

**ITEM 1  
COVER PAGE**

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**PART 2A OF FORM ADV: FIRM BROCHURE**

**HUTCHIN HILL CAPITAL, LP**

April 1, 2013

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*This brochure (this "Brochure") provides information about the qualifications and business practices of Hutchin Hill Capital, LP (the "Investment Adviser"). If you have any questions about the contents of this Brochure, please contact us at (212) 757-4490 or [info@hutchinhill.com](mailto:info@hutchinhill.com), or contact James McGovern, Chief Compliance Officer, at 646-616-2067, [compliance@hutchinhill.com](mailto:compliance@hutchinhill.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.*

*The Investment Adviser is registered as an investment adviser with the SEC. Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.*

*Additional information about the Investment Adviser also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

## **ITEM 2**

### **MATERIAL CHANGES**

The following material changes have occurred since the Investment Adviser filed its last annual amendment on March 30, 2012:

- On June 30, 2012, Hutchin Hill Capital Credit Manager, LP, a related adviser to the Investment Adviser, began providing investment advisory services to: (i) Hutchin Hill Liquid Credit Domestic Fund LP; (ii) Hutchin Hill Liquid Credit Offshore Fund Ltd.; (iii) Hutchin Hill Liquid Credit Master Fund Ltd; and (iv) Hutchin Hill Liquid Credit Trading Vehicle Ltd.
- Mark Haas, Previously the Chief Operating Officer of the Investment Adviser, is no longer affiliated with the Investment Adviser.
- Hutchin Hill Capital, LP entered into a sub-advisory agreement with Hutchin Hill UK LLP, a London-based affiliate of Hutchin Hill Capital, LP.

# **ITEM 3** **TABLE OF CONTENTS**

ITEM 1 COVER PAGE.....	i
ITEM 2 MATERIAL CHANGES .....	ii
ITEM 3 TABLE OF CONTENTS .....	iii
ITEM 4 ADVISORY BUSINESS .....	1
A. <u>General Description of Advisory Firm</u> .....	1
B. <u>Description of Advisory Services</u> .....	1
1. <b>Advisory Services</b> .....	1
2. <b>Investment Strategies and Types of Investments</b> .....	3
C. <u>Availability of Customized Services for Individual Clients</u> .....	3
D. <u>Wrap Fee Programs</u> .....	3
E. <u>Assets Under Management</u> .....	3
ITEM 5 FEES AND COMPENSATION .....	4
A. <u>Advisory Fees and Compensation</u> .....	4
B. <u>Payment of Fees</u> .....	5
C. <u>Additional Fees and Expenses</u> .....	5
D. <u>Prepayment of Fees</u> .....	7
E. <u>Additional Compensation and Conflicts of Interest</u> .....	8
ITEM 6 PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT.....	9
ITEM 7 TYPES OF CLIENTS .....	10
ITEM 8 METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS.....	11
A. <u>Methods of Analysis and Investment Strategies</u> .....	11
B. <u>Material, Significant or Unusual Risks Relating to Investment         Strategies and Risks Associated With Particular Types of Securities</u> .....	14
ITEM 9 DISCIPLINARY INFORMATION .....	45
ITEM 10 OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS .....	46
A. <u>Broker-Dealer Registration Status</u> .....	46
B. <u>Futures Commission Merchant, Commodity Pool Operator or         Commodity Trading Adviser Registration Status</u> .....	46
C. <u>Material Relationships or Arrangements with Industry Participants</u> .....	46
D. <u>Material Conflicts of Interest Relating to Other Investment Advisers</u> .....	47
ITEM 11 CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING.....	48
A. <u>Code of Ethics</u> .....	48

B. <u>Securities that the Investment Adviser or a Related Person Has a Material Financial Interest.</u> .....	48
C. <u>Investing in Securities that the Investment Adviser or a Related Person Recommends to Clients.</u> .....	48
ITEM 12 BROKERAGE PRACTICES .....	50
A. <u>Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.</u> .....	50
1. Research and Other Soft Dollar Benefits.....	50
2. Brokerage for Client Referrals.....	51
3. Directed Brokerage. ....	51
B. <u>Order Aggregation.</u> .....	51
ITEM 13 REVIEW OF ACCOUNTS.....	52
A. <u>Frequency and Nature of Review of Client Accounts or Financial Plans.</u> .....	52
B. <u>Factors Prompting Review of Client Accounts Other than a Periodic Review.</u> .....	52
C. <u>Content and Frequency of Account Reports to Clients.</u> .....	52
ITEM 14 CLIENT REFERRALS AND OTHER COMPENSATION.....	53
A. <u>Economic Benefits for Providing Services to Clients</u> .....	53
B. <u>Compensation to Non-Supervised Persons for Client Referrals.</u> .....	53
ITEM 15 CUSTODY .....	54
ITEM 16 INVESTMENT DISCRETION .....	55
ITEM 17 VOTING CLIENT SECURITIES.....	56
ITEM 18 FINANCIAL INFORMATION .....	57

## **ITEM 4**

### **ADVISORY BUSINESS**

#### **A. General Description of Advisory Firm.**

Hutchin Hill Capital, LP (“Hutchin Hill Capital”), a Delaware limited partnership, commenced operations in 2008 with an office in New York. Mr. Neil A. Chriss controls Hutchin Hill Capital through Hutchin Hill Capital GP, LLC, its general partner. The other principals of the Hutchin Hill Capital are Messrs. Seth Padowitz, Gregory Racz and Omar Saeed.

Hutchin Hill Capital Credit Manager, LP (“Hutchin Hill Capital Credit”), a Delaware limited partnership, commenced operations in 2012 in the same office as Hutchin Hill Capital. Mr. Chriss controls Hutchin Hill Capital Credit through Hutchin Hill Capital GP, LLC, its general partner. The other principals of Hutchin Hill Capital Credit are Messrs. Padowitz, Racz and Saeed.

Hutchin Hill Portfolio Management, LLC, a Delaware limited liability company (the “PM Company”), acts as a services company to each of the Funds (as defined below) pursuant to services agreements (each, a “Services Agreement” and collectively, the “Services Agreements”). The PM Company is also controlled by Mr. Chriss. Pursuant to the Services Agreements, the PM Company employs Investment Professionals (as defined below) and their respective staffs and pays, in the first instance, among other things, the salaries, benefits and bonuses of the Portfolio Management Teams (as defined below).

Hutchin Hill Capital has also entered into sub-advisory agreements with Hutchin Hill Capital Texas, LP and Hutchin Hill UK LLP, a London-based, FSA-authorized sub-adviser (the “Sub-Advisers”). It should be noted that Hutchin Hill Capital and Hutchin Hill Capital Credit, collectively with Hutchin Hill Fund GP, LLC, Hutchin Hill Liquid Credit Fund GP, LLC, the PM Company and the Sub-Advisers (together, the “Affiliates”) are filing a single Form ADV in reliance upon the positions expressed in the January 18, 2012 American Bar Association no-action letter with respect to relying advisers and special purpose general partners. The Investment Adviser and its Affiliates, and each of their respective employees and persons acting on their behalves, are under the Investment Adviser’s supervision and control, and are subject to and comply with the compliance policies and procedures of the Investment Adviser. As a result, each of the Affiliates is deemed to be a registered adviser.

As used herein, the term “Investment Adviser” may refer to Hutchin Hill Capital, LP, together with the Affiliates.

#### **B. Description of Advisory Services.**

##### **1. Advisory Services.**

Hutchin Hill Capital serves as the management company, with discretionary trading authority, to (1) Hutchin Hill Capital Domestic Fund, LP, a Delaware limited liability partnership (the “Diversified Alpha Domestic Fund”), (2) Hutchin Hill Capital Offshore Fund, Ltd., a Cayman Islands exempted company (the “Diversified Alpha Offshore Fund”, and together with the Diversified Alpha Domestic Fund, the “Diversified Alpha Feeder”).

Funds"), and (3) Hutchin Hill Diversified Alpha Master Fund Ltd., a Cayman Islands exempted company (the "Diversified Alpha Master Fund", and collectively with the Diversified Alpha Feeder Funds, the "Diversified Alpha Funds"). Hutchin Hill Fund GP, LLC, a Delaware limited liability company affiliated with the Investment Adviser, serves as the general partner of the Diversified Alpha Domestic Fund.

Hutchin Hill Capital Credit serves as the management company, with discretionary trading authority, to (1) Hutchin Hill Liquid Credit Domestic Fund LP, a Delaware limited partnership (the "Credit Domestic Fund"), (2) Hutchin Hill Liquid Credit Offshore Fund Ltd, a Cayman Islands exempted company (the "Credit Offshore Fund" and together with the Domestic Credit Fund, the "Credit Feeder Funds"), and (3) Hutchin Hill Liquid Credit Master Fund Ltd, a Cayman Islands exempted company (the "Credit Master Fund", and collectively with the Credit Feeder Funds, the "Credit Funds") and Hutchin Hill Liquid Credit Trading Vehicle Ltd, a Cayman Islands exempted company (the "Credit Trading Vehicle"). The Credit Funds and the Diversified Alpha Funds will be referred to collectively from time to time as the "Funds". Hutchin Hill Liquid Credit Fund GP, LLC, a Delaware limited liability company affiliated with the Investment Adviser, serves as the general partner of the Domestic Credit Fund. Although the Credit Master Fund has the authority to effect its trades directly, it is anticipated that substantially all of the Credit Master Fund's investable assets and substantially all of its trades will be invested and effected, respectively, through the Credit Trading Vehicle, a Cayman Islands exempted company for which Hutchin Hill Capital Credit serves as the management company. The Diversified Alpha Master Fund also indirectly invests in the Credit Trading Vehicle.

The Diversified Alpha Feeder Funds invest substantially all of their assets through a "master feeder" structure directly or indirectly in the Diversified Alpha Master Fund, and the Credit Feeder Funds invest substantially all of their assets through a "master feeder" structure directly or indirectly in the Credit Master Fund. The Investment Adviser generally manages the strategies of the Funds by allocating capital to a number of investment strategies (in the case of the Diversified Alpha Master Fund) or in one more specific strategy (in the case of the Credit Master Fund), as described in Item 8 below, each managed by a head or co-head (each, an "Investment Professional") of a group responsible for managing a particular strategy (each, a "Portfolio Management Team"). The Investment Adviser generally allocates capital of the Diversified Alpha Master Fund directly or indirectly by establishing subsidiaries of the Diversified Alpha Master Fund (each, a "Sub-Fund"), each of which is managed by an Investment Professional with respect to one or more strategies. Messrs. Chriss and Padowitz may at times manage capital with respect to a strategy or manage positions associated with top-down hedge trades or opportunistic trades.

As used herein, the term "client" generally refers to each Fund.

## **2. Investment Strategies and Types of Investments.**

Please see Item 8.

### **C. Availability of Customized Services for Individual Clients.**

The Investment Adviser's investment decisions and advice with respect to each Fund are subject to each Fund's investment objectives and guidelines, as set forth in such Fund's offering documents. In providing services to the Funds, the Investment Adviser provides investment advice directly to the Funds and not individually to the Investors. The Investment Adviser neither tailors the advisory services it provides to the Funds to the individual needs of Investors nor accepts Investor-imposed investment restrictions.

### **D. Wrap Fee Programs.**

The Investment Adviser does not participate in wrap fee programs.

### **E. Assets Under Management.**

The Investment Adviser and its Affiliates manage approximately \$1,128,163,000 (calculated based on net asset value) as of December 31, 2012 on a discretionary basis. As of March 31, the Investment Adviser does not manage any assets on a non-discretionary basis.

## ITEM 5 FEES AND COMPENSATION

### A. Advisory Fees and Compensation.

The fees applicable to each Fund are set forth in detail in such Fund's offering documents. A brief summary of such fees is provided below.

The Diversified Alpha Master Fund will generally pay to the Investment Adviser a management fee equal to 0.5% (2% annualized) of the net asset value of shares of the Diversified Alpha Master Fund (other than for investors who elect "institutional" shares), determined as of the beginning of the respective quarter or, if shares were purchased other than at the beginning of a calendar quarter, the date on which such shares were purchased. The Diversified Alpha Master Fund issues institutional shares for which the management fee paid by the Diversified Alpha Master Fund to the Investment Adviser ranges from 0.25% - 0.4% (1.0% to 1.6% annualized) (determined based on the aggregate amount invested by a shareholder) of the net asset value of such institutional shares as of the beginning of the respective quarter. The Investment Adviser may, under certain circumstances, in its sole discretion, choose to reduce, waive, or calculate differently the management fee payable by the Diversified Alpha Master Fund.

The Credit Master Fund will generally pay to the Investment Adviser a management fee, in advance, for each month equal to 1/12 of 2% of the net asset value of shares of the Credit Master Fund determined as of the beginning of the first day of such month. The Investment Adviser may, under certain circumstances, in its sole discretion, choose to reduce or waive the management fee payable by the Credit Master Fund. The management fees paid by the Diversified Alpha Master Fund and Credit Master Fund are collectively referred to as the "Management Fee."

In addition, the Diversified Alpha and Credit Master Funds will allocate to an affiliate of the Investment Adviser an incentive allocation (each an "Incentive Allocation") equal to a percentage of the net realized and unrealized appreciation in the net asset value of each series of shares of the Diversified Alpha Fund and/or the Credit Master Fund, as applicable, during the period for which the Incentive Allocation is calculated (adjusted for any redemptions of shares in that series made during such period and reduced by expenses) (the "Adjusted NAV"); provided, however, that the Incentive Allocation will be made only if the Adjusted NAV of a series of such corresponding shares as of the date of determination of the amount of the Incentive Allocation is in excess of the prior high net asset value of that series. The Adjusted NAV is generally calculated net of the additional fees, expenses and incentive amounts described in C below, subject, in certain instances, to a cap on such amounts. In the case of the Diversified Alpha Master Fund, the Incentive Allocation, which is generally allocated on a semi-annual basis (and in connection with any redemption, withdrawal or transfer), will equal in the aggregate either (a) 15%; or (b) the "Progressive Incentive Allocation Percentage," which ranges from 5% to 20% depending on the net annualized rate of return for the incentive allocation period in question. With respect to certain classes of shares of the Diversified Alpha Master Fund, the Incentive Allocation may be reduced by a clawback. In the case of the Credit Master Fund, the Incentive Allocation, which is generally allocated on an annual basis, will equal 20% of the Adjusted NAV.



In addition, certain investors in the Credit Master Fund may pay a higher or lower Incentive Allocation depending on, for example, fund performance or the investors' assets under management with the Investment Adviser or an Affiliate.

Finally, investors in the Diversified Alpha Fund investors bear the cost of compensating the Portfolio Management Team employed by the PM Company with respect to the Diversified Alpha Fund.

Pursuant to an agreement with a strategic investor (together with an approved designee of such investor) (the "Strategic Investor"), such investor is entitled (in addition to other rights described in the offering documents) to an allocation on a semi-annual basis of certain profits of the Diversified Alpha Master Fund, which will not increase the amount of the Incentive Allocation and Management Fee otherwise borne by investors, but will reduce the amount of the Incentive Allocation allocated to Affiliates of the Investment Adviser.

