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This Brochure provides information about the qualifications and business practices of Fundamental Advisors LP (“Fundamental Advisors”) and relying advisor, FCO Advisors LP (“FCO”) (Fundamental Advisors together with FCO, “Fundamental”). If you have any questions about the contents of this Brochure, please contact us at (212) 205-5000. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Fundamental Advisors is registered as an investment advisor with the SEC.

Registration with the SEC does not imply any level of skill or training.

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

Item 2 – Material Changes

This brochure, dated July 9, 2013 includes changes from the March 28, 2013 filing as applicable.

Item 4 – Fundamental accesses the futures market as part of its strategy.

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Item 4 – Advisory Business

Fundamental Advisors LP (“Fundamental Advisors”) and related advisor, FCO Advisors LP (“FCO”) (Fundamental Advisors together with FCO “Fundamental,” “we” or “us”) acts as the discretionary investment adviser to U.S. and non-U.S. private, investment vehicles that we or a related entity sponsors (“fund clients”). We also advise institutional investors and may in the future agree to advise high net worth individuals through separate accounts following investment strategies similar to our fund clients.

Fundamental Advisors’ core investment strategy targets controlling interests in municipal revenue bonds as well as assets eligible for municipal financing and other special situation opportunities. The securities we consider for investment typically will be in default, in violation or near violation of debt covenants, or will be secured by assets/businesses in need of restructuring or rehabilitation. We also invest client funds in exposure to government general obligation bonds, revenue bonds, or other securities where there is no control element but for which we believe a compelling investment opportunity exists both through direct holdings as well as through derivatives. Fundamental Advisors also invests in equity securities related to the core investment strategy. Fundamental Advisors’ strategy also uses over-the-counter derivatives, such as total return swaps, interest rate swaps and credit default swaps where we believe these instruments provide a desired exposure and to hedge exposure and risk, and we access the futures markets for these purposes. The investment objectives, strategies, fees and risks of each fund client and other material information, are set forth more fully in the fund client’s confidential offering documents, which are available to investors and qualified prospective investors with whom Fundamental Advisors or its agents have a pre-existing substantive relationship. Fundamental Advisors believes its versatile strategy uniquely positions the fund clients to benefit from increasing, attractive opportunities arising from evolving market dynamics in the municipal bond market.

FCOs’ core investment strategy seeks to deliver consistent total returns investing across a range of opportunities in the large, fragmented municipal universe. We believe this unique platform is well positioned to capitalize on the frequent, recurring opportunities and offer a sophisticated strategy for the new era in this asset class. We will identify tactical and strategic opportunities with varying time horizons and employ both relative and fundamental value analysis in order to capture the recurring opportunities driven by the market’s distinctive characteristics. Critical to our value proposition will be marrying decades of expertise and relationships with a rigorous analytical framework and tailored capital base to efficiently execute a broad, agnostic mandate across the entire municipal market. Our goal is to capitalize on the above and deliver significant and consistent total returns under a rigorous risk management framework. The investment objectives, strategies, fees and risks of each fund client and other material information, are set forth more fully in the fund client’s confidential offering documents, which are available to investors and qualified prospective investors with whom Fundamental or its agents have a pre-existing substantive relationship.

Fundamental Advisors is a limited partnership formed in Delaware in 2007. Fundamental Advisors Group LLC, also formed in Delaware in 2007, is Fundamental Advisors’ general partner as well as the general partner of Fundamental Advisors Holdings L.P., a Delaware limited partnership which is Fundamental Advisors’ principal owner. Laurence Gottlieb acts as

Fundamental Advisors' Chairman and Chief Executive Officer and is also the managing member of the general partner. Mr. Gottlieb is also indirectly Fundamental Advisors' principal owner as the sole limited partner in Fundamental Advisors Holdings L.P. Mr. Gottlieb is assisted by a senior management team and senior investment team.

FCO is a limited partnership formed in Delaware in 2012. FCO Management LLC, a Delaware limited liability company also formed in 2012, is FCO's general partner. FCO is 55.25% owned by Fundamental Advisors and 44.75% owned by Hector Negroni.

As of February 28, 2013, Fundamental had \$832,000,000 of regulatory assets under management.

Item 5 – Fees and Compensation

All of our fund clients currently are investment vehicles excepted from the definition of investment company by Section 3(c)(7) of the Investment Company Act of 1940 and we would expect any new fund clients to be “qualified purchasers” or private funds with all “qualified purchaser” investors. Our fees and other compensation are set forth in the agreements between Fundamental and our fund clients and are disclosed to investors through the offering documents for the vehicles. For Fundamental Advisors, these generally consist of a flat percentage of capital commitments or invested capital (depending on the lifecycle of the relevant fund client) and a carried interest to Fundamental Advisors or a related person in the profits of the fund client. For FCO, the management fees are based on a flat percentage of net assets, paid quarterly in advance and a performance fee based on net profits after exceeding a high water mark. The governing documents generally permit Fundamental to negotiate different fees with investors and to waive the fees for certain affiliates, principals and employees.

The fund client's administrator calculates the management fees in the place of the general partners of the fund clients and Fundamental causes fund clients to pay them to the general partner or to Fundamental. Fundamental Advisors' management fees are fixed based either on committed capital or invested capital as set forth in the relevant fund client documents and are not refundable unless the general partners are removed as described in the fund client's offering documents. In general, investors in the fund clients are entitled to a return of their contributed capital plus a preferred return before Fundamental Advisors or its related persons are entitled to any carried interest. The provisions under which FCO is entitled to management fees and performance allocations are detailed in each fund clients' offering memorandum, limited partnership agreement, or investment management agreement. Management fees may be prorated for each capital contribution or withdrawal made during the applicable monthly or quarterly dealing date. FCO is generally eligible to receive a performance allocation based on a percentage of net profits of each share class after exceeding a high water mark. The management fees due to FCO are typically deducted by the administrator. FCO's management and performance fees are exclusive of brokerage commissions, transaction fees and other related costs and expenses that the fund clients may incur.

Fundamental Advisors

Fundamental Advisors applies any fees (other than fees to Fundamental Asset Management LLC (“FAM”) for operation of the portfolio investments described below) it or its related persons receive from third parties related to investments of its fund clients, such as directors’ fees, advisory, monitoring, transaction, break-up or similar fees to offset the management fees. To the extent the amount of such transaction fees exceeds the amount of management fees expected from the relevant fund client over the following twelve-month period, Fundamental Advisors pays such excess to the applicable fund client.

Each Fundamental Advisors’ fund client pays its own organizational and offering expenses incurred in connection with the formation and offering of interests, (which may include placement agent fees), up to an agreed upon cap. The Fundamental Advisors’ fund clients also bear all regulatory costs (including expenses related to Form PF) and costs of their investments and expenses related to the investments, such as brokerage, research, borrowing costs, transaction expenses, indemnification expenses of the Fundamental Advisors’ fund client, investor communication expenses, all unreimbursed out-of-pocket expenses of the Fundamental Advisors’ fund client relating to unconsummated transactions (including legal, accounting and consulting expenses), fees relating to audit services, the preparation of financial and tax reports, portfolio valuations and tax returns of the Fundamental Advisors’ fund client, interest on permitted borrowings made by the Fundamental Advisors’ fund client, the costs of any litigation, director or officer liability or other insurance and indemnification or extraordinary expense or liability relating to the affairs of the Fundamental Advisors’ fund client, liquidating expenses, any taxes, fees or other governmental charges levied against the Fundamental Advisors’ fund client and all expenses incurred in connection with any tax audit, investigation, settlement or review of the Fundamental Advisors’ fund client and all other expenses of the Fundamental Advisors’ fund client, but excluding expenses to be paid by its general partner, FAM or Fundamental Advisors. To the extent that expenses are incurred in connection with an investment in which a Fundamental Advisors’ fund client, a parallel fund, an alternative investment vehicle and/or another Fundamental Advisors client participate, such costs incurred by a Fundamental Advisors’ fund client and such client generally will be borne pro rata based on the amount invested by each entity. Each Fundamental Advisors’ fund client is obligated to reimburse Fundamental and its affiliates or any investor for any such costs advanced by it on behalf of the Fundamental Advisors’ fund client.

One of these investment expenses applicable to Fundamental Advisors is the fees of FAM, a Delaware limited liability company formed by Fundamental Advisors in 2009 to provide monitoring and supervisory services for various fund client holdings. FAM’s responsibilities mainly include analyzing an asset’s physical condition and operating performance, supervising property managers, and reviewing and overseeing the execution of capital improvement plans. To minimize the potential conflict of interest created by this arrangement, to the extent FAM’s fees exceed its operating costs, a pro rata share of such excess fees will be used to reduce Fundamental Advisors’ management fee from the applicable client.

FCO

FCO shall bear all costs and expenses (subject to a cap where applicable), other than fees paid to placements agents, incurred in connection with the formation and organization (such costs and expenses, the “Organizