There can be no assurance that the requirements necessary to maintain the listing of any ETF's shares will continue to be met or will remain unchanged.

Although it is anticipated that the ETF shares will be listed and traded on exchanges, there can be no guarantee that an active trading market for the shares will develop or be maintained. If Clients need to sell ETF shares at a time when no active market for them exists, the price it receives for such shares, assuming that the Clients are able to sell them, likely will be lower than that it would receive if an active market did exist.

*Exchange Memberships.* Like any other asset, exchange memberships can decline significantly in price. In addition, while there is a market for exchange memberships, they are not as readily marketable, and therefore their "fair value" is not as readily determinable, as the fair value of publicly-traded securities. Consequently, it may be relatively difficult for the Clients to dispose of such investments rapidly and at favorable prices in connection with redemption requests, adverse market developments or other factors.

*Longer-Duration Positions.* Verition anticipates that some of the Clients will be taking longer-term positions in an attempt to achieve its rate of return objectives. These positions typically have no readily determinable value and are carried at or close to cost, as an estimate of "fair value", until a "revaluation" or "realization" event occurs with respect to the positions. These positions create both liquidity and valuation risks for some of the Clients, and can contribute to performance volatility due to sudden and material revaluations or realizations.

*Small and Mid-Capitalization Investments.* The prices of small and mid-capitalization securities are subject to significant fluctuation. Although Verition may succeed in identifying

undervalued securities, there can be no assurance that the “value recognition event” necessary for stock prices to reflect potential value will occur over the time frame during which the Clients hold an investment.

While securities of small and mid-capitalization securities may be publicly-traded, the markets for these securities can become illiquid and are subject to substantial short-term fluctuations. Notwithstanding the existence of a public market, some of these securities may cease, or effectively cease, to be traded after some of the Clients invest in them.

*Technology-Related Risks.* There are certain risks associated with a Client’s investments in companies in the technology sector. These companies may allocate, or may have allocated, greater than usual amounts to research and product development. The securities of these companies may experience above-average price movements associated with the perceived prospects of success of the research and development programs. In addition, these companies could be adversely affected by lack of commercial acceptance of a new product or products or by technological change and obsolescence. Some of these companies may have limited operating histories. The markets in which many companies in the technology or related industries operate are extremely competitive and this competition can result in significant downward pressure on pricing. Companies in which such Client invests may not be able to successfully penetrate their markets or establish or maintain competitive advantages.

*Pre-Payment and Reinvestment Risk.* Pursuant to a loan agreement, a borrower may be required in certain circumstances, and may have the option at any time, to prepay the principal amount of the loan, generally without incurring a penalty. The rate of such prepayments may be affected by, among other things, general business and economic conditions, changes in interest rates and the financial status of the borrower. In the event a prepayment occurs, a Client may not be able to reinvest such amounts on terms as favorable to the Client as the initial investment or find a suitable alternative investment.

*Seed Investment Risks.* Taking an equity stake or a revenue or profit interest in or providing “seed capital” to a third-party manager involves several risks. Frequently these third-party managers have not yet managed client capital on a stand-alone basis and are subject to all the risks associated with start-up operations. Some or all of these third-party managers may be unsuccessful and incur substantial losses. These investments typically require extended lock-up periods. As a result, seed capital generally needs to be committed to a third-party manager for a substantial period of time. Seed investments will also involve the Clients’ relying on the performance of third parties, thereby increasing the risk of manager misconduct or bad judgment, as well as limiting Verition’s control over, and knowledge of, each Client’s overall portfolio. Verition may not be able to withdraw capital from a third-party manager even in situations where such third-party manager is deviating from announced strategies or risk control policies or has otherwise been materially adversely affected. Furthermore, a third-party manager may deviate significantly from its announced strategies and/or risk control policies without Verition’s knowledge. Any equity stake or revenue or profit interest in a third-party manager associated with a seed investment will be highly illiquid and extremely difficult to value.

*Private Investments.* On behalf of its Clients, Verition may implement strategies in which Clients invest in illiquid and restricted, as well as thinly-traded, instruments (including privately placed securities). There is often no trading market for these investments, and the Clients might only be able to liquidate these positions, if at all, at disadvantageous prices. The Clients may be required to hold such investments despite adverse price movements. If the Clients make a short sale of an illiquid holding, the Clients may have difficulty in covering the short sale, resulting in a

potentially unlimited loss to the Clients on that position.

*Illiquid Markets.* The market for some of the instruments traded by the Clients may have limited liquidity under ordinary circumstances, or experience periods of illiquidity despite generally being liquid. Lack of liquidity can prevent the Clients from recognizing profits on open positions or closing out open positions against which the market is moving without large losses. In addition, it can disconnect market values from the historical pricing indicators used in Verition's investment analysis. The fewer the number of transactions that take place, the greater, in general, is the risk of market values' not reflecting true pricing relationships or fair value.

*Market Judgment.* On behalf of its Clients, Verition may use quantitative valuation models in evaluating the economic components of certain investments which are not wholly systematic. The discretionary market judgment of Verition personnel is a basic component of the Clients' strategies. Discretionary action is subject to the risk of inconsistency and errors in judgment.

*Limited Number of Corporate Events.* The minority shareholder corporate events strategy depends on there being a substantial number of corporate events as described above. There have in the past been substantial periods in which the number of corporate events was materially diminished. During any such period, the Partners Master Fund, which pursues only this strategy, is unlikely to be able to invest a substantial part of its capital, much less achieve its objective.

*Limited Investable Universe and Potential Competition.* The strategy for the Partners Funds currently is limited to public common or preferred equity securities of companies which are subject to a merger agreement and where the merger consideration is comprised of all cash or a mix of cash and stock. While there have been a sufficient number of such opportunities in the recent past, Verition may be unable to identify a sufficient number of attractive investments for the Partners Funds to have good opportunity of achieving their profit potential.

Other private investment funds as well as other investors may pursue strategies substantially similar to the strategy of the Partners Funds, and if multiple parties identify the same potential opportunity it may make it more difficult to successfully settle a matter or cause the timeline of an adjudication of a fair value proceeding to be prolonged as petitioners may be consolidated under one action and various petitioners/stockholders may have to coordinate their efforts.

*Disrupted Markets.* The Clients may incur major losses in the event of disrupted markets, and other extraordinary events may not be consistent with the historical pricing relationships on which Verition bases a number of its trading positions. The risk of loss from the breakdown of historical pricing relationships is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving.

The financing available to the Clients from their banks, dealers and other counterparties can be expected to be reduced in disrupted markets. Such a reduction may result in substantial losses to some of the Clients. In 1994, 1998 and again in 2007, a sudden restriction of credit by the dealer community resulted in forced liquidations and major losses for a number of private investment funds applying strategies similar to those which are or may be implemented by the Clients. Market disruptions caused by unexpected political, military and terrorist events may from time to time cause dramatic losses for the Clients, and these events can result in otherwise historically low-risk strategies' performing with unprecedented volatility and risk.

## **ITEM 9. DISCIPLINARY INFORMATION**

Mr. Maounis is the principal of Amaranth Advisors L.L.C. ("**Amaranth Advisors**") and related advisory entities (collectively, "**Amaranth**"), the adviser of Amaranth LLC and related funds (the "**Amaranth Funds**").

There is no outstanding litigation regarding Amaranth. The cases discussed below have all been settled.

During the period from November 2004 until February 2005, Amaranth Advisors sold short the following securities in the five-day period before the pricing of follow-on offerings of these securities: Coeur D'Alene Mines Corp (NYSE:CDE), Catapult Communications Corp. (NASDAQ:CATT), Cleco Corp. (NYSE:CNL), MEMC Electronic Materials, Inc. (NYSE:WFR) and American Superconductor Corporation (NASDAQ:AMSC). In an administrative proceeding, the SEC found these short sales to be a violation of Rule 105 of Regulation M and issued an order on May 9, 2007 which: ordered Amaranth Advisors to cease and desist from committing or causing any violations or future violations of Rule 105 of Regulation M; censured Amaranth Advisors; and ordered Amaranth Advisors to pay disgorgement of \$507,627, representing the profits made by the Amaranth Funds, plus pre-judgment interest of \$59,192 and a civil penalty of \$150,000. No portions of the penalty amounts were waived and the matter was resolved as of May 14, 2009.

Various Amaranth entities were parties to regulatory enforcement actions by the U.S. Federal Energy Regulatory Commission (the "**FERC**") and the CFTC which contained allegations of manipulation and attempted manipulation, respectively, of NYMEX natural gas futures contracts. On August 12, 2009, the U.S. District Court in the Southern District of New York entered into a judgment to approve the CFTC Consent Order resolving the CFTC action against Amaranth Advisors L.L.C. and Amaranth Advisors (Calgary) ULC. On July 20, 2009, the FERC Enforcement Staff and Amaranth Advisors L.L.C., Amaranth Management Limited Partnership, Amaranth Group Inc., Amaranth Advisors (Calgary) ULC, Matthew Donohoe and the Amaranth Funds entered into a Settlement Agreement resolving all claims against the settling respondents arising from allegations made in the FERC's July 26, 2007 Order to Show Cause. The FERC Commissioners voted on August 12, 2009 to approve the FERC Settlement.

The CFTC and FERC Settlements were closely coordinated with both regulatory agencies as to both timing and terms. The settlement of the CFTC action resulted in the issuance of an order enjoining two Amaranth entities from violating various anti-manipulation provisions of the Commodity Exchange Act, and enjoining Amaranth Advisors L.L.C. from violating a provision of the Commodity Exchange Act prohibiting, among other things, false or misleading statements to futures exchanges or associations. The Amaranth entities neither admitted nor denied the allegations in the CFTC complaint against them. The FERC action was an administrative action and the FERC settlement involved FERC's issuance of an order approving a settlement between various Amaranth entities and the staff of FERC's office of enforcement. The settlement agreement contained stipulated facts regarding the trading by various Amaranth entities of natural gas futures and swaps, including that, if not for sales of natural gas futures contracts by Amaranth Advisors near the close of trading, the value of related swap positions held by Amaranth LLC would have been lower. The Amaranth entities neither admitted nor denied the allegations in the FERC's Order to Show Cause against them. A single civil monetary penalty in the amount of \$7.5 million was agreed to resolve the CFTC and FERC regulatory proceedings.



## **ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

As noted under Item 4 above, HAO Advisors, LLC, a Delaware limited liability corporation and an affiliate of Verition, acts as an investment adviser. HAO Advisors, LLC and Verition conduct a single advisory business, and HAO Advisors, LLC therefore relies upon Verition's investment adviser registration under an umbrella registration.

Mr. Maounis has been the President and Chief Investment Officer of Amaranth since September 2000. Mr. Maounis has a conflict in splitting his time between managing the remaining operations of the Amaranth Funds and the operations of Verition.

Verition Fund Management LLC is registered with the CFTC as a commodity pool operator and is a member of the NFA. Certain members of Verition Fund Management LLC are registered with the NFA as principals and/or associated persons. Verition relies on the "non-resident investment fund manager" exemption from registration as a non-Canadian resident investment fund manager with the Ontario Securities Commission.

Verition Advisors (Canada) ULC is a subsidiary of Verition which has entered into an investment sub-advisory agreement with the Canada Master Fund. Verition Advisors (Canada) ULC is registered in the category of Investment Counsel and Portfolio Manager with the Ontario Securities Commission.

Mr. Maounis has a significant, though minority and non-controlling, investment interest in EDGE Technology Group LLC, which provides information technology-related services to hedge funds and floor trading groups, including the funds managed by Verition. This investment creates a conflict between Verition's duty to act in the best interests of the Funds and its incentive to generate revenue for the company in which Mr. Maounis invests. Verition manages this conflict by periodically reviewing the arrangement between EDGE Technology Group and the Funds with a view towards assessing that its terms are equivalent or better to those that would be obtained with respect to an arrangement entered into on an arm's-length basis.

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

### **Code of Ethics**

As a SEC-registered investment adviser, Verition has adopted a Code of Ethics pursuant to SEC Rule 204A-1. The Code of Ethics includes Verition's policies as they relate to personal investment and trading by Verition management and employees, and includes a requirement that securities holdings be reported and pre-approval procedures for transactions. The Code of Ethics defines material nonpublic information and the restrictions on trading on any material nonpublic knowledge and sets forth the responsibilities of all supervised persons relative to insider trading. The Code of Ethics includes policies and procedures on issues of security as they relate to sensitive and confidential materials and record retention of all documents and electronic information.

All principals and employees of Verition must acknowledge that they understand and agree to comply with the Code of Ethics initially upon employment and must certify on an annual basis that they have read and understand the code and have complied with it.

In its role as investment adviser to the Clients, Verition and its principals and employees make investment decisions for the Clients. Verition and its principals and employees may trade and invest

for their own accounts in the same securities as those in which it invests on behalf of the Clients. Trades for Verition, its principals or employees may be made at or near the time that trades are placed for the Clients. As a result of a neutral allocation system, testing a new trading system, trading their personal accounts more aggressively, or any other actions that would not constitute a violation of fiduciary duties, Verition's principals and employees may take positions in their personal accounts which are opposite or ahead of the positions taken for the Clients. The records of this trading will not be made available to investors in the Funds or the SMA. To address the conflicts of interest posed by this type of trading, Verition maintains the Code of Ethics, as described above. Specifically, the Code of Ethics requires principals and employees to report all securities holdings, and to report all transactions in securities with limited exceptions for securities such as shares of mutual funds, and these transactions are reviewed by Verition's compliance personnel with a view to ensuring that transactions are not based on information concerning the Clients' trades or with knowledge that they would disadvantage the Clients.

Verition's Code of Ethics is available to investors and potential investors upon request.

## **ITEM 12. BROKERAGE PRACTICES**

### **Generally**

The Clients maintain numerous brokerage and custody arrangements with banks and other established financial institutions. Verition is authorized to determine the broker or dealer to be used for each securities transaction on behalf of the Clients. In selecting brokers and determining commission rates, Verition takes into account the financial stability, strength and reputation of a broker and the quality of the investment research, investment strategies, special execution capabilities, willingness to execute related or unrelated difficult transactions, efficiency of execution and error resolution, clearance, settlement, custody, recordkeeping and other services provided by such broker, as described more fully below, even though the Clients may or may not in any particular instance be the direct or indirect beneficiary of the research or other services provided.

### **Soft Dollars**

Section 28(e) of the Securities Exchange Act of 1934 provides a "safe harbor" to investment managers who use "soft dollars," i.e., commissions generated by their advised accounts, to obtain investment research and brokerage services from companies that provide lawful and appropriate assistance to the manager in connection with the investment decision-making process. Conduct outside of the safe harbor afforded by Section 28(e) is subject to the traditional standards of fiduciary duty under state and federal law. The Manager will only enter into arrangements under which it receives products and services in exchange for soft dollars where it reasonably believes that the arrangement falls within the safe harbor of Section 28(e). When a product or service provided has both "eligible" uses under Section 28(e), i.e., uses related to the Manager's investment decision-making process, but also has other uses, Manager will make a reasonable allocation between the eligible and non-eligible uses and use soft dollars only for the eligible portion.

Research and brokerage services obtained by the use of commissions arising from a Client's portfolio transactions may be used by the Manager in its other investment activities. A Client may not necessarily, in any particular instance, be the direct or indirect beneficiary of the research or brokerage services provided in consideration of the soft dollars generated by a Client's trading. The Manager is specifically authorized to direct brokerage to firms that provide such services.

Products and services which may be provided to Verition by a Client's brokers may include, without limitation, clearance and settlement services, online access to computerized data regarding clients'

accounts, performance measurement data, consultations, economic and market information, portfolio strategy advice, industry and company comments, technical data, recommendations, general reports, custody, recordkeeping and similar services, newswire and data processing charges, quotation services, subscription fees to periodicals and other reasonable expenses incurred by Verition in performing services on behalf of the Funds.

In the last fiscal year, Verition has received from brokers trading execution software and communication lines, live exchange market data used in systematic trading strategies, telecommunication exchange lines for execution, exchange fees, exchange market data, traditional research reports, seminars and conferences, and market, economic, political and financial information.

The Manager pays bundled commission rates and receives research and brokerage provided by many of its executing and prime brokers. The Manager need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. Commission rates are generally negotiable, and selecting brokers on the basis of considerations that are not limited to commission rates may result in higher transaction costs than would otherwise be obtainable. Brokers may provide research and brokerage services directly or by paying service providers engaged by the Manager. In addition, the Manager may, subject to its best execution policy, trade with certain brokers primarily in consideration for providing research services. In any such case the Manager will determine in good faith that the amount of commissions charged is reasonable in relation to the value of the brokerage and research products or services provided by the broker.

The Manager may, but is not obligated to, enter into arrangements under which certain direct expenses of a Fund are paid with soft dollars. The Manager will enter into such arrangements where it believes that it is administratively or operationally expedient to do so or where they are more favorable to a Fund than an arrangement under which a Fund pays for the products or services in question with cash. However, such arrangements make it more difficult for investors to evaluate the cost structure of a Fund because the costs of such products or services are not broken out separately.

In addition to any soft dollar arrangements that the Manager enters into with brokers, brokers may provide certain research or other products or services to all of their customers, including the Manager, without being requested to do so. Similarly, brokers may refer investors to the Manager. The Manager may take advantage of the products or services provided rather than producing or paying for them from another provider. Similarly, the Manager may accept investor referrals from brokers in appropriate circumstances. In these situations the Manager receives a benefit because it does not have to pay for the products or services, such as research, or because it will receive additional compensation if a Fund accepts new investments.

The Manager has an incentive to recommend broker-dealers based on benefits that it receives from brokers, whether or not pursuant to soft dollar arrangements, rather than the interests of a Fund in receiving the most favorable execution. Any products or services that the Manager receives from broker-dealers may be used in connection with its management of all client accounts, not just selected accounts.

### **Allocation of Investment Opportunities**

When Verition determines that it would be appropriate for more than one Client or other account managed by Verition to participate in an investment opportunity, Verition will seek to execute orders for all of the participating accounts on an equitable basis over time. Verition will determine the amount to be allocated to each Client and/or account based on a variety of factors which may include, but are not limited to: the investment strategies implemented (which may be similar, different or partially overlapping); capitalization; applicable investment restrictions, guidelines and

client mandates; current capital exposures (including leverage) and portfolio allocations; liquidity profiles and constraints; and such other factors as may be enumerated in Verition's allocation policies and procedures or that Verition otherwise deems appropriate. Accordingly, Verition may determine that it is not appropriate to allocate an investment opportunity *pro rata* in accordance with the relative capitalizations of such Client(s) and account(s). However, in the event investment capacity is limited, Verition generally will, if possible, make allocations between or among such Client(s) and account(s) *pro rata* in accordance with allocations that would have made in the absence of such capacity constraints.

These factors provide substantial discretion to Verition in allocating investment opportunities. Further, two or more Clients or accounts may hold an investment for which there is extremely limited, or no, liquidity or that is subject to legal or other restrictions on transfer. In a situation where Verition is limited in its ability to dispose of an investment, Verition may consider such factors, among others, in allocating the sale of such an investment.

Additionally, if an investment opportunity is available in limited quantities, Verition may have an incentive to allocate such investment opportunity to one Client or account rather than other Clients or accounts. For example, such an incentive may arise if the economic interests of Verition and its employees in certain of these Clients or accounts, when combined with their rights to management fees and/or performance-based compensation or other fees, are significantly larger than their direct and indirect economic interests in other Clients or accounts. Such an instance may lead to fewer, and less attractive, investment opportunities being made available to Clients than would have been the case had Verition and its employees been restricted from pursuing investment programs on behalf of other Clients or accounts.