The Investment Adviser and/or its Affiliates have also entered into an agreement with the Strategic Investor relating to the Credit Master Fund, pursuant to which the Strategic Investor is entitled in the future to an allocation of certain profits of the Credit Master Fund. As with the agreement relating to the Diversified Alpha Master Fund, the agreement entered into with the Strategic Investor relating to the Credit Master Fund will not increase, in the aggregate, the amount of the Incentive Allocation and Management Fee borne by investors in the Credit Master Fund, but will reduce the amount of the Incentive Allocation allocated to Affiliates of the Investment Adviser.

B. Payment of Fees.

Fees and compensation paid to the Investment Adviser or its Affiliates by the Funds are generally deducted from the assets of such clients. As discussed above, Management Fees are generally deducted on a monthly (in the case of the Credit Master Fund) or quarterly (in the case of the Diversified Alpha Master Fund) basis (and the Incentive Allocation is generally deducted on an annual basis in the case of the Credit Master Fund and on a semi-annual basis in the case of the Diversified Alpha Fund and, in each case, upon a redemption, withdrawal or transfer).

C. Additional Fees and Expenses.

Each of the Diversified Alpha Master Fund and the Credit Master Fund bears its own operating and other expenses (including, without limitation, its *pro rata* share of the operating and other expenses of its subsidiaries, including the Sub-Funds). The Diversified Alpha Master Fund also bears certain of the Diversified Alpha Feeder Funds' expenses, and the Credit Master Fund also bears certain of the Credit Feeder Funds' expenses. In consideration for such expenses being borne by the Diversified Alpha Master Fund and the Credit Master Fund, the respective net asset values of the Diversified Alpha Feeder Funds' and the Credit Feeder Funds' shares in the Diversified Alpha Master Fund and the Credit Master Fund, as applicable, will be reduced. Such expenses include, without limitation:

- (a) investment and trading-related expenses (these are expenses directly related to the Diversified Alpha Master Fund's and the Credit Master Fund's respective investment programs and includes, *e.g.*, brokerage commissions, ticket charges, expenses related to short sales, clearing, and settlement charges, custodial fees, financing charges, consulting and any other professional fees or

compensation relating to particular investments or contemplated investments, appraisal fees and expenses, investment banking expenses, investment-related travel and lodging expenses, and research-related expenses);

- (b) expenses directly associated with the Funds and the Sub-Funds, including legal expenses; accounting, audit and tax preparation expenses; entity-level taxes; organizational expenses; fees and expenses paid to third party managers; fees and expenses borne directly by any vehicle through which assets of the Diversified Alpha Master Fund and/or the Credit Master Fund may be invested; premiums for the directors' and officers' liability insurance (if any); Management Fees; administrative expenses; expenses of the administrator; fees relating to valuing assets; expenses relating to the maintenance of registered offices; corporate licensing expenses; indemnification expenses; and other similar expenses, or extraordinary expenses, relating to the Funds and the Sub-Funds; and

- (c) Other Expenses. The Diversified Alpha Master Fund and Credit Master Fund may also be responsible for some or all of the following expenses:

- (i) Organizational and on-going maintenance expenses associated with the PM Company;

- (ii) With respect to the Diversified Alpha Master Fund, salaries, bonuses and incentive compensation of Portfolio Management Teams, and benefits and taxes relating thereto;

- (iii) With respect to the Diversified Alpha Master Fund, certain expenses related to the recruiting, hiring, on-boarding and termination of Portfolio Management Teams (including recruitment fees and retainers paid to recruiters, certain up-front compensation and buy-out payments payable to Portfolio Management Teams, legal expenses involved in the hiring or termination of Portfolio Management Teams, which in certain instances may include legal fees paid to the counsel of the Portfolio Management Teams);

- (iv) Strategy specific information technology infrastructure;

- (v) Computer hardware and software and other information technology products;

- (vi) Data and data management resources provided to Investment Professionals and their support personnel;

- (vii) Interest expense on a promissory note entered into between the PM Company and the Investment Adviser pursuant to which the PM Company promised to re-pay the Investment Adviser the loans made to the PM Company and evidenced in a loan agreement and any other loan agreement entered into by the PM Company for the benefit of the Funds;

- (viii) Other operational expenses of entities formed for specific Strategies (as defined in Item 8 of this Brochure) (including Sub-Funds); and

- (ix) Other expenses of Portfolio Management Teams, which may include meals and entertainment, office meals, traveling, etc.

Investors in the Diversified Alpha Funds may bear, in addition to the PM Company Expenses charged to them as incurred by the PM Company (which expenses may be subject to a monthly chargeback cap), a portion of PM Company Expenses that have been carried forward from periods prior to their having become investors in the Funds. If an investor withdraws its investment at a time when not all expenses incurred by the PM Company have been charged to those entities, redeemed or withdrawn shares or interests will be charged subject to a certain cap, as more fully described in the offering document of the Master Fund.

The Diversified Alpha Master Fund and the Credit Master Fund (together with the Diversified Alpha Master Fund, the “Master Funds”), and therefore the investors in such funds or their respective feeders will be responsible for any losses resulting from trading errors and similar human errors, unless due to the bad faith, willful misconduct, fraud, or Gross Negligence (with the meaning that such term has under the laws of the State of New York, United States of America, “Gross Negligence”) of the Investment Adviser or the ability to waive or limit such losses under applicable law. Trading errors might include, for example, keystroke errors that occur when entering trades into an electronic trading system or typographical or drafting errors related to derivatives contracts or similar agreements. Given the volume of transactions executed by the Investment Adviser and its Affiliates on behalf of the Master Funds, investors should assume that trading errors (and similar errors) will occur and that the Master Funds, and therefore the investors in the Master Funds or their respective feeders, will be responsible for any consequent losses, even if such losses result from the negligence (but not Gross Negligence) of the Investment Adviser or its Affiliates. The Investment Adviser may be biased when determining whether losses resulting from a trading error will be borne by a Master Fund. From time to time, the Investment Adviser or its Affiliates may elect to voluntarily reimburse a Master Fund for losses suffered as a result of certain trade errors identified by the Investment Adviser or its Affiliates. However, notwithstanding the previous sentence, investors should not carry the expectation that a reimbursement will ever take place, and in evaluating the fund, no decisions should be made in reliance on the Investment Adviser making any reimbursements to a Master Fund for losses suffered as a result of such trade errors. Any decision to reimburse is not precedential and should not create the expectation of any reimbursement in the future.

**D. Prepayment of Fees.**

Generally, each of the Diversified Alpha Master Fund and the Credit Master Fund pays the Investment Adviser the Management Fee monthly (in the case of the Credit Master Fund) and quarterly (in the case of the Diversified Alpha Master Fund) in advance based on its net asset value. In the event that the Diversified Alpha Master Fund's net asset value is reduced in connection with a withdrawal or redemption by an investor of such client other than as of the last day of a quarter, the Investment Adviser will pay the Diversified Alpha Master Fund an amount equal to the *pro rata* portion of the Management Fee, based on the actual number of days remaining in such quarter, and such client will distribute such amount to the investor.

E. Additional Compensation and Conflicts of Interest.

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

## **ITEM 6**

### **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

The Investment Adviser and its Affiliates accept performance-based fees from both the Diversified Alpha Master Fund and the Credit Master Fund. There is a potential conflict of interest in that the Investment Adviser or any of its Affiliates may have an incentive to provide preferential treatment in terms of time, resources, and investment opportunities to accounts paying higher fees or likely to pay a higher fee. For example, the possibility that the Investment Adviser receives performance-based fees from both the Diversified Alpha Master Fund and the Credit Master Fund may create an incentive for the Investment Adviser to direct investment ideas and/or allocate a greater portion of profitable investments to either the Diversified Alpha Master Fund or Credit Master Fund, rather than the Credit Master Fund or the Diversified Alpha Master Fund, as applicable, Diversified Alpha if the Investment Adviser is likely to receive higher performance-based fees as a result of such client being allocated such investment idea or portion of such investment. However, this potential conflict is mitigated in part by the organizational structure of the Funds in that both the Diversified Alpha Master Fund and the Credit Master Fund invest in the same securities directly or indirectly through the Credit Trading Vehicle. Each transaction entered into by the Credit Trading Vehicle is for the benefit of both Funds, and therefore the portfolio management team managing the discretionary credit strategy for the Credit Trading Vehicle is generally not faced with allocation decisions between the Funds.

Because the Investment Adviser and its Affiliates accept performance-based fees from both the Diversified Alpha Master Fund and the Credit Master Fund, they currently do not face the conflicts that may arise when an investment adviser receives performance-based fees from some clients but not from others. However, the Diversified Alpha Master Fund and the Credit Master Fund pay performance-based fees at differing rates. In such a situation, there is a potential conflict of interest in that the Investment Adviser or any of its Affiliates may have an incentive to provide preferential treatment in terms of time, resources, and investment opportunities to accounts paying higher fees. In addition, if in the future the Investment Adviser receives performance-based fees from one client but not another it may have an incentive to make riskier or more speculative investment decisions for the client subject to performance fees. The Investment Adviser will mitigate these potential conflicts through policies and procedures regarding trade allocation and its Code of Ethics, which requires the Investment Adviser to put the interests of clients first.

**ITEM 7**  
**TYPES OF CLIENTS**

The Investment Adviser generally provides investment advice to private investment funds, as described above.

## ITEM 8

### METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

#### A. Methods of Analysis and Investment Strategies.

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

#### **The Diversified Alpha Master Fund**

The Diversified Alpha Master Fund's objective is to produce consistently high risk-adjusted rates of return. The Investment Adviser intends to pursue the Diversified Alpha Master Fund's investment program generally by allocating assets to selected investment strategies (each, a "Strategy") that, in aggregate, the Investment Adviser believes will form a well-diversified portfolio and that the Investment Adviser expects in whole to exhibit significantly better and more consistent performance over time than each Strategy would by itself.

The Investment Adviser will generally pursue the Diversified Alpha Master Fund's investment program by allocating capital across a broad and diverse array of "Strategic Areas": Discretionary Credit, Discretionary Equity, Systematic and Quantitative, Macro, Managed Futures and Opportunistic. The Investment Adviser's principal focus will be to operate strategies that purchase and sell liquidly traded instruments for which there is a generally active market (although the Diversified Alpha Master Fund may trade in illiquid instruments or markets that are not generally active) and to follow, in the case of each Strategy, a clearly articulated investment process that drives idea generation, investment decisions, implementation and portfolio construction.

The main Strategic Areas are described below:

- **Credit Strategies** combine fundamental research and analysis to make global investments in tradable corporate debt. This Strategic Area from time to time employs a variety of investment techniques and trades in cash bonds, credit default swaps, hybrids, loans and credit indices, taking both long and short positions. This area may include relative value trades, re-financings, new issues, special situations and compression trades as well as other opportunities across the capital structure, including capital structure arbitrage. Strategies generally are currently focused on trading liquid bond issues and on-the-run (or close to on-the-run) single-name credit default swaps, and credit indices, hybrids and loans and generally avoid significant long-term bets on the direction of credit markets, bond/CDS basis, or the relative

performance of various investment sectors (such as high yield versus investment grade).

- **Equities Strategies** apply fundamental research to invest in global listed equities. Strategies generally take positions in individual companies and seek to have low exposure to overall market movements. These Strategies focus on trading liquid instruments, including listed common stock, preferred stock, listed options, stock index futures, exchange-traded funds, equity swaps and CFDs.
- **Event and Special Situations Strategies** focus on event-oriented Strategies where the common thread is an investable trading opportunity created by corporate events, including mergers, spin-offs, tenders, stock buy-back or special dividends, or non-corporate events, including legislation or litigation.
- **Systematic and Quantitative Strategies** focus on exploitable investment opportunities from mispricings and incorporate a disciplined process for researching new investment signals, exploiting knowledge of financial markets, statistical analysis, trade execution and portfolio construction methodologies. Strategies vary from time to time and may include, among others, statistical arbitrage, fixed income and credit arbitrage, relative value, dispersion and correlation trades. Generally, these Strategies focus on trading listed equities, options, futures, bonds, swaps, currencies, exchange-traded funds, and commodity futures.
- **Macro Strategies** focus on exploitable investment opportunities in major market asset classes globally. Strategies vary from time to time and may include quantitative macro (which may include global asset allocation and trend-following macro Strategies), directional, cross-sectional, global relative value, volatility relative value and capital flow arbitrage. Generally, these Strategies focus on liquid instruments, including government bond futures, currencies, interest rate swaps, equity index futures, commodity futures and exchange-traded funds.
- **Managed Futures Strategy** generally invests in liquid futures and forward contracts globally across varied asset classes (including commodities, currencies, fixed-income and equities) based on quantitative signals (such as trend-following) and portfolio construction techniques. It is managed directly by certain members of the Investment Committee (including Messrs. Chriss and Padowitz), and seeks to produce returns uncorrelated with the rest of the Diversified Alpha Master Fund and provide a mechanism to dynamically adjust the Diversified Alpha Master Fund's leverage and volatility.
- **Opportunistic Strategies** focus on global investment opportunities and hedges not expressed within any other Strategic Area. These investments are led by the Investment Committee and include



investments where the Investment Committee opportunistically seeks to capitalize on investments with strong risk-reward characteristics that do not fit readily into other Strategic Areas. In addition, the Investment Committee adds overlay hedges to the portfolio as a defense against market dislocation, tail event and other risks. Generally, and consistent with the other Strategies, these investments involve liquid instruments.

The Investment Adviser intends to purchase and sell on behalf of the Diversified Alpha Master Fund a broad array of instruments within its family of Strategies in a variety of asset classes utilizing cash instruments and over-the counter derivatives, including:

- **Equities:** Common stock and listed options on U.S. and non-U.S. corporations and equity equivalent instruments such as total return swaps, CFDs and equity index and options futures and options;
- **Interest Rates:** U.S. treasuries and other government bonds and bond futures and options, interest rate swaps and synthetics, and deposit rate futures and options;
- **Corporate Credit:** Cash bonds, credit default swaps referencing single issuers, and credit default swaps related to credit indices (such as the CDX and iTraxx) and other fixed income securities;
- **Currencies:** Currency forwards, NDFs, futures and options;
- **Commodities:** Commodity futures, options, and swaps; and
- **Other Instruments:** Including commercial real estate securities, exchange-traded funds and derivatives.

The Investment Committee will establish a set of permitted instruments for each new investment Strategy, based on the requirements of the Strategy and will seek to maintain a level of liquidity consistent with being able to exit the majority of the Diversified Alpha Master Fund's positions over a limited period of time with little market impact. The Investment Committee will limit what Strategies are pursued on behalf of the Diversified Alpha Master Fund in light of the Investment Adviser's focus on liquidly traded instruments.

### **The Credit Master Fund**

The Credit Master Fund's principal objective is to achieve superior capital appreciation by combining fundamental research and analysis to make global investments primarily in tradable corporate and sovereign debt, credit default swaps and equity futures. The Credit Master Fund will attempt to achieve its investment objective, at least initially, by employing a variety of investment techniques and trades in cash bonds, credit default swaps, hybrids, loans, credit indices, currencies and equity securities, taking both long and short positions. The Credit Master Fund's strategy may include, among other things, relative value trades, re-financings, new issues, special situations and compression trades as well as other opportunities across the capital structure, including capital structure arbitrage.

The investment approach of the Credit Master-Fund Fund is principally a trading-oriented liquid credit strategy, where investment views may be expressed through, but are not limited to, three core strategies: (i) single name corporate credit, (ii) indices and (iii) sovereign debt. The Credit Master Fund may express relative value and/or directional views by taking long and/or short positions in Financial Instruments. Portfolio exposures and financial instruments employed will vary depending on the opportunity set as viewed by the Investment Adviser. The Credit Master Fund's investment universe will generally include corporate credit in the U.S. and Europe, both single name and Indices, as well as Sovereign debt primarily in Europe. Representative credit default swap indices included in the investment universe at the Fund's inception are CDX.NA.IG (U.S. Investment Grade), CDX.NA.HY (U.S. High Yield), iTraxx Europe (known as "The Main"), iTraxx Europe Senior Financials, iTraxx Europe Crossover, and their related tranches. Security selection is expected to be driven primarily by (i) identification of a near-term catalyst expected to influence the value of the financial instrument(s), (ii) a belief that the proposed trade(s) present an attractive risk-adjusted reward and/or (iii) an assessment of the liquidity of the financial instrument(s). The portfolio will typically be comprised of investment grade and high yield securities, and may also hold distressed names, though normally to a lesser extent. The Credit Master Fund will seek to maintain a diversified portfolio such that individual positions will not disproportionately contribute to risk, and meaningful portfolio turnover should be expected but the portfolio will vary based upon the environment and the opportunities.

The Credit Master Fund's investment strategy is substantially similar to a discretionary credit strategy employed on behalf of the Diversified Alpha Master Fund as a component of its investment strategy and managed by the same portfolio manager. The Credit Master Fund and the Diversified Alpha Master Fund are generally expected to invest together through the Credit Trading Vehicle.

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

**B. Material, Significant or Unusual Risks Relating to Investment Strategies and Risks Associated With Particular Types of Securities.**

*The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the clients advised by the Investment Adviser. These risk factors include only those risks the Investment Adviser believes to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by the Investment Adviser.*

## **The Diversified Alpha Master Fund**

**Risks Associated With Investments in Securities.** Any investment in securities carries market risks. An investment in the Diversified Alpha Master Fund is highly speculative and involves a high degree of risk due to the nature of the Diversified Alpha Master Fund's investments and the strategies to be employed. The returns from any such investment, and an investment in the Diversified Alpha Master Fund, may be highly volatile. An investment in the Diversified Alpha Master Fund should not in itself be considered a balanced investment program, but rather is intended to provide diversification in a more complete investment portfolio. Investors should be able to withstand the loss of their entire investment. There is no assurance that the Strategies that the Investment Adviser deems to be investment opportunities will result in investment gains or that hedging strategies will not fail to prevent investment losses; there is no assurance that what the Investment Adviser perceives as a significant investment opportunity will not result in substantial loss due to any of a wide variety of factors.

**Unlimited Range of Potential Investments** The Diversified Alpha Master Fund's investment activities are not limited to the strategies or types of strategies described herein. Rather, the Diversified Alpha Master Fund may pursue any investment strategy that the Investment Adviser determines to be appropriate from time to time without any notice to investors. This unlimited range of potential investments may include substantial investments in strategies not previously pursued by the Investment Adviser or any of the Investment Professionals and with which the Investment Adviser and the Investment Professionals have limited experience. New strategies, assets and markets are likely to involve material and as-yet unanticipated risks. Further, there can be no assurance that the current Investment Professionals will remain employed by the PM Company, which could have a material adverse effect on the Diversified Alpha Master Fund. In addition, new Investment Professionals may be hired to pursue strategies not previously pursued.

**No Limits on Investment Strategies.** There are no substantive limits on investment strategies that the Diversified Alpha Master Fund may pursue. The Investment Adviser intends opportunistically to implement strategies or approaches that the Investment Adviser believes, in its discretion, are well-suited to prevailing market conditions. Such strategies or approaches may change over time. New strategies, assets, and markets are continually developing and may involve material and as yet unanticipated risks. There can be no assurance that the investment strategies that the Investment Adviser expects from time to time to develop and implement for the Diversified Alpha Master Fund will be successful, or that strategies that have been successful will continue to be profitable.

**General Market Risks.** The Diversified Alpha Master Fund's investment strategies are subject to market risk. The Diversified Alpha Master Fund can be successful only if the Diversified Alpha Master Fund is able to invest successfully and trade efficiently, and there can be no assurance that this will be the case. There can be no assurance that what is perceived as an investment opportunity will not, in fact, result in substantial losses due to one or more of a wide variety of factors. Certain general market conditions (and a change in such conditions), such as an unanticipated increase or decrease in the volatility or an increase in the pricing inefficiencies of the markets in which the Diversified Alpha Master Fund is active, could materially reduce the Diversified Alpha Master Fund's profit potential or lead to substantial losses. Additionally, unanticipated illiquidity in a market could lead to substantial

losses or create a situation in which the Diversified Alpha Master Fund (or Sub-Funds) is unable to sell certain assets in its (or their) portfolio.

Valuation Risk. The valuation policies of the Diversified Alpha Master Fund call for assets of the Diversified Alpha Master Fund to be based on the fair market value of such assets. The fair market value of such assets will be determined using a number of methodologies which may, in some cases, involve the exercise of a significant degree of market judgment by the Investment Adviser, which exercise would, in turn, be based on a number of factors, including the nature of the asset, the expected cash flows from the asset, bid or ask prices provided by third parties that deal in the type of asset being valued, the length of time the asset has been held, the trading price of securities, restrictions on transfer, and other recognized valuation methodologies. Such methodologies are based on a variety of estimates and assumptions specific to the particular asset in question, and the actual results experienced with respect to a particular asset may therefore vary materially as a result of the inaccuracy of such assumptions or estimates. There can be no assurance as to which factors the Valuation Committee of the Investment Adviser may consider in valuing different assets. In addition, because certain of the illiquid assets that may be held by the Diversified Alpha Master Fund or a Sub-Fund are in industries or sectors that are unstable, in distress, or undergoing some uncertainty, such assets are subject to rapid changes in value. Because there is significant uncertainty in the valuation of, or in the stability of the value of, illiquid assets, the fair market values of such assets as reflected in the Diversified Alpha Master Fund's net asset value may not reflect the prices that would actually be obtained by the Investment Adviser on behalf of the Diversified Alpha Master Fund or a Sub-Fund when such assets are realized. Realizations at values significantly lower or higher than the values at which assets have been reflected in the Diversified Alpha Master Fund's prior net asset values would result in losses or gains to the Diversified Alpha Master Fund. Furthermore, a situation where asset values turn out to be materially different from the values reflected in prior Diversified Alpha Master Fund net asset values could cause investors to lose confidence in the Investment Adviser, which could, in turn, result in withdrawals or redemptions from the Diversified Alpha Feeder Funds.

Concentration of Investments. Although diversification is intended to be an integral part of the Diversified Alpha Master Fund's overall portfolio risk management strategy, the Diversified Alpha Master Fund is not restricted as to the percentage of its assets that may be invested in any particular issuer, industry, assets, market, or investment strategy. The Investment Adviser does not plan to target zero beta or a specific beta. The Diversified Alpha Master Fund may take directional exposure and the Investment Adviser is not seeking a portfolio that is market neutral. In the normal course of making investments on behalf of the Diversified Alpha Master Fund, the Investment Adviser may select investments that potentially could be concentrated, for example, in a limited number or type of financial instruments or in any one issuer, industry, sector, strategy, emerging market, or geographic region. Market conditions may create opportunities within certain investment strategies that cause the Investment Adviser to increase the Diversified Alpha Master Fund's exposure to such investment strategies, and such concentration of risk may expose the Diversified Alpha Master Fund to losses disproportionate to those incurred by the market in general if the areas in which the Diversified Alpha Master Fund's direct or indirect investments are concentrated are disproportionately adversely affected by price movements. The Diversified Alpha Master Fund could be subject to significant losses if it directly or indirectly through the Sub-Funds holds a large position in a particular investment that declines in value or is otherwise

adversely affected, including due to default of the issuer of a security or instrument to which the Diversified Alpha Master Fund or a Sub-Fund has exposure.

Availability of Profitable Investment Strategies. The success of the investment activities of the Diversified Alpha Master Fund will further depend on the Investment Adviser's ability to identify overvalued and undervalued investment opportunities and to exploit price discrepancies in the financial markets, as well as to assess the import of news and events that may affect the financial markets. Identification and exploitation of investment strategies involves a high degree of uncertainty. No assurance can be given that the Investment Adviser will be able to locate suitable investment opportunities in which to deploy all of the Diversified Alpha Master Fund's assets or to exploit discrepancies in the securities and derivatives markets. A reduction in money market liquidity or the pricing inefficiency of the markets in which the Diversified Alpha Master Fund seeks to invest, as well as other market factors, will reduce the scope for the Diversified Alpha Master Fund's investment strategies.

Equity Securities. The Diversified Alpha Master Fund and/or the Sub-Funds may invest in equity securities and derivatives providing exposure to equity securities. The value of these financial instruments generally will vary with the performance of the issuer of the applicable security and movements in the equity markets. As a result, the Diversified Alpha Master Fund or a Sub-Fund may suffer losses if it invests in equity instruments of issuers whose performance diverges from the Investment Adviser's expectations or if equity markets generally move in a single direction and the Diversified Alpha Master Fund or a Sub-Fund has not hedged against such a general move. The Diversified Alpha Master Fund or a Sub-Fund also may be exposed to risks that issuers will not fulfill contractual obligations such as, in the case of convertible securities or private placements, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale.

Equity Price Risk. The Diversified Alpha Master Fund's or a Sub-Fund's investment portfolios may include long and short positions in equity securities of public and private, listed and unlisted companies. Equity securities fluctuate in price in response to many factors, including, among others, the activities and financial condition of individual companies, geographic markets, industry market conditions, interest rates, and general economic environments. In addition, events such as the domestic and international political environments, terrorism, and natural disasters, may be unforeseeable and contribute to market volatility in ways that may adversely affect investments made by the Diversified Alpha Master Fund or a Sub-Fund.

Short Selling. The Diversified Alpha Master Fund or a Sub-Fund may engage in short selling of securities. Short selling involves selling securities which may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Diversified Alpha Master Fund or a Sub-Fund of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase. Purchasing securities to close out the

short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Debt Securities. The Diversified Alpha Master Fund or a Sub-Fund may invest in bonds or other fixed income securities and instruments, including, without limitation, commercial paper and "higher yielding" (and, therefore, higher risk) debt securities or instruments (and derivatives providing exposure to such debt instruments). It is likely that a major economic recession could disrupt severely the market for such securities or instruments and have an adverse impact on the value of such securities or instruments. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities or instruments to repay principal and pay interest thereon and increase the incidence of default for such securities or instruments.

Interest Rate Risk. The prices of assets held by the Diversified Alpha Master Fund and/or Sub-Funds may be sensitive to interest rate fluctuations, and unexpected fluctuations in interest rates could cause the corresponding prices of long and short positions to move in directions not initially anticipated. In addition, interest rate increases generally will increase the interest carrying costs to the Diversified Alpha Master Fund of borrowed assets, as well as the cost of leverage use by the Diversified Alpha Master Fund and the Sub-Funds. To the extent that interest rate assumptions underlie the thesis of a particular position, fluctuations in interest rates could invalidate those underlying assumptions and expose the Diversified Alpha Master Fund to losses.

Derivatives. The Diversified Alpha Master Fund or a Sub-Fund may utilize both exchange-traded and over-the-counter derivatives, including, but not limited to, futures, forwards, swaps, options and contracts for differences, as part of its investment strategies and for hedging purposes. Derivative instruments are highly volatile, involve certain special risks and expose investors to a high risk of loss. The low initial margin deposits normally required to establish a position in such instruments result in a position that may be highly leveraged with respect to the underlying security or instrument with which such derivative is correlated. As a result, depending on the type of instrument, a relatively small cash investment in a derivatives contract may generate a profit or a loss (and an obligation to make mark-to-market margin payments in respect thereof) that is high in proportion to the amount of funds actually placed as initial margin and may result in unquantifiable further losses exceeding any margin deposited. In addition, daily limits on price fluctuations and speculative position limits on exchanges may prevent prompt liquidation of positions resulting in potentially greater losses. The volatility of the derivatives market may prevent the Diversified Alpha Master Fund or Sub-Fund from adequately hedging its positions in the event that the Diversified Alpha Master Fund or a Sub-Fund is unable to execute a particular derivative trade necessary for a hedge.

When used for hedging purposes there may be an imperfect correlation between instruments and the investments or market sectors being hedged and therefore hedges reliant on such instruments may not function in the manner anticipated.

Transactions in over-the-counter contracts may involve additional risk as there is no exchange market on which to close out an open position. It may be impossible to liquidate or assign an existing position, to assess the value of a position or to assess the exposure to risk. In addition, the Diversified Alpha Master Fund or a Sub-Fund will be

exposed to the default risk of its trading counterparties to the extent that the Diversified Alpha Master Fund or Sub-Fund has not hedged such risk.

Contractual asymmetries in derivatives agreements, such as break clauses, whereby a counterparty can terminate a transaction on the basis of a certain reduction in net asset value of the Diversified Alpha Master Fund or a Sub-Fund, and "unilateral" collateral provisions (in which a counterparty may call for collateral from the Diversified Alpha Master Fund or a Sub-Fund but the Diversified Alpha Master Fund or Sub-Fund may not call for collateral from the counterparty), can also increase risk and may result in incorrect collateral calls, or delays in collateral recovery.

The Diversified Alpha Master Fund or a Sub-Fund may also sell covered and uncovered options on securities. To the extent that such options are uncovered, the Diversified Alpha Master Fund or a Sub-Fund could incur an unlimited loss.

Credit Derivatives. The Diversified Alpha Master Fund and/or Sub-Funds may purchase and sell credit derivatives. Credit derivatives trading is subject not only to the credit risk of the issuer and of the underlying obligations to which such derivatives are referenced, but also to the credit risk of the counterparty to the credit derivative transaction. A default by a credit derivative counterparty could result in a substantial loss to the Diversified Alpha Master Fund. In certain cases, the credit derivatives market is significantly less liquid than the market in the underlying debt obligations, due to the generally customized and individually negotiated terms of such derivatives, and provisions restricting the assignment or transfer of such credit derivatives.

Variance Swaps. The Diversified Alpha Master Fund or a Sub-Fund may enter into variance swaps. Because the performance of a variance swap is based on the volatility of, as opposed to directional changes in, the price of the underlying security or index, the Diversified Alpha Master Fund or a Sub-Fund may sustain losses even though the price of the underlying security or index has increased. The performance of variance swaps held by the Diversified Alpha Master Fund or a Sub-Fund depends upon the ability of the Investment Adviser or an Investment Professional to correctly predict the volatility of the underlying security or index, and unexpected changes in the price of the underlying security or index (including if the underlying security or index appreciates in value) could result in losses to the Diversified Alpha Master Fund or a Sub-Fund. Variance swaps are also subject to other risks, such as those associated with illiquid investments and the creditworthiness of the swap counterparty.

Futures Contracts. The Diversified Alpha Master Fund or a Sub-Fund may engage in transactions in the futures markets. The value of futures depends upon, among other factors, the price of the financial instruments, such as currencies or commodities, underlying them. The prices of futures are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, investments in futures are subject to the risk of the failure of any of the exchanges on which the Diversified Alpha Master Fund's or a Sub-Fund's positions trade or of its clearing houses or counterparties.

Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits" whereby during a single trading day no trades may be executed at prices beyond the daily limits. This could prevent the Diversified Alpha Master Fund or a Sub-Fund from promptly liquidating unfavorable positions and subject the Diversified Alpha Master Fund or Sub-Fund to substantial losses or prevent it from entering into desired trades. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

Illiquid Securities. The Diversified Alpha Master Fund or a Sub-Fund may invest in structured products, derivatives and other types of unregistered securities, which are generally not publicly traded, or other instruments in which the trading market is relatively "thin," effectively rendering such instruments illiquid. The Diversified Alpha Master Fund or a Sub-Fund may also invest in financial instruments generally perceived as liquid, and changing market conditions or mischaracterization of level of liquidity may render such financial instruments illiquid. The Diversified Alpha Master Fund or Sub-Fund may not be able readily to dispose of such financial instruments and, in some cases, may be contractually prohibited from disposing of such financial instruments for a specified period of time. Accordingly, to satisfy a redemption request or to reduce market exposure, the Diversified Alpha Master Fund or a Sub-Fund may be forced to sell its more liquid positions, resulting in a greater percentage of the portfolio consisting of illiquid securities. In addition, the market prices, if any, for such illiquid financial instruments tend to be volatile, and the Diversified Alpha Master Fund or a Sub-Fund may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of illiquid securities also often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Furthermore, there may be limited information available about the assets of issuers of illiquid instruments which may make valuation of such financial instruments difficult or uncertain. Under certain circumstances, the Valuation Committee's valuation of illiquid securities may depend on estimates developed by the Valuation Committee in its good faith discretion.

Use of Options. The Diversified Alpha Master Fund or a Sub-Fund may buy or sell (write) both call options and put options (either exchange-traded, over-the-counter or issued in private transactions), and when it writes options it may do so on a "covered"<sup>1</sup> or an "uncovered" basis. These options transactions may be part of a hedging strategy (i.e., offsetting the risk involved in another securities position) or designed to afford a leveraged position in the security or instrument underlying the option. These activities involve risks that can be large, depending on the circumstances. In general, the principal risks involved in options trading can be described as follows, without taking into account other positions or transactions the Diversified Alpha Master Fund or a Sub-Fund may enter into:

When the Diversified Alpha Master Fund or a Sub-Fund buys an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call,

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<sup>1</sup> A call option is "covered" when the writer owns securities of the class and amount of those as to which the call option applies. A put option is covered when the writer has an open short position in securities of the relevant class and amount.



or an increase (or inadequate decrease) in the security in the case of a put, could result in a total loss of the Diversified Alpha Master Fund's or Sub-Fund's investment in the option (including commissions). The Diversified Alpha Master Fund or Sub-Fund could mitigate those losses by selling short the securities as to which it holds call options or taking a long position (i.e., by buying the securities or buying options on them) on securities underlying put options.

When the Diversified Alpha Master Fund or a Sub-Fund sells (writes) an option, the risk can be substantially greater than when it buys an option. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. The risk is theoretically unlimited unless the option is "covered." If it is covered, an increase in the market price of the security above the exercise price would cause the Diversified Alpha Master Fund or Sub-Fund to lose the opportunity for gain on the underlying security--assuming it bought the security for less than the exercise price. If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction costs) would provide profit that would reduce or offset any loss the Diversified Alpha Master Fund or a Sub-Fund might suffer as a result of owning the security.

The seller of an uncovered put option theoretically could lose an amount equal to the entire aggregate exercise price of the option, if the underlying security were to become valueless. If the price of the underlying security were to increase above the exercise price, the premium on the option (after transaction costs) would provide profit that would reduce or offset any loss the Fund might suffer in closing out a short position established to cover the option.

Commodity-Related Instruments. The Diversified Alpha Master Fund or a Sub-Fund may invest in commodities or commodity-linked instruments. Price movements for commodity interests are influenced by, among other things: changing supply and demand relationships; weather; agricultural, trade, fiscal, monetary, and exchange control programs and policies of governments; political and economic events and policies; changes in national and international interest rates and rates of inflation; currency devaluations and re-valuations; and emotions of the marketplace. In addition, commodity-related instruments may be subject to cyclical price movements. Commodity-related instruments may also experience greater price fluctuations than the underlying commodity. In periods of rising commodity prices, the prices of such instruments may rise at a faster rate; and conversely, in times of falling commodity prices, such instruments may suffer a greater price decline.

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

A "spread" position may not be less risky than a simple "long" or "short" position.

Loans of Portfolio Securities. The Diversified Alpha Master Fund or a Sub-Fund may lend its portfolio securities on a secured or unsecured basis in order to increase its income through the receipt of interest on the loan. In the event of the bankruptcy of a securities loan counterparty, the Diversified Alpha Master Fund or Sub-Fund could experience delays in recovering the loaned securities. To the extent that the value of the securities loaned has increased beyond the amount of collateral posted by the secured loan counterparty, the Diversified Alpha Master Fund or Sub-Fund could experience a loss if such securities are not recovered.

Non-U.S. Investments and Emerging and Other Markets. The Diversified Alpha Master Fund or a Sub-Fund may invest in companies located outside the U.S. Investing in the securities of companies located outside the U.S. (including Western countries, "emerging market" countries, developing or under-developed countries) involves certain considerations not usually associated with investing in securities of U.S. companies, including political and economic considerations, such as greater risks of expropriation and nationalization, confiscatory taxation, the potential difficulty of repatriating funds, general social, political, and economic instability and adverse diplomatic developments; the possibility of imposition of withholding or other taxes on dividends, interest, capital gain, gross sales or disposition or other income; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the Diversified Alpha Master Fund's or a Sub-Fund's investment opportunities.

In addition, accounting and financial reporting standards that prevail in non-U.S. countries generally are not equivalent to U.S. standards and, consequently, less information may be available to shareholders of companies located in such countries than is available to shareholders of companies located in the U.S. Moreover, an issuer of securities may be domiciled in a country other than the country in whose currency the instrument is denominated, which would expose the Diversified Alpha Master Fund to the risks of both countries. The values and relative yields of investments in the securities markets of different countries, and their associate risks, are not expected to be highly correlated with each other and may behave in unpredictable ways. There is also less regulation, generally, of the securities markets in non-U.S. countries.

The Diversified Alpha Master Fund or a Sub-Fund may be subject to additional risks which include possible adverse political and economic developments, possible seizure or nationalization of non-U.S. deposits and possible adoption of governmental restrictions which might adversely affect the payment of principal and interest to investors located outside the country of the issuer, whether from currency blockage or otherwise. Furthermore, some securities of non-U.S. issuers may be subject to brokerage, stamp or other taxes levied by governments, which taxes would increase the cost of an investment in such instruments and reduce the realized gain or increase the realized loss on such securities at the time of sale. Furthermore, a non-U.S. issuer of debt, or the non-U.S. governmental authorities that control the repayment of the debt, may be unable or unwilling to repay principal or interest when due, and the Diversified Alpha Master Fund or a Sub-Fund may have limited recourse in the event of a default. These risks are more pronounced for

investments in issuers in emerging markets or if the Diversified Alpha Master Fund or a Sub-Fund invests significantly in a particular country.

Investment in emerging market securities and under-developed markets involves a greater degree of risk than an investment in securities of issuers based in developed countries. Among other things, emerging market securities investments may carry the risks of less publicly available information, more volatile markets, less strict securities market regulation, less favorable tax provisions and a greater likelihood of severe inflation, unstable currency, war, and expropriation of personal property than investments in securities of issuers based in developed countries. In addition, the Diversified Alpha Master Fund's or a Sub-Fund's investment opportunities in certain emerging markets may be restricted by legal limits on foreign investment in local securities.

Emerging markets generally are not as efficient as those in developed countries. In some cases, a market for the security may not exist locally, and transactions will need to be made on a neighboring exchange. Volume and liquidity levels in emerging markets tend to be lower than in developed countries. Little or no market may exist for emerging market securities at the time of desired sale. In addition, issuers based in emerging markets are not generally subject to uniform accounting and financial reporting standards, practices, and requirements comparable to those applicable to issuers based in developed countries, thereby potentially increasing the risk of fraud or other deceptive practices. Furthermore, the quality and reliability of official data published by the government or securities exchanges in emerging markets may not accurately reflect the actual circumstances being reported.

When investing in emerging market securities, the Diversified Alpha Master Fund or a Sub-Fund may be required to use a local custodian chosen by a prime broker, and the Master Fund or a Sub-Fund may not have the opportunity to perform due diligence on such custodian. In addition, such custodian may not be subject to stringent regulations. Custodial expenses for a portfolio of emerging markets securities generally are higher than for a portfolio of securities of issuers based in developed countries.

Undervalued/Overvalued Instruments. One of the objectives of the Diversified Alpha Master Fund and certain of its Sub-Funds may be to identify and invest in instruments that the Investment Adviser perceives to be undervalued or overvalued ("Mis-valued Instruments"). The identification of investment opportunities in Mis-valued Instruments is a difficult task, and there can be no assurance that such opportunities will be successfully recognized. While purchases of undervalued securities and short sales of overvalued securities offer opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the investments of the Diversified Alpha Master Fund or a Sub-Fund may not adequately compensate for the business and financial risks assumed. For example, the Diversified Alpha Master Fund or a Sub-Fund may be required to maintain positions in such securities for a substantial period of time before realizing their anticipated value, and during this period, the capital committed to a position in these instruments might prevent the Master Fund or a Sub-Fund from investing in other opportunities. In addition, the Diversified Alpha Master Fund or a Sub-Fund may finance any such purchases with borrowed funds and thus will have to pay interest on such funds during such holding period, which carrying costs may exceed the gain from the investment position(s) they financed.

Furthermore, there can be no assurance that instruments identified by the Investment Adviser as being Mis-valued Instruments will in fact be mis-valued.

Small and Medium Capitalization Companies. The Diversified Alpha Master Fund or a Sub-Fund may invest in securities in companies with small and medium capitalizations. The securities of such companies, particularly smaller-capitalization companies, involve higher risks in some respects than do investments in securities of larger companies. For example, prices of small-capitalization and medium-capitalization securities are often more volatile than prices of large-capitalization securities, and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) is higher than for larger, "blue-chip" companies. In addition, due to thin trading in the securities of some small-capitalization companies, an investment in those companies may be illiquid.

Unforeseen Events. The Diversified Alpha Master Fund or a Sub-Fund may be adversely affected by unforeseen events involving such matters as changes in interest rates or the credit status of an issuer, forced withdrawals of securities or acquisition proposals, break-up of planned mergers, unexpected changes in relative value, short squeezes, inability to short stock or changes in tax treatment.

Leverage. Leverage may take the form of, without limitation, any of the financial instruments described herein, including derivative instruments which are inherently leveraged. The instruments and borrowings utilized by a Sub-Fund to gain leverage may be collateralized by such Sub-Fund's portfolio (or in the case of leverage gained at the Diversified Alpha Master Fund level, by the Diversified Alpha Master Fund's portfolio).

The use of leverage will allow the Diversified Alpha Master Fund or a Sub-Fund to make additional investments such that its total assets may be greater than its capital. Any event that adversely affects the value of an investment will be magnified to the extent the investment is leveraged. Should the securities pledged to brokers to secure the Diversified Alpha Master Fund's or a Sub-Fund's margin accounts decline in value, the Diversified Alpha Master Fund or a Sub-Fund could be subject to a "margin call," pursuant to which the Diversified Alpha Master Fund or relevant Sub-Fund must either deposit additional funds or securities with the broker, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden drop in the value of the Diversified Alpha Master Fund's or a Sub-Fund's assets, the Diversified Alpha Master Fund or a Sub-Fund might not be able to liquidate assets quickly enough to satisfy its margin requirements.

Leverage is a component to the Diversified Alpha Master Fund's and certain Sub-Funds' investment strategies, and certain such strategies cannot be successful without the use of a substantial amount of leverage. The use of leverage may, in some instances, enable the Diversified Alpha Master Fund or a Sub-Fund to achieve a higher rate of return than would be otherwise possible. Generally, the Investment Adviser will seek to balance the amount of leverage to be employed by an account within a Sub-Fund and the estimated long-term volatility of the portfolio associated with such account. The Investment Adviser's perception of any strategy's volatility is expected to change from time to time, and the market for leverage is expected to be dynamic. Accordingly, the amount, kinds and pricing of leverage utilized with respect to such strategy will also change. An inability of the Diversified Alpha Master Fund or a Sub-Fund to obtain a desired amount of leverage may

limit the Diversified Alpha Master Fund's or a Sub-Fund's ability to make investments and/or inhibit the Diversified Alpha Master Fund's or a Sub-Fund's ability to gain exposure to instruments that are inversely correlated with other investments in the Diversified Alpha Master Fund's or a Sub-Fund's portfolio, thereby reducing the Diversified Alpha Master Fund's or a Sub-Fund's performance.

The financing used by the Diversified Alpha Master Fund or a Sub-Fund to leverage its portfolio is currently expected to be extended by securities brokers and dealers in the marketplace in which the Diversified Alpha Master Fund or a Sub-Fund will invest. While the Diversified Alpha Master Fund and the Sub-Funds may attempt to negotiate the terms of these financing arrangements with such brokers and dealers or to arrange term financing facilities with lenders, their ability to do so may be limited. The Diversified Alpha Master Fund and the Sub-Funds may therefore be subject to immediate changes, without notice, in the value that the broker-dealer ascribes to a given security or position, the amount of margin required to support such security or position, the borrowing rate to finance such security or position and/or such broker-dealer's willingness to continue to provide any such credit to the Diversified Alpha Master Fund or a Sub-Fund. Because the Diversified Alpha Master Fund and the Sub-Funds currently have no credit facility to finance their portfolios in the absence of financing from broker-dealers, they could be forced to liquidate their respective portfolios on short notice to meet their financing obligations. The forced liquidation of all or a portion of a Sub-Fund's portfolio at distressed prices could result in significant losses to the Diversified Alpha Master Fund or a Sub-Fund or could impede the Diversified Alpha Master Fund's or a Sub-Fund's ability to pursue the investment program.

The Diversified Alpha Master Fund or a Sub-Fund may also borrow by entering into reverse repurchase agreements. Under a reverse repurchase agreement, the Diversified Alpha Master Fund or a Sub-Fund sells securities and agrees to repurchase them at a mutually agreed date and price. Reverse repurchase agreements involve the risk that the market value of the securities retained in lieu of sale by the Diversified Alpha Master Fund or a Sub-Fund may decline below the price of the securities the Diversified Alpha Master Fund or a Sub-Fund has sold but is obligated to repurchase. In the event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, such buyer or its trustee or receiver may receive an extension of time to determine whether to enforce the Diversified Alpha Master Fund's or Sub-Fund's obligation to repurchase the securities and the Diversified Alpha Master Fund's or Sub-Fund's use of the proceeds of the reverse repurchase agreement may effectively be restricted pending such decision. To the extent that, in the meantime, the value of the securities that the Diversified Alpha Master Fund or a Sub-Fund has purchased has decreased, the Diversified Alpha Master Fund or a Sub-Fund could experience a loss.

In the futures markets, margin deposits are typically low relative to the value of the futures contracts purchased or sold. Low margin deposits mean that a relatively small price movement in a futures contract may result in immediate and substantial losses to the investor. For example, if at the time of purchase 10 percent of the price of a futures contract is deposited as margin, a 10 percent decrease in the price of the futures contract would, if the contract is then closed out, result in a total loss of the margin deposit before any deduction for the brokerage commission. Thus, like other leveraged investments, any purchase or sale of a commodity contract may result in losses in excess of the amount invested.

Market Liquidity and Leverage. The Diversified Alpha Master Fund may be adversely affected by a decrease in market liquidity for the instruments in which the Diversified Alpha Master Fund or a Sub-Fund invests, which may impair the Diversified Alpha Master Fund's or Sub-Fund's ability to rebalance its positions or exit positions at times and prices favorable to the Diversified Alpha Master Fund and/or the applicable Sub-Fund. The size of the Diversified Alpha Master Fund's or a Sub-Fund's positions may magnify the effect of a decrease in market liquidity for such instruments. Changes in overall leverage available to funds in the relevant markets, deleveraging as a consequence of a decision by the prime brokers and custodians, or other counterparties with which a Sub-Fund enters into repurchase/reverse repurchase agreements or derivative transactions, to reduce the level of leverage available, or the liquidation by other market participants of the same or similar positions, may also adversely affect a Sub-Fund's portfolio.

Liquidity and Market Characteristics. In some circumstances, investments (including those that were at the time of purchase liquid) may be relatively illiquid, making it difficult to acquire or dispose of them at the prices quoted on the various exchanges or by various dealers. At times it may be difficult to obtain price quotes at all. Accordingly, the Diversified Alpha Master Fund's or a Sub-Fund's ability to respond to market movements may be impaired and the Diversified Alpha Master Fund or a Sub-Fund may experience adverse price movements upon liquidation of its investments. Settlement of transactions may be subject to delay and administrative uncertainties.

Hedging Transactions. The Diversified Alpha Master Fund and/or a Sub-Fund may (but is not required to) utilize financial instruments both for investment purposes and for risk management purposes in order to (i) protect against possible changes in the market value of the Diversified Alpha Master Fund's or a Sub-Fund's investment portfolios resulting from fluctuations in the markets and changes in interest rates; (ii) protect the Diversified Alpha Master Fund's or a Sub-Fund's unrealized gains in the value of its investment portfolio; (iii) facilitate the sale of investments; (iv) enhance or preserve returns, spreads or gains on any investment in the Diversified Alpha Master Fund's or a Sub-Fund's portfolios; (v) hedge against a directional trade; (vi) hedge the effect of interest rate, credit, currency exchange rate, or other risk on any of the Diversified Alpha Master Fund's or a Sub-Fund's financial instruments; (vii) protect against any increase in the price of any financial instruments the Diversified Alpha Master Fund or a Sub-Fund anticipates purchasing at a later date; or (viii) act for any other reason that the Investment Adviser deems appropriate. The Diversified Alpha Master Fund and each Sub-Fund will not be required to hedge any particular risk in connection with a particular transaction or its portfolios generally.

The success of the Diversified Alpha Master Fund's and a Sub-Fund's hedging strategy will be subject to the Investment Adviser's or Portfolio Management Team's ability correctly to assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolios being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the Diversified Alpha Master Fund's or a Sub-Fund's hedging strategy will also be subject to the Investment Adviser's or Portfolio Management Team's ability continually to recalculate, readjust, and execute hedges in an efficient and timely manner. While the Diversified Alpha Master Fund or a Sub-Fund may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Diversified Alpha Master Fund than if it had not engaged in any such hedging transactions. For a variety of reasons, the Investment Adviser or a Sub-Fund may not seek to establish a perfect

correlation between such hedging instruments and the portfolio holdings being hedged, and hedges may not function in the manner anticipated. Such imperfect correlation may prevent the Diversified Alpha Master Fund or a Sub-Fund from achieving the intended hedge or expose the Diversified Alpha Master Fund or a Sub-Fund to risk of loss. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the Diversified Alpha Master Fund's or a Sub-Fund's portfolio holdings. Moreover, it should be noted that the portfolio will always be exposed to certain risks that cannot be hedged.

Counterparty Risk. The Diversified Alpha Master Fund and the Sub-Funds are subject to the risk that any counterparty (including, where relevant, the prime brokers) will be unable to perform with respect to transactions, whether due to their own insolvency or that of others, bankruptcy, market illiquidity, disruption or other causes and whether resulting from systemic or other reasons. Any form of default by such parties could result in material losses. A substantial portion of the Diversified Alpha Master Fund's and Sub-Funds' assets held by its prime brokers and/or counterparties may not be held in segregated accounts. Consequently, the Diversified Alpha Master Fund and the Sub-Funds may only have the status of any other general creditor of such brokers or counterparties in the event of their bankruptcy.

Model Risk. Certain of the Diversified Alpha Master Fund's investment strategies are based on proprietary quantitative models. In addition, in certain cases, the Diversified Alpha Master Fund may employ third party models as complements to its proprietary models. It is a common feature of most asset pricing and investment models that they must be updated regularly in order to remain effective. There can be no assurance that the Diversified Alpha Master Fund will be able to continue to develop, maintain and update effective quantitative models. In particular changes made to the Diversified Alpha Master Fund's models, in an attempt to respond to perceived changes in market conditions, may be unsuccessful.

Transaction Costs. The Diversified Alpha Master Fund's or a Sub-Fund's investment approach may involve a high level of trading and turnover of investments which may generate substantial transaction costs borne by the Diversified Alpha Master Fund. If such transaction costs exceed the returns from strategies necessitating such transaction costs, such strategies will experience losses.

Investments in Distressed Securities. The Diversified Alpha Master Fund may invest in "below investment grade" securities and obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These securities are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies' securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular

industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to the Diversified Alpha Master Fund's investment in any instrument, and a significant portion of the obligations and securities in which the Diversified Alpha Master Fund invests may be less than investment grade. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the Investment Adviser will correctly evaluate the value of the assets collateralizing the Master Fund's loans or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which the Diversified Alpha Master Fund invests, the Diversified Alpha Master Fund may lose its entire investment, may be required to accept cash or securities with a value less than the Master Fund's original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Diversified Alpha Master Fund's investments may not compensate the investors adequately for the risks assumed.

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

In certain transactions, the Diversified Alpha Master Fund may not be "hedged" against market fluctuations, or, in liquidation situations, may not accurately value the assets of the company being liquidated. This can result in losses, even if the proposed transaction is consummated.

Structural Subordination. The Master Fund is expected to invest substantially all of its capital in the Sub-Funds (and it is anticipated that through the Sub-Funds all trading and investing is to be conducted). The Sub-Funds are expected to employ substantial leverage in implementing the investment strategies pursued by the Investment Adviser. The Master Fund's rights as an equity holder to the assets of the Sub-Funds are subject to the satisfaction of prior claims of all creditors of the Sub-Funds (including, without limitation, prime brokers and other financial counterparties). The Master Fund depends on distributions and other payments from the Sub-Funds after satisfaction of all such claims to fund all payments on its own obligations. Additionally, the Master Fund and the Sub-Funds are parties to certain agreements that make them jointly and severally liable for certain obligations.

Sub-Fund Structure. The Diversified Alpha Master Fund may invest together with other clients or funds, including other funds sponsored by the Investment Adviser or its Affiliates (such other clients or funds, "Other Accounts") directly or indirectly, in the same trading vehicles, which may include Sub-Funds. In particular, the Diversified Alpha Master Fund and the Credit Master Fund invest, and are expected to continue to invest, together, directly or indirectly, through the same trading vehicle. The terms on which the Diversified Alpha Master Fund and any such Other Accounts are permitted to redeem or withdraw from such shared trading vehicles may differ. Additionally, the compensation structures or other characteristics of any such Other Accounts may create additional incentives for the Investment Adviser to cause such trading vehicles to make investments that are riskier or more speculative than if such Other Accounts did not invest, directly or indirectly, through



such trading vehicles and any such investments by such trading vehicles will impact the investment results of the Diversified Alpha Master Fund. Additionally, a creditor having a claim that relates to a particular investment held by any such vehicle may be able to satisfy such claim against all assets of such vehicle, without regard to the participation rights of the Master Fund and any Other Accounts or other investors of such vehicle or in the assets of such vehicle.

### **The Credit Master Fund**

Flexible Investment Approach. While the Credit Master Fund will focus on tradable corporate and sovereign debt, credit default swaps and equity futures, the Investment Adviser has broad and unfettered investment authority, and may trade in any type of security, issuer or group of related issuers, country, region and sector that it believes will help the Credit Master Fund achieve its investment objective. Additionally, the strategies that the Investment Adviser may pursue for the Credit Master Fund are not limited to the strategies described herein; furthermore, such strategies may change and evolve materially over time. The Investment Adviser has broad latitude with respect to the management of the Credit Master Fund's risk parameters. Although the Investment Adviser maintains internal risk guidelines, such guidelines may be subject to change over time and there is no requirement that the Credit Master Fund's investment activities comply with such guidelines. The Credit Master Fund is subject neither to formal diversification policies limiting the Credit Master Fund's portfolio investments nor to formal leverage policies limiting the leverage to be used by the Credit Master Fund. The Investment Adviser will opportunistically implement whatever strategies, techniques and discretionary approaches, as well as such other investment tactics, as it believes from time to time may be suited to prevailing market conditions. The Investment Adviser may utilize such leverage, position size, duration and other portfolio management techniques as it believes are appropriate for the Credit Master Fund. Prospective investors must recognize that in investing in the Credit Master Fund, they are placing their capital indirectly under the full discretionary management of the Investment Adviser and authorizing the Investment Adviser indirectly to trade for the Credit Master Fund using whatever strategies in such manner as the Investment Adviser may determine. Any of these new investment strategies, techniques, discretionary approaches and investment tactics may not be thoroughly tested before being employed and may have operational or other shortcomings that could result in unsuccessful investments and, ultimately, losses to the Credit Master Fund. In addition, any new investment strategy, technique and tactic developed by the Credit Master Fund may be more speculative than earlier investment strategies, techniques and tactics and may involve material and as-yet-unanticipated risks that could increase the risk of an investment in the Credit Master Fund. Investors will not generally be informed of any changes in the Investment Adviser's strategies, techniques, discretionary approach and tactics. There can be no assurance that the Investment Adviser will be successful in applying its approach and there is material risk that an investor may suffer significant impairment or total loss of its capital.

Concentration of Investments. The Credit Master Fund is not required to diversify its investments and may have a high concentration in certain positions, among other things, similar Financial Instruments, industries or geographic regions. Accordingly, the Credit Master Fund's assets may be subject to greater risk of loss than if they were more widely diversified.

Investment and Trading Risks. All investments in securities risk the loss of capital. The Investment Adviser believes that the Credit Master Fund's investment program and research techniques moderate this risk through a careful selection of securities and other financial instruments. No guarantee or representation is made that the Credit Master Fund's program will be successful. The Credit Master Fund's investment program may utilize such investment techniques as leverage, margin transactions, short sales, swaps, options on securities and forward contracts, which practices may, in certain circumstances, increase the adverse impact to which the Credit Master Fund may be subject. The Credit Master Fund will invest in bonds or other fixed-income securities, including public and private non-investment grade bonds, secured loans, second lien debt, convertible securities, options, swaps and other securities with fixed-income characteristics. Such securities may face on-going uncertainties and exposure to adverse business, financial or economic conditions that could lead to the issuer's inability to meet timely interest and principal payments. The market prices of such securities are also subject to abrupt and erratic market movements and changes in liquidity and above-average price volatility, and the spread between the bid and asked prices of such securities may be greater than those prevailing in other securities markets.

General Economic Conditions and Recent Events. Various sectors of the global financial markets have been experiencing an extended period of adverse conditions. In recent years, market uncertainty in the United States has increased dramatically, and adverse market conditions have expanded to other markets. These conditions have resulted in reduced liquidity, greater volatility, general widening of credit spreads and a lack of price transparency. These difficult global credit market conditions have adversely affected the market values of equity, fixed-income and other securities and these circumstances may continue or even deteriorate further. The short- and longer-term impact of these events is uncertain, but could have a material effect on general economic conditions, consumer and business confidence and market liquidity. Investments made by the Credit Master Fund are expected to be sensitive to the performance of the overall economy. A negative impact on economic fundamentals and consumer and business confidence would likely increase market volatility and reduce liquidity, both of which could have a material adverse effect on the performance of the Credit Master Fund and these or similar events may affect the ability of the Credit Master Fund to execute its investment program.

Investments in Corporate Bonds and High-Yield Securities. The Credit Master Fund will invest in secured loans, notes and bonds or other fixed income securities, including commercial paper and "higher yielding" (and, therefore, higher risk) debt securities (including non-investment grade securities). Such Financial Instruments may or may not be exchange-traded. As a result, these instruments may trade in a smaller secondary market than exchange-traded bonds. In addition, the Credit Master Fund will invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. High-yield securities that are below investment grade or unrated face on-going uncertainties and exposure to adverse business, financial or economic conditions that could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities are often highly leveraged and may not have available to them more traditional methods of financing. It is possible that an economic recession could severely disrupt the market for such securities and may have an adverse impact on the value of such

securities. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default of such securities.

Investments in Bank Loans and Participations. The Credit Master Fund may invest assets in 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 instruments with other institutions with lower credit quality; (iv) limitations on the ability of the Credit Master Fund to directly enforce its rights with respect to participations; and (v) generation of income that is subject to U.S. federal income taxation as income effectively connected with a U.S. trade or business. The Investment Adviser will attempt to balance the magnitude of these risks against the potential investment gain prior to the Credit Master Fund entering into each such investment. Successful claims by third parties arising from these and other risks, absent customary exceptions, may be borne by the Credit Master Fund.

In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories (collectively termed "lender liability"). Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to a borrower or has assumed a degree of control over the borrower resulting in a creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. Because of the nature of certain of the Credit Master Fund's investments, the Credit Master Fund could be subject to allegations of lender liability.

Investments in Distressed Securities. The Credit Master Fund may invest in securities of companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Although such investments may result in significant returns to the Credit Master Fund, they involve a substantial degree of risk. Any one or all of the issuers of the securities in which the Credit Master Fund may invest may be unsuccessful or not show any return for a considerable period of time. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the Investment Adviser will correctly evaluate the value of the assets collateralizing the Credit Master Fund's investments in distressed securities or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which the Credit Master Fund invests, the Credit Master Fund may lose its entire investment or may be required to accept cash or securities with a value less than the Credit Master Fund's original investment. Under such circumstances, the returns generated from the Credit Master Fund's investments may not compensate the Investors adequately for the risks assumed.

Sovereign Debt. It is anticipated that the Credit Master Fund may invest in Financial Instruments issued by a government, its agencies, instrumentalities or its central bank ("Sovereign Debt"). Sovereign Debt may include securities that the Investment Adviser believes are likely to be included in restructurings of the external debt obligations of the issuer in question. The ability of an issuer to make payments on Sovereign Debt, the market value of such debt and the inclusion of Sovereign Debt in future restructurings may be

affected by a number of other factors, including such issuer's (i) balance of trade and access to international financing, (ii) cost of servicing such obligations, which may be affected by changes in international interest rates, and (iii) level of international currency reserves, which may affect the amount of foreign exchange available for external debt payments. Significant ongoing uncertainties and exposure to adverse conditions may undermine the issuer's ability to make timely payment of interest and principal, and issuers may default on their Sovereign Debt.

Interest Rate Risk. Changes in interest rates can affect the value of the Credit Master Fund's investments in fixed income instruments. Increases in interest rates may cause the value of the Credit Master Fund's investments to decline. The Credit Master Fund may experience increased interest rate risk to the extent it invests, if at all, in lower-rated instruments, debt instruments with longer maturities, debt instruments paying no interest (such as zero coupon debt instruments) or debt instruments paying non-cash interest in the form of other debt instruments.

Lower Credit Quality Securities. There are no restrictions on the credit quality of the investments of the Credit Master Fund. Securities in which the Credit Master Fund may invest may be deemed by rating companies to have substantial vulnerability to default in payment of interest and/or principal. Other securities may be unrated. Lower-rated and unrated securities in which the Credit Master Fund may invest have large uncertainties or major risk exposures to adverse conditions, and are considered to be predominantly speculative. Generally, such securities offer a higher return potential than higher-rated securities, but involve greater volatility of price and greater risk of loss of income and principal.

The market values of certain of these securities (such as subordinated securities) also tend to be more sensitive to changes in economic conditions than higher-rated securities. The value of such securities may also be affected by changes in the market's perception of the entity issuing or guaranteeing them, or by changes in government regulations and tax policies.

Prepayment Risk. The frequency at which prepayments (including voluntary prepayments by obligors and accelerations due to defaults) occur on bonds and loans will be affected by a variety of factors including the prevailing level of interest rates and spreads as well as economic, demographic, tax, social, legal and other factors. Generally, obligors tend to prepay their fixed-rate obligations when prevailing interest rates fall below the coupon rates on their obligations. Similarly, floating rate issuers and borrowers tend to prepay their obligations when spreads narrow.

In general, "premium" securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since many fixed-rate obligations will be discount instruments when interest rates and/or spreads are high, and will be premium instruments when interest rates and/or spreads are low, such debt instruments and asset-backed instruments may be adversely affected by changes in prepayments in any interest rate environment.

The adverse effects of prepayments may impact the Credit Master Fund's portfolio in two ways. First, particular investments may experience outright losses, as in the case of an interest-only instrument in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that the Investment Adviser may have constructed for these investments, resulting in a loss to the Credit Master Fund's overall portfolio. In particular, prepayments (at par) may limit the potential upside of many instruments to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

Investments in Event-Oriented Situations. The price offered for securities of a company involved in an announced deal can generally represent a significant premium above (or, in the case of debt, represent a significant opportunity compared to) the market price prior to the announcement. Therefore, the value of (or the opportunity relating to) such securities held by the Credit Master Fund may decline in the event the proposed transaction is not consummated and if the market price of the securities returns to a level comparable to the price prior to the announcement of the deal. Furthermore, the difference between the price paid by the Credit Master Fund for (or relating to) securities of a company involved in an announced deal and the anticipated value to be received for (or relating to) such securities upon consummation of the proposed transaction will often be very small. If the proposed transaction appears likely not to be consummated or, in fact, is not consummated or is delayed, the market price of (or the opportunity relating to) the securities will usually decline, perhaps by more than the Credit Master Fund's anticipated profit. In addition, when the Credit Master Fund has sold short the securities it anticipates receiving in an exchange or merger, and the proposed transaction is not consummated, the Credit Master Fund may be forced to cover its short position in the market at a higher price than its short sale, with a resulting loss. If the Credit Master Fund has sold short securities that are the subject of a proposed cash tender offer or cash merger and the transaction is consummated, the Credit Master Fund also may be forced to cover its short position at a loss.

The consummation of refinancings, restructurings, mergers and tender and exchange offers can be prevented or delayed by a variety of factors, including: (i) opposition of the management or stockholders of the target company, which will often result in litigation to enjoin the proposed transaction; (ii) intervention of a regulatory agency; (iii) failure to approve a restructuring or refinancing by creditors acting individually or as part of creditor committees; (iv) efforts by the target company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (v) in the case of a merger, failure to obtain the necessary stockholder approvals; (vi) market conditions resulting in material changes in securities prices; (vii) compliance with any applicable securities laws; and (viii) inability to obtain adequate financing.

Often a tender or exchange offer will be made for less than all of the outstanding securities of an issuer or a higher price will be offered for a limited amount of the securities, with the provision that, if a greater number is tendered, securities will be accepted *pro rata*. Thus, a portion of the securities tendered by the Credit Master Fund may not be accepted and may be returned to the Credit Master Fund. Since, after completion of the tender offer, the market price of the securities may have declined below the Credit Master Fund's cost, a sale of any returned securities may result in a loss.

Use of Leverage. The investment program of the Credit Master Fund includes a high degree of leverage. The use of leverage will, in many instances, enable the Credit

Master Fund to achieve a higher rate of return than would be otherwise possible. Generally, the Investment Adviser will seek to balance the amount of leverage to be employed by the Credit Master Fund and the estimated long-term volatility of the portfolio. The Credit Master Fund's perception of any strategy's volatility is expected to change from time to time and the market for leverage is expected to be dynamic. Accordingly, the amount, sources and pricing of leverage utilized with respect to such strategy will also change. An inability of the Credit Master Fund to obtain a desired amount of leverage, however, may limit the Credit Master Fund's overall investment exposure and may reduce the Credit Master Fund's performance. Leverage may take the form of any of the Financial Instruments described herein, including derivative instruments that are inherently leveraged and trading in products with embedded leverage such as options, short sales, swaps and forwards.

The instruments and borrowings utilized by the Credit Master Fund to leverage investments may be collateralized by the Credit Master Fund's portfolio. Accordingly, the Credit Master Fund may pledge its Financial Instruments in order to borrow additional Credit Master Funds or otherwise obtain leverage for investment or other purposes. The amount of borrowings which the Credit Master Fund may have outstanding at any time may be substantial in relation to its capital.

The use of leverage will allow the Credit Master Fund to borrow in order to make additional investments, thereby increasing its exposure to assets, such that its total assets are greater than its capital. The use of leverage will magnify the volatility of changes in the value of the investments of the Credit Master Fund. Accordingly, any event that adversely affects the value of an investment would be magnified to the extent the investment is leveraged. The cumulative effect of the use of leverage by the Credit Master Fund in a market that moves adversely to its investments could result in substantial losses to the Credit Master Fund, which would be greater than if the Credit Master Fund were not leveraged. In addition, the amount of the Credit Master Fund's borrowings and the interest rates on those borrowings, which will fluctuate, will have a significant effect on the Credit Master Fund's profitability.

In general, the use of short-term margin borrowings with respect to portfolio securities results in certain additional risks to the Credit Master Fund. For example, should the securities pledged to brokers to secure the Credit Master Fund's margin accounts decline in value, the Credit Master Fund could be subject to a "margin call," pursuant to which the Credit Master Fund must either deposit additional Credit Master Funds or securities with the broker, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden drop in the value of the assets of the Credit Master Fund, the Credit Master Fund might not be able to liquidate assets quickly enough to satisfy its margin requirements.

The Credit Master Fund may also borrow by entering into repurchase agreements. Under a repurchase agreement, the Credit Master Fund sells securities and agrees to repurchase them at a specified date and price. Repurchase agreements may involve the risk that the market value of the securities purchased with the proceeds of the repurchase agreement by the Credit Master Fund may decline below the price of the securities the Credit Master Fund has sold but is obligated to repurchase. In the event the buyer of securities under a repurchase agreement files for bankruptcy or becomes insolvent, such buyer or its trustee or receiver may receive an extension of time to determine whether to enforce the obligation of the Credit Master Fund to repurchase the securities and the Credit Master Fund's use of the

proceeds of the repurchase agreement may effectively be restricted pending such decision. To the extent that, in the meantime, the value of the securities that the Credit Master Fund has purchased has decreased, the Credit Master Fund could experience a loss.

The investment return of the Credit Master Fund may also be leveraged with options, short sales, swaps, forwards and other derivative instruments. In the futures markets, margin deposits are typically low relative to the value of the futures contracts purchased or sold. Such low margin deposits are indicative of the fact that any futures contract trading is typically accompanied by a high degree of leverage. Low margin deposits mean that a relatively small price movement in a futures contract may result in immediate and substantial losses to the investor. For example, if at the time of purchase, 10% of the price of a futures contract is deposited as margin, a 10% decrease in the price of the futures contract would, if the contract is then closed out, result in a total loss of the margin deposit before any deduction for brokerage commissions. Thus, like other leveraged investments, any purchase or sale of a futures contract may result in losses in excess of the amount invested.

The financing used by the Credit Master Fund to leverage its portfolio is currently extended by securities brokers and dealers in the marketplace in which the Credit Master Fund will invest. While the Credit Master Fund attempts to negotiate the terms of these financing arrangements with such brokers and dealers, its ability to do so is limited. The Credit Master Fund is therefore subject to changes in the value that the broker-dealer ascribes to a given security or position, the amount of margin required to support such security or position, the borrowing rate to finance such security or position and/or such broker-dealer's willingness to continue to provide any such credit to the Credit Master Fund. Because the Credit Master Fund currently has no alternative credit facility that could be used to finance its portfolio in the absence of financing from broker-dealers, to the extent it used substantial leverage, it could be forced to liquidate its portfolio on short notice to meet its financing obligations. In such circumstances, the forced liquidation of all or a portion of the Credit Master Fund's portfolio at distressed prices could result in significant losses to the Credit Master Fund. In addition, borrowings will typically be secured by the Credit Master Fund's securities and other assets. Under certain circumstances, a broker-dealer may demand an increase in the collateral that secures the Credit Master Fund's obligations and if the Credit Master Fund were unable to provide additional collateral, the broker-dealer could liquidate assets held in the account to satisfy the Credit Master Fund's obligations to the broker-dealer. Liquidation in such manner could have extremely adverse consequences.

Structured Credit Investments. The Credit Master Fund may invest its assets in debt and/or equity tranches of structured credit instruments, including collateralized debt obligations. These investments may be effected through cash instruments or synthetic instruments. These investments may be illiquid in nature, with no readily available secondary market and may be highly leveraged or volatile in nature. All of the Credit Master Fund's investments in structured credit instruments will be subject to typical market risks. See "Investment and Trading Risks" above.

Limited Nature of Rating. In general, the ratings issued by nationally recognized rating organizations represent the opinions of these agencies as to the quality of securities that they rate. These ratings may be used by the Investment Adviser as initial criteria for the selection of portfolio securities. Such ratings, however, are relative and subjective; they only evaluate the credit risk with respect to payment of principal and interest. Such ratings are not absolute standards of quality and they do not evaluate the market value

risk of the securities. It is also possible that a rating agency might not change its rating of a particular issue to timely reflect subsequent events. Further, with respect to mortgage-backed securities, such ratings do not represent any assessment of the likelihood that future prepayment experience will differ from prepayment assumptions or historical prepayment rates. Hence, such ratings will not address the possibility that prepayment rates higher or lower than anticipated by an investor may cause such investor to experience a lower than anticipated yield.

Investments in Equity Securities. The Credit Master Fund intends to invest in equity securities and equity-related security derivatives. The value of these Financial Instruments generally will vary with the performance of the issuer and movements in the equity markets. As a result, the Credit Master Fund may suffer losses if it invests in equity instruments of issuers whose performance diverges from the Investment Adviser's expectations or if equity markets generally move in a single direction and the Credit Master Fund has not hedged against such a general move. The Credit Master Fund also may be exposed to risks that issuers will not fulfill contractual obligations such as, in the case of convertible securities or private placements, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale. In addition, equity securities fluctuate in value in response to many factors, including the activities and financial condition of individual companies, geographic markets, industry market conditions, interest rates and general economic environments.

Investments in Convertible Securities. The Credit Master Fund may invest in convertible securities, which are securities that may be exchanged or converted into a predetermined number of the issuer's underlying shares or the shares of another company, or securities that are indexed to an unmanaged market index, at the option of the holder during a specified time period. Convertible securities may take the form of convertible preferred stock, convertible bonds or debentures, stock purchase warrants, zero-coupon bonds or liquid-yield option notes, stock index notes, mandatories, or a combination of the features of these securities. Prior to conversion, convertible securities have the same general characteristics as non-convertible debt securities. As with all debt securities, the market value of convertible securities tends to decline as interest rates increase, and conversely, increase as interest rates decline. Convertible securities, however, also appreciate when the underlying common stock appreciates, and conversely, depreciate when the underlying common stock depreciates.

Liquidity of Markets. At times, certain sectors of the fixed-income markets may experience significant declines in liquidity. While such events may sometimes be attributable to changes in interest rates or other factors, the cause is not always apparent. During such periods of market illiquidity, the Credit Master Fund may not be able to sell assets in its portfolio or may only be able to do so at unfavorable prices.

Such "liquidity risk" could adversely impact the value of the Credit Master Fund's portfolio and may be difficult or impossible to hedge against.

Liquidity and Valuation of Investments. The Credit Master Fund may invest in securities that are subject to legal or other restrictions on transfer or for which no liquid market exists. The Credit Master Fund may not be able to sell such securities when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible



for trading on national securities exchanges or in the over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. Because the markets for such securities are still evolving, liquidity in these securities is limited and liquidity with respect to lower-rated and unrated subordinated classes may be even more limited. As a result, calculating the fair market value of the Credit Master Fund's holdings may be difficult and there can be no assurance that the Investment Adviser's valuation will accurately reflect the value that will be realized by the Credit Master Fund upon the eventual disposition of such investment. Disposition of such illiquid investments may also result in distributions in-kind to the Investors. Such investments could also impair the Credit Master Fund's ability to distribute withdrawal proceeds to a withdrawing Investor in a timely manner. The Investment Adviser may not necessarily aggregate illiquid investments in classes, and may use valuation methodologies for such assets involving subjective determinations. In addition, in the discretion of the Investment Adviser, payment to the Investor of that portion of its requested withdrawal attributable to the Credit Master Fund's illiquid investments may be delayed until such time as the Credit Master Fund is able to pay the amount otherwise due to the Investor.

Disposition of Investments Held by a Special Purpose Vehicle; Divergent Investment Goals. The Investment Adviser or an affiliate thereof may serve as the Investment Adviser of a special purpose vehicle formed for the purpose of holding and subsequently liquidating assets of the Credit Master Fund and any vehicles attributable to certain withdrawn investors. There can be no assurance that the Investment Adviser will be able to sell or otherwise dispose of all or any portion of the assets held by such special purpose vehicle in a timely manner, if at all, or at prices that reflect the value of such assets. In addition, certain assets held by the Offshore Credit Master Fund, the Master Credit Master Fund or the Credit Trading Vehicle may be held for the benefit of both existing Investors and former Investors. This may give rise to conflicts of interest as the assets are being managed with divergent goals.

Duration of Investment Positions. The Investment Adviser may not know, except in the case of certain options or derivatives positions which have pre-established expiration dates, the maximum—or even the expected (as opposed to optimal)—duration of any particular position at the time of initiation. The length of time for which a position is maintained may vary significantly, based on the Investment Advisers' subjective judgment of the appropriate point at which to liquidate a position so as to augment gains or reduce losses. Many of the Credit Master Fund's transactions may involve acquiring related positions in a variety of different instruments or markets at or about the same time. Frequently, optimizing the probability of being able to exploit the pricing anomalies among these positions requires holding periods of significant length—sometimes many months to a year or more. Actual holding periods depend on numerous market factors which can both expedite and disrupt price convergences. There can be no assurance that the Credit Master Fund will be able to maintain any particular position, or group of related positions, for the duration required to realize the expected gains, or avoid losses, from such positions.

“Widening” Risk. For reasons not necessarily attributable to any of the risks enumerated above (for example, supply/demand imbalances or other market forces), the prices of the securities in which the Credit Master Fund invests may decline substantially. In particular, purchasing assets at what may appear to be “undervalued” levels is no guarantee that these assets will not be trading at even more “undervalued” levels at a time of valuation

or at the time of sale. It may not be possible to predict, or to hedge against, such “spread widening” risk.

Ability to Acquire Assets at Favorable Spreads; Competition and Supply. The Credit Master Fund’s potential for current income and capital appreciation for its Investors will depend, in large part, on the ability of the Investment Adviser to acquire investments for the Credit Master Fund on advantageous terms. The Credit Master Fund intends to purchase fixed-income securities from investment banking firms, traders and portfolio managers, and other firms. In acquiring fixed-income securities, the Credit Master Fund will compete with a broad spectrum of institutional investors, many of which have greater financial resources than the Credit Master Fund. Increased competition for, or a reduction in the available supply of, qualifying investments could result in higher prices for, and thus lower yields on, such investments.

Short Selling. The Credit Master Fund’s investment program may include short selling. Short selling involves selling securities which may or may not be owned by the seller and borrowing the same securities for delivery to the purchaser, with an obligation to return the borrowed securities to the lender at a later date. Short selling allows the seller to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities and may be an important aspect of certain of the investment strategies of the Credit Master Fund. The extent to which the Credit Master Fund engages in short sales will depend upon its investment strategy and perception of market direction. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Credit Master Fund of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase at the time the Credit Master Fund desires to close out such short position. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

In response to dislocations in the financial services industry during the financial crisis of 2008 and other market events, the SEC and foreign regulators have imposed, and may continue to impose, restrictions on and reporting obligations with respect to short selling. Uncertainty surrounding the confidential nature of the required disclosures of the Credit Master Fund’s short sales could discourage short selling by the Credit Master Fund in circumstances where the Investment Adviser believes that the public disclosure of such short sales may be adverse to its interests. In addition, limitations on the short selling of securities could interfere with the ability of the Credit Master Fund to execute certain aspects of its investment program, including its ability to hedge certain exposures and execute transactions to implement its risk management guidelines, and any such limitations may adversely affect the performance of the Credit Master Fund.

Derivatives. The Credit Master Fund may utilize both exchange-traded and over-the-counter derivatives, including futures, forwards, swaps, options and contracts for differences, as part of its investment program and for hedging purposes. Regulatory restraints may restrict the instruments that the Credit Master Fund may trade. Derivative instruments are highly volatile, involve certain special risks and expose investors to a high risk of loss. The low initial margin deposits normally required to establish a position in such instruments permit a high degree of leverage. As a result, depending on the type of instrument, a relatively small movement in the price of a contract may result in a profit or a loss which is

high in proportion to the amount of Credit Master Funds actually placed as initial margin and may result in unquantifiable further losses exceeding any margin deposited. In addition, daily limits on price fluctuations and speculative position limits on exchanges may prevent prompt liquidation of positions resulting in potentially greater losses. Further, when used for hedging purposes there may be an imperfect correlation between these instruments and the investments or market sectors being hedged. Transactions in over-the-counter contracts may involve additional risk as there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of a position or to assess the exposure to risk. Contractual asymmetries and inefficiencies can also increase risk, such as break clauses, whereby a counterparty can terminate a transaction on the basis of a certain reduction in net asset value of the Credit Master Fund, incorrect collateral calls or delays in collateral recovery. Additionally, credit derivatives will require the posting of collateral. A bankruptcy of the collateral holder may result in losses to the extent posted collateral exceeds the obligations of the pledging party under the credit derivative transaction. As more derivative instruments are cleared through derivatives clearing merchants, the collateral requirements which are determined by the clearinghouses and approved by regulatory bodies may differ from the collateral terms which have historically been applied by the various bank and broker-dealer counterparties to the similar investment strategies pursued by the HH Main Credit Master Fund. There is currently uncertainty as to the level of collateral requirements which may be required, and the changing collateral requirements may impact the Investment Adviser's ability to pursue certain investment strategies. In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act amendments to the Advisers Act (the "Dodd-Frank Act") will require a large proportion of transactions in the derivatives markets to be conducted on a Swap Execution Facility ("SEF"). The impact of the SEFs on transaction liquidity and pricing cannot be determined at this time. The timing of the implementation of the changes to the derivatives markets is not yet determined, but is projected by certain industry participants to be in the second half of 2012.

Credit Derivative Transactions. As part of its investment program, the Credit Master Fund may enter into credit derivative transactions. Credit derivatives are transactions between two parties which are designed to isolate and transfer the credit risk associated with a third party (the "reference entity"). Credit derivative transactions in their most common form consist of credit default swap transactions under which one party (the "credit protection buyer") agrees to make one or more fixed payments in exchange for the other party's (the "credit protection seller") obligation to assume the risk of loss if an agreed-upon "credit event" occurs with respect to the reference entity. Credit events are specified in the contract and are intended to identify the occurrence of a significant deterioration in the creditworthiness of the reference entity (mainly a default on a material portion of its outstanding obligations, a bankruptcy or a restructuring of its debt). Upon the occurrence of a credit event, credit default swaps may be cash settled (either directly or by way of an auction) or physically settled. If the transaction is cash settled, the amount payable by the credit protection seller following a credit event will usually be determined by reference to the difference between the nominal value of a specified obligation of the reference entity and its market value after the occurrence of the credit event (which sometimes may be established in an industry-wide auction process). If the transaction is physically settled, the credit protection buyer will deliver an obligation of the reference entity that is either specified in the contract or the general characteristics are described therein to the credit protection seller in return for the payment of its nominal value.

Credit derivatives may be used to create an exposure to the underlying asset or reference entity, to reduce existing exposure or to create a profit through trading differences in their buying and selling prices. The Credit Master Fund may enter into credit derivatives transactions as protection buyer or seller.

Credit derivative transactions are an established feature of the financial markets and both the number of participants and range of products available have significantly increased over the years. Credit derivative transactions dependent upon credit events are priced incorporating many variables including the pricing and volatility of the common stock of the reference entity, potential loss upon default by the reference entity on any of its obligations, and the shape of the U.S. Treasury Market curve, among other factors. As such, there are many factors upon which market participants may have divergent views.

Synthetic Investment Instruments. The Credit Master Fund may utilize customized derivative instruments, such as swap or notional principal contracts, to receive synthetically the economic attributes associated with an investment in a security or financial instrument or a basket of securities or financial instruments. There may be circumstances in which the Investment Adviser would conclude that the best or only means by which the Credit Master Fund could make a desirable investment is through the use of such derivative structures. The Credit Master Fund may be exposed to certain risks should the Investment Adviser use derivatives as a means to implement synthetically its investment strategies. If the Credit Master Fund enters into a derivative instrument whereby it agrees to receive the return of a security or financial instrument or a basket of securities or financial instruments, it will typically contract to receive such returns for a predetermined period of time. During such period, the Credit Master Fund may not have the ability to increase or decrease its exposure. In addition, such customized derivative instruments are expected to be highly illiquid and it is possible that the Credit Master Fund will not be able to terminate such derivative instruments prior to their expiration date or that the penalties associated with such a termination might impact the Credit Master Fund's performance in a materially adverse manner. In the event the Credit Master Fund seeks to participate through the use of such synthetic derivative instruments, the Credit Master Fund will not acquire any voting interests or other shareholder rights that would be acquired with a direct investment in the underlying securities or financial instruments. Accordingly, the Credit Master Fund will not participate in matters submitted to a vote of the shareholders. In addition, the Credit Master Fund may not receive all of the information and reports to shareholders that the Credit Master Fund would receive with a direct investment. Further, the Credit Master Fund will pay the counterparty to any such customized derivative instrument structuring fees and on-going transaction fees, which will reduce the investment performance of the Credit Master Fund. Finally, certain aspects of the appropriate U.S. federal income tax treatment of such customized derivative instruments are uncertain and, if the Credit Master Fund's U.S. federal income tax treatment of such instruments proves to be inappropriate, an Investor's after tax return from its investment in the Credit Master Fund may be adversely affected.

Trading in Options and Swap Agreements. The Credit Master Fund may buy or sell (write) both call options and put options (either exchange-traded, over-the-counter or issued in private transactions), and when it writes options it may do so on a "covered" or an "uncovered" basis. The Credit Master Fund's options transactions may be part of a hedging tactic (*i.e.*, offsetting the risk involved in another securities position) or a form of leverage, in which the Credit Master Fund has the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that

can be large, depending on the circumstances. In general, the principal risks involved in options trading can be described as follows, without taking into account other positions or transactions the Credit Master Fund may enter into.

A call option is “covered” when the writer owns securities of the class and amount of those as to which the call option applies. A put option is covered when the writer has an open short position in securities of the relevant class and amount.

When the Credit Master Fund buys an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the price of the underlying security in the case of a put, could result in a total loss of the Credit Master Fund’s investment in the option (including commissions). The Credit Master Fund could mitigate those losses by selling short the securities as to which it holds call options or taking a long position (*i.e.*, by buying the securities or buying options on them) on securities underlying put options.

When the Credit Master Fund sells (writes) an option, the risk can be substantially greater than when it buys an option. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. The risk is theoretically unlimited unless the option is “covered.” If it is covered, an increase in the market price of the security above the exercise price would cause the Credit Master Fund to lose the opportunity for gain on the underlying security—assuming it bought the security for less than the exercise price. If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction costs) would provide profit that would reduce or offset any loss the Credit Master Fund might suffer as a result of owning the security.

The seller of an uncovered put option theoretically could lose an amount equal to the entire aggregate exercise price of the option, if the underlying security were to become valueless. If the option were covered with a short position in the underlying security, this risk would be limited, but a drop in the security’s price below the exercise price would cause the Credit Master Fund to lose some or all of the opportunity for profit on the “covering” short position—assuming the Credit Master Fund sold short for more than the exercise price. If the price of the underlying security were to increase above the exercise price, the premium on the option (after transaction costs) would provide profit that would reduce or offset any loss the Credit Master Fund might suffer in closing out its short position.

Swaps and certain options and other custom instruments are subject to the risk of non-performance by the swap counterparty, including risks relating to the creditworthiness of the swap counterparty. In addition, the Credit Master Fund also is subject to the risk of the failure of any of the exchanges on which it trades or of their clearinghouses. The Credit Master Fund may enter into swap agreements. Swap agreements can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease the exposure of the Credit Master Fund to long-term or short-term interest rates (in the United States or abroad), non-U.S. currency values, mortgage securities, corporate borrowing rates, asset-backed securities, collateralized debt obligations, indices, or other factors such as security prices, baskets of equity securities, or inflation rates. Swap agreements can take many different forms and are known by a variety of names. The Credit Master Fund is not

precluded from any particular form of swap agreement if the Investment Adviser determines it is consistent with the investment objective and policies of the Credit Master Fund.

Swap agreements tend to shift investment exposure from one type of investment to another. For example, if the Credit Master Fund agrees to exchange payments in dollars for payments in non-U.S. currency, the swap agreement would tend to decrease the Credit Master Fund's exposure to U.S. interest rates and increase its exposure to non-U.S. currency and interest rates. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the portfolio of the Credit Master Fund. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency, individual equity values or other factors that determine the amounts of payments due to and from the Credit Master Fund. If a swap agreement calls for payments by the Credit Master Fund, the Credit Master Fund must be prepared to make such payments when due. In addition, if a counterparty's creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses by the Credit Master Fund.

Forward Trading. Forward contracts and options thereon, unlike futures contracts, are generally not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market traded by the Credit Master Fund due to unusually high trading volume, political intervention or other factors. The imposition of controls by government authorities might also limit such forward (and futures) trading to less than that which the Investment Adviser would otherwise recommend, to the possible detriment of the Credit Master Fund. Market illiquidity or disruption could result in major losses to the Credit Master Fund.

Highly Volatile Markets. Price movements of the Credit Master Fund's investments may be highly volatile and influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies, financial instruments, futures and options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. The Credit Master Fund also is subject to the risk of the failure of any exchanges on which the positions of the Credit Master Fund trade or of their clearinghouses.

Currency. The Credit Master Fund may invest a portion of its assets in principal instruments denominated in currencies other than the U.S. dollar or the price of which is determined with reference to currencies other than the U.S. dollar. The Credit Master Fund will, however, value its securities and other assets in U.S. dollars. To the extent unhedged, the value of the Credit Master Fund's assets will fluctuate with U.S. dollar exchange rates as well as the price changes of the Credit Master Fund's investments in the

various local markets and currencies. Thus, an increase in the value of the U.S. dollar compared to the other currencies in which the Credit Master Fund makes its investments will reduce the effect of increases and magnify the U.S. dollar equivalent of the effect of decreases in the prices of the Credit Master Fund's securities in their local markets. Conversely, a decrease in the value of the U.S. dollar will have the opposite effect on the Credit Master Fund's non-U.S. dollar securities. The Credit Master Fund also may utilize options and forward contracts to hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be effective.

Hedging Transactions. The Credit Master Fund may utilize a variety of Financial Instruments such as shorts, derivatives, options, swaps, caps and floors and forward contracts, both for investment purposes and for risk management purposes in order to: (i) protect against possible changes in the market value of the Credit Master Fund's investment portfolio resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect the Credit Master Fund's unrealized gains in the value of the Credit Master Fund's investment portfolio; (iii) facilitate the sale of any such investments; (iv) establish a position as a temporary substitute for other securities; (v) enhance or preserve returns, spreads or gains on any investment in the Credit Master Fund's portfolio; (vi) hedge the interest rate or currency exchange rate on any of the Credit Master Fund's liabilities or assets; (vii) protect against any increase in the price of any securities the Credit Master Fund anticipates purchasing at a later date; or (viii) for any other reason that the Investment Adviser deems appropriate.

Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the portfolio positions' value. Such hedging transactions also limit the opportunity for gain if the value of the portfolio position should increase. Moreover, it may not be possible for the Credit Master Fund to hedge against an exchange rate, interest rate or security price fluctuation that is so generally anticipated that the Credit Master Fund is unable to enter into a hedging transaction at a price sufficient to protect its assets from the decline in value of the portfolio positions anticipated as a result of such fluctuations.

The Credit Master Fund is not required to attempt to hedge portfolio positions and, for various reasons, may determine not to do so. Moreover, the Credit Master Fund is not obligated to hedge against fluctuations in the value of the Credit Master Fund's portfolio positions as a result of changes in market interest rates or any other developments. Furthermore, the Credit Master Fund may not anticipate a particular risk so as to hedge against it. While the Credit Master Fund may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Credit Master Fund than if the Credit Master Fund had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio position being hedged may vary. For a variety of reasons, the Credit Master Fund may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent the Credit Master Fund from achieving the intended hedge or expose the Credit Master Fund to risk of loss. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the Credit Master Fund's portfolio holdings. Moreover, it should be noted

that a portfolio will always be exposed to certain risks that cannot be hedged, such as credit risk (relating both to particular securities and counterparties), “liquidity risk” and “widening” risk.

Non-U.S. Investments. Investments outside the United States or denominated in non-U.S. currencies pose currency exchange risks (including blockage, devaluation and non-exchangeability) as well as a range of other potential risks which could include, depending on the country involved, expropriation, confiscatory taxation, political or social instability, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding non-U.S. investments and non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S. companies. Transaction costs of investing outside the U.S. are generally higher than in the U.S. There is generally less government supervision and regulation of exchanges, brokers and Credit Master Funds than there is in the U.S. Non-U.S. investments pose certain legal risks, including that laws and regulations governing investments in securities may not exist or may be subject to inconsistent or arbitrary application or interpretation. Both the independence of judicial systems and their immunity from economic, political or nationalistic influences remain largely untested in many countries and the Credit Master Fund may encounter difficulties in pursuing legal remedies or in obtaining and enforcing judgments in non-U.S. courts. Non-U.S. markets also have different clearance and settlement procedures which in some markets have at times failed to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures that could adversely affect the Credit Master Fund’s performance. Greater tax risks and complexities also may be associated with these investments.



**ITEM 9**  
**DISCIPLINARY INFORMATION**

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

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

A. Broker-Dealer Registration Status.

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

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

Hutchin Hill Capital, LP and Hutchin Hill Capital Credit Manager, LP are registered as Commodity Pool Operators with the Commodities Futures Trading Commission.

C. Material Relationships or Arrangements with Industry Participants.

The Investment Adviser acts as an investment adviser to various client entities as previously noted. In addition, as noted in Item 4 hereof, the Investment Adviser is affiliated with Hutchin Hill Fund GP, LLC, which serves as general partner of the Diversified Alpha Domestic Fund, Hutchin Hill Liquid Credit Fund GP, LLC, which serves as the general partner of the Credit Domestic Fund, and Hutchin Hill Portfolio Management, LLC, which employs the Investment Professionals and their respective staffs and pays, in the first instance, among other things, certain expenses of the Portfolio Management Teams. The Investment Adviser has also entered into sub-advisory agreements with Hutchin Hill Capital Texas, LP and Hutchin Hill UK LLP (the "Sub-Advisers"). The Sub-Advisers provide investment advisory services to the Investment Adviser with respect to certain strategies currently pursued by the Diversified Alpha Master Fund, and Hutchin Hill UK LLP may in the future also provide investment advisory services to the Investment Adviser with respect to strategies pursued by the Credit Master Fund. Hutchin Hill Capital GP, LLC is the general partner of Hutchin Hill Capital Texas, LP. Hutchin Hill Capital, LP, through Hutchin Hill (UK) Services Limited, a wholly owned subsidiary, owns a 98% interest in Hutchin Hill UK, LLP, with the remaining 2% being owned by an investment professional.

The Investment Adviser may provide investment management services to the Funds, and may carry on investment activities for Other Accounts in which the Funds will have no interest. The respective investment programs of the Funds and Other Accounts may or may not be substantially similar.

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

portfolio. Such considerations may result in allocations of investment opportunities among the Funds and one or more Other Accounts on other than a *pari passu* basis.

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

The Investment Adviser does not recommend or select other investment advisers for its clients.

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

A. Code of Ethics.

The Investment Adviser strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. In seeking to meet these standards, the Investment Adviser has adopted a Code of Ethics (the "Code"). The Code incorporates the following general principles that all employees are expected to uphold:

- employees must at all times place the interests of clients first;
- all personal securities transactions must be conducted in a manner consistent with the Code and any actual or potential conflicts of interest or any abuse of an employee's position of trust and responsibility must be avoided;
- employees must not take any inappropriate advantage of their positions;
- information concerning the identity of securities and financial circumstances of the Funds, including the Funds' investors, must be kept confidential; and
- independence in the investment decision-making process must be maintained at all times.

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

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

The Investment Adviser may buy or sell for client accounts securities in which an employee has a personal investment. Please refer to Item 11.C for further details.

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

The Code places restrictions on personal trades by employees, including that they disclose their personal securities holdings and transactions to the Investment Adviser on a periodic basis, and requires that employees pre-clear certain types of personal securities transactions. Generally, and subject to certain exceptions, the Investment Adviser's employees may not engage in personal securities trading and may only dispose of securities held in their respective personal trading accounts. Any such disposition of securities must be pre-cleared. However, related persons may purchase and sell mutual funds and broad-based exchange-traded funds ("ETFs"). Some clients may invest in the same or similar mutual funds and ETFs.

The Investment Adviser, its Affiliates and its employees may give advice or take action for their own accounts that may differ from, conflict with or be adverse to advice given or action taken for clients. These activities may adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more clients. Potential conflicts also may arise due to the fact that the Investment Adviser and its personnel may have investments in some Funds but not in others or may have different levels of investments in the various Funds.

The Investment Adviser has established policies and procedures to monitor and resolve conflicts with respect to investment opportunities in a manner it deems fair and equitable, including the restrictions placed on personal trading in the Code, as described above, and regular monitoring of employee transactions and trading patterns for actual or perceived conflicts of interest, including those conflicts that may arise as a result of personal trades in the same or similar securities made at or about the same time as client trades.

## **ITEM 12**

### **BROKERAGE PRACTICES**

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

Portfolio transactions for the Funds will be allocated to brokers and dealers on the basis of best execution and in consideration of various relevant factors, including, without limitation: price quotes; the size of the transaction and the ability to find liquidity; the nature of the market for the financial instrument involved; the timing of the transaction; the anticipated difficulty of execution; the broker-dealer's expertise in the specific financial instrument or sector in which the Fund seeks to trade; the extent to which the broker-dealer makes a market in the financial instrument involved or has access to such markets; the broker-dealer's skill in positioning the financial instrument involved; the broker-dealer's promptness of execution; the broker-dealer's financial stability and reputation for diligence, fairness, and integrity; the quality of service rendered by the broker-dealer in past transactions for the Investment Adviser or Portfolio Management Team; confidentiality considerations; the quality and usefulness of research services and investment ideas presented by the broker-dealer; the broker-dealer's willingness to correct errors; the broker-dealer's ability to accommodate any special execution or order-handling requirements that may surround the particular transaction; and other factors deemed appropriate by the Investment Adviser or an Investment Professional. The Investment Adviser and Investment Professionals need not solicit competitive bids and do not have an obligation to seek the lowest available commission cost or spread.

Accordingly, if the Investment Adviser or an Investment Professional concludes that the commissions charged by a broker, or the spreads applied by a dealer, are reasonable in relation to the quality of services rendered by such broker or dealer (including, without limitation, the value of the brokerage and research products or services provided by such broker or dealer), the Diversified Alpha Master Fund, Sub-Fund or Credit Trading Vehicle may pay commissions to, or be subject to spreads applied by, such broker-dealer that are greater than those another broker-dealer might charge or apply.

The Investment Adviser maintains policies and procedures to review the quality of executions, including periodic reviews by its Investment Professionals.

#### **1. Research and Other Soft Dollar Benefits.**

From time to time, the Investment Adviser may pay a broker-dealer commissions (or markups or markdowns with respect to certain types of riskless principal transaction) for effecting transactions in excess of that which another broker-dealer might have charged for effecting the transaction in recognition of the value of the brokerage and research services provided by the broker-dealer. Any use of commissions or "soft dollars" generated by the Funds, through agency and certain riskless principal transactions, to pay for research products or services will fall within the safe harbor created by Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended. Where a product or service obtained with commission dollars provides both research and non-research assistance to the Diversified Alpha Master Fund, Sub-Fund or Credit Trading Vehicle, the Investment Adviser or an Investment Professional will make a reasonable allocation of the cost that may be paid for with commission dollars.

When the Investment Adviser uses client brokerage commissions (or markups or markdowns) to obtain research or other products or services, the Investment Adviser receives a benefit because it does not have to produce or pay for such products or services. The Investment Adviser may have an incentive to select or recommend a broker-dealer based on the Investment Adviser's interest in receiving research or other products or services, rather than on its clients' interest in receiving most favorable execution.

At least annually, the Investment Adviser considers the amount and nature of research and research services, if any, provided by broker-dealers, as well as the extent to which such services are relied upon, and attempts to allocate a portion of the brokerage business of its Funds on the basis of that consideration. Broker-dealers sometimes suggest a level of business they would like to receive in return for the various products and services they provide. Actual brokerage business received by any broker-dealer may be less than the suggested allocation, but can (and often does) exceed the suggested level, because total brokerage is allocated on the basis of all of the considerations described above. In no case will the Investment Adviser make binding commitments as to the level of brokerage commissions it will allocate to a broker-dealer, nor will it commit to pay cash if any informal targets are not met. A broker-dealer is not excluded from receiving business because it has not been identified as providing research products or services.

## 2. Brokerage for Client Referrals.

Neither the Investment Adviser nor any related person receives client referrals from any broker-dealer or third party. However, as discussed above, subject to best execution, the Investment Adviser may consider, among other things, capital introduction and marketing assistance with respect to investors in the Funds in selecting or recommending broker-dealers for the Funds. This presents a potential conflict of interest because the Investment Adviser is compensated based upon assets under management and performance and therefore has an incentive to select or recommend broker-dealers based upon investor referrals, which could lead to higher compensation.

## 3. Directed Brokerage.

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

### B. Order Aggregation.

Because the Investment Adviser or its Affiliates advise multiple clients, it may be appropriate for the Investment Adviser to aggregate orders for the purchase or sale of securities on behalf of multiple clients. In such a case, the Investment Adviser will generally follow the guidelines set forth below in aggregating client orders for securities, including any orders placed for private investment vehicles: (i) no client will be favored over any other client; (ii) each client that participates in an aggregated order will participate at the average share price for all transactions in that security on a given business day and transaction costs will be shared *pro rata* based on each client's participation in the transaction; (iii) if the aggregated order is filled in its entirety, it will be allocated among clients in accordance with the Investment Adviser's general policy; and (iv) if the aggregated order is partially filled, it will be allocated among clients *pro rata*.

### **ITEM 13**

#### **REVIEW OF ACCOUNTS**

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

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

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

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

C. Content and Frequency of Account Reports to Clients.

The Investment Adviser generally provides annual audited financial statements to investors in the Funds within 90 days of the applicable Fund's fiscal year end or as soon as practicable thereafter upon completion of such statements.

Investors in the Funds generally receive monthly reports and/or letters from the Investment Adviser documenting the performance of their Fund, along with a commentary by the Investment Adviser, although the Investment Adviser may provide certain investors with information on a more frequent and detailed basis if agreed to by the Investment Adviser. In addition, the Investment Adviser generally issues U.S. investors tax reports on an annual basis.



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

A. Economic Benefits for Providing Services to Clients.

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

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

Neither the Investment Adviser nor any related person directly or indirectly compensates any person who is not a supervised person, including placement agents, for client referrals.

## **ITEM 15 CUSTODY**

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

The Investment Adviser is subject to Rule 206(4)-2 under the Advisers Act (the "Custody Rule"). However, it is not required to comply (or is deemed to have complied) with certain requirements of the Custody Rule with respect to each Fund because it complies with the provisions of the so-called "Pooled Vehicle Annual Audit Exception," which, among other things, requires that each Fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that each Fund distribute its audited financial statements to all investors within 120 days of the end of its fiscal year.

**ITEM 16**  
**INVESTMENT DISCRETION**

The Investment Adviser serves as the management company with discretionary trading authority to each Fund.

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

The Investment Adviser or an Affiliate of the Investment Adviser entered into an investment management agreement, or similar agreement, with each Fund, pursuant to which the Investment Adviser or an Affiliate of the Investment Adviser was granted discretionary trading authority.

## **ITEM 17**

### **VOTING CLIENT SECURITIES**

In compliance with Advisers Act Rule 206(4)-6, the Investment Adviser has adopted proxy voting policies and procedures. The Investment Adviser has appointed Institutional Shareholder Services ("ISS") to, among other things, place votes based on ISS's recommendations absent specific instructions to the contrary by the Investment Adviser. It is expected that ISS will generally vote client proxies where clients have delegated voting authority to the Investment Adviser. The Investment Adviser may revoke from ISS authority to vote any particular proxy and vote the proxy itself.

#### **Policies and Procedures for Situations in Which the Investment Adviser Directly Votes Proxies**

In the event that the Investment Adviser decides to directly exercise discretion to vote a proxy, it will vote in the best interests of clients and in accordance with its policies and procedures for voting proxies. In such situations, the general policy is to vote proxy proposals, amendments, consents or resolutions (collectively, "Proxies") in a prudent and diligent manner that will serve the applicable client's best interests and is in line with each client's investment objectives.

The Investment Adviser may take into account all relevant factors, as determined by the Investment Adviser in its discretion, including, without limitation:

- the impact on the value of the securities or instruments owned by the relevant client and the returns on those securities;
- the anticipated associated costs and benefits;
- the continued or increased availability of portfolio information; and
- industry and business practices.

Generally, clients may not direct the Investment Adviser's vote in a particular solicitation.

Conflicts of interest may arise between the interests of the clients on the one hand and the Investment Adviser or its Affiliates on the other hand. If the Investment Adviser determines that it may have, or is perceived to have, a conflict of interest when voting Proxies, the Investment Adviser will vote in accordance with its proxy voting policies and procedures. Clients may obtain a copy of the Investment Adviser's proxy voting policies and its proxy voting record upon request.

**ITEM 18**  
**FINANCIAL INFORMATION**

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