In an attempt to resolve those conflicts, Verition has developed the allocation policies and procedures generally described herein. These allocation policies and procedures take into consideration many of the above-enumerated factors, as well as other considerations, in determining how investment opportunities will be allocated among various Clients or accounts to whom such opportunities might be offered. Verition will endeavor to address the conflicts so that over time all Clients are treated fairly and equitably, and no Client is systematically disadvantaged. Verition maintains documentation regarding the capital of each Fund and the *pro rata* amount allocated to the Funds for each deal.

The Multi-Strategy Funds and the Partners Funds have an overlapping strategy—the minority shareholder corporate events strategy. However, the Partners Funds are committed capital-style funds and must call capital from investors in order to make investments. Capital calls require advance notice to investors, which may delay the execution of the Partners Master Fund's investment strategy once an investment decision is made (a limitation to which the Multi-Strategy Funds are not subject). As a result, if Verition determines an investment is appropriate for both the Multi-Strategy Master Funds and the Partners Master Fund, Verition will execute the trade on behalf of the Partners Master Fund after capital has been called and received – which may be at least three days after Verition executes the trade on behalf of the Multi-Strategy Master Funds (and potentially longer if the Partners Funds' capital call notice period is extended).

### **Aggregation**

To the extent feasible under applicable rules and regulations, if Verition has determined to invest in a security at the same time for more than one account, it may aggregate orders for all such accounts simultaneously, and if an order is not filled at the same price, Verition may average the prices paid or use any other allocation technique it believes is fair. Similarly, if an order cannot be fully

executed under prevailing market conditions, Verition may allocate the securities traded among different accounts on a basis which Verition considers equitable—generally *pro rata* in accordance with allocations that would have been made had the order been fully executed. Situations may occur in which a Client could be disadvantaged because of the investment activities conducted by Verition for other accounts managed by Verition.

Based on its allocation policies and procedures, Verition generally will be required to designate the amount of securities to be purchased or sold for each account participating in the bunched order at the time the order is communicated to the trading desk. This pre-determined allocation will be based upon a number of factors as generally described above. If a bunched order is not completely filled, it will typically be allocated on a *pro rata* basis to all Clients participating in the order promptly following execution in accordance with allocations that would have been made had the order been fully executed. Where a combined order is executed at more than one price over the course of a day, the executed transactions will be allocated so that each account receives the average unit price and bears its *pro rata* share of the transaction costs, to the extent reasonably practicable. To the extent that any of those orders remains unfilled following that allocation, the unfilled amount will be combined with subsequent orders in that security, if any, for allocation of subsequent transactions. In certain cases, when Verition determines that *pro rata* allocation is not appropriate under the particular circumstances, the allocation will be made based on other factors that Verition deems appropriate, including, without limitation, the avoidance of a Client holding odd lots or similar de minimis number of shares or the factors set forth below. In such cases, Verition will increase or decrease the amount of securities that would otherwise be allocated to each Client by reallocating the securities in a manner which Verition deems fair and equitable to Clients over time. Any deviation from *pro rata* allocation must be approved in advance by the Chief Compliance Officer, who will maintain a record of the reason for the deviation.

### **Trade Errors**

On occasion, trades may be executed on behalf of Clients that are inconsistent with the trading instructions of a Client portfolio manager or are the result of some other error in the trading process. Such trades are known as “Trade Errors” and are deemed to have occurred when, as a result of such inconsistency or other error in process: (1) the wrong instrument is purchased or sold; (2) the wrong quantity of an instrument is purchased or sold; (3) a purchase is made instead of a sale or a sale is made instead of a purchase; or (4) an instrument is purchased or sold in violation of regulatory or contractual obligations. “Trade Errors”, however, do not include (1) scenarios that do not result in a trade; (2) errors caused by brokers or other third parties; or (3) errors or other incidents that occur in connection with Verition’s use of models and/or data sources in the investment management process that may impact a Client’s portfolio.

Trade Errors frequently result in losses but may, occasionally, result in gains. Verition will endeavor to detect Trade Errors before settlement and correct and/or mitigate them in an expeditious manner. To the extent a Trade Error is caused by a third party, such as a broker, Verition may seek to recover any losses associated with the Trade Error from such third party, but may choose not to do so in its discretion, and Verition will not be liable for such losses. Unless a Trade Error has resulted from the fraud, bad faith, gross negligence or reckless or intentional misconduct of Verition or its employees, any losses will be borne by the Client. Any gains resulting from a Trade Error will be for the benefit of the Client. Verition will determine in its sole discretion whether any Trade Error has resulted from the fraud, bad faith, gross negligence or reckless or intentional misconduct on its part. Investors should be aware that, in making such determinations, Verition will have a conflict of interest.

### **ITEM 13. REVIEW OF ACCOUNTS**

Verition has developed trading and risk management systems which enable senior management and portfolio managers to review and oversee trading for the firm. The operations group reviews the portfolios to ensure that all transactions are recorded properly on a T+1 daily basis, monitors and/or resolves any trade breaks detected on T+1, and ensures that all positions are valued correctly on a monthly basis. The Chief Financial Officer or its delegate reconciles the profit and loss to the administrator on a monthly basis.

Verition or its delegate sends unaudited written monthly statements to each investor in the Multi-Strategy Feeder Funds that includes estimates of the fund's performance and the increase or decrease in net asset value as well as such other information as Verition may deem appropriate. Verition or its delegate sends unaudited quarterly statements to each investor in the U.S. Partners Feeder and/or Offshore Partners Feeder that includes estimates of the fund's performance, the increase or decrease in net asset value as well as such other information as Verition may deem appropriate. On a quarterly basis, Verition sends each of its investors in the Multi-Strategy Feeder Funds an unaudited statement which includes the information described in CFTC Regulation 4.7. In addition, Verition or its delegate makes available to each investor an annual written report containing audited financial statements within 120 days of the relevant fiscal year-end.

Separately managed account clients also receive reports, the frequency and content of which are determined pursuant to the applicable investment management agreement or other similar agreement with Verition.

### **ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION**

Verition does not accept an economic benefit from third parties for providing investment advisory services to Clients. Verition does not have any arrangements by which it pays an unaffiliated person or entity to solicit Clients on its behalf.

Verition may compensate appropriate registered selling agents and sponsors of investment vehicles that invest in the Funds, including the sponsor of any qualified domestic institutional investor, by sharing with the selling agent or sponsor a portion of the management fee and/or performance fee or allocation received by Verition with respect to the shares/interests sold by the selling agent or purchased by such investment vehicle, as applicable. Any such selling agent or sponsor will have a conflict between its duty to its clients or investors and its interest in increasing its compensation by causing investments to be made, or recommending investments, in the Funds.

All prospective investors whose investments may be subject to any form of placement fee and/or referral fee payable by the investor will be informed prior to the effective date of their investment, and given the opportunity to revoke or withdraw their prospective investment prior to its being made.

### **ITEM 15. CUSTODY**

Under Rule 206(4)-2 of the Investment Advisers Act of 1940, Verition is deemed to have custody of the securities and other assets of the Funds. Verition is exempt from many of the provisions of Rule 206(4)-2 because the Funds are audited in accordance with U.S. Generally Accepted Accounting Principles on an annual basis by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. Audited financial statements are distributed within 120 days of the relevant fiscal year-end.

Verition may or may not accept custody with respect to separately managed accounts as set forth in the applicable investment management agreement or other similar agreement.

#### **ITEM 16. INVESTMENT DISCRETION**

Pursuant to the governing documents of the Funds, Verition has complete discretionary investment authority with respect to all securities owned by the Funds. There are no limitations on this authority. This authority is conveyed in the Funds' governing documents and acknowledged by investors in their subscription agreements.

Verition has discretionary or non-discretionary authority to manage separately managed accounts as set forth in the applicable investment management agreement or other similar agreement.

#### **ITEM 17. VOTING CLIENT SECURITIES**

Verition has the authority to vote the securities held by the Funds. Verition may accept authority to vote securities on behalf of separately managed accounts as set forth in the applicable investment management agreement or other similar agreement.

In addition to proxy solicitation in connection with equity securities of traditional operating companies, "voting client securities" is deemed to include any consent requested in matters such as bankruptcy or insolvency, covenant waivers in connection with debt, approvals regarding the restructuring of debt and other rights and remedies with respect to securities.

In accordance with SEC Rule 206(4)-6, Verition has adopted proxy voting policies and procedures reasonably designed to ensure that Verition votes proxies in the best interest of its clients. Neither the Funds nor any investor in the Funds may direct Verition's vote with respect to any particular solicitation and all decisions relating to voting proxies are made by Verition.

As a matter of general policy, Verition seeks to be an active trader of securities without seeking to influence or control company operations or activities. Accordingly, where the voting of proxies is considered to be irrelevant to the investment decision to purchase, hold, or sell a security, Verition will not vote proxies on behalf of clients. For example, Verition's quantitative strategy follows a systematic approach and generally involves a high volume of trading and very short holding periods and is not dependent on the outcome of proxy contests. In fact, in many cases Verition will have exited a position by the time it receives proxy voting material. Accordingly, in connection with its quantitative strategy Verition has determined not to vote proxies because the costs of such voting would outweigh the potential benefits to the Funds, although it reserves the right to vote proxies in connection with this strategy in the future.

To the extent the execution of a particular strategy involves voting proxies, and/or Verition determines proxy voting to be cost effective, Verition will vote proxies on behalf of the Funds in the interest of maximizing investor value. To that end, Verition will vote in a way that it believes is consistent with its fiduciary duty and will cause the value of the issue to increase the most. Verition will take into account the recommendation of the relevant company's board of directors in considering how to vote, but will vote against the board's recommendation if it determines that it would be in the best interests of the Funds to do so. Decisions will not be made on social, ethical, moral or other non-economic grounds. Consideration will be given to both the short and long-term implications of the proposal.

With respect to strategies where Verition is required to vote pursuant to its proxy voting policies,

Verition may delegate to an independent proxy voting service the authority to exercise the voting rights associated with client holdings. Any such delegation will require that votes be exercised in accordance with Verition's proxy voting policies. Verition currently has delegated responsibility for proxy voting to Institutional Shareholder Services, Inc. ("ISS").

Verition follows procedures designed to identify conflicts or potential conflicts that could arise between its own interests and those of Funds. If it is determined that any such conflict or potential conflict is not material, Verition may vote proxies notwithstanding the conflict. If it is determined, however, that a conflict of interest or potential conflict of interest is material, the Chief Compliance Officer will work with appropriate personnel to agree upon a method to resolve the conflict before voting proxies affected by the conflict. If the Chief Compliance Officer determines that a material conflict of interest exists, Verition may, at its expense, engage the services of an outside proxy voting service or consultant who will provide an independent recommendation on the direction in which Verition should vote on the proposal. In such circumstances, the proxy voting service's or consultant's determination will be binding on Verition. Verition may also elect to abstain from voting if it deems such abstinence in the clients' best interests.

Clients or investors in a Fund may request a copy of Verition's Proxy Voting Policy, as well as relevant proxy voting records, by written request to:

Amy Barrett  
Verition Fund Management LLC  
One American Lane Greenwich,  
CT 06831

#### **ITEM 18. FINANCIAL INFORMATION**

Verition does not require or solicit pre-payment of more than \$1,200 in fees per Client, six months or more in advance. There is no financial condition that is reasonably likely to impair Verition's ability to meet its contractual commitments to Clients, and it has not been the subject of a bankruptcy petition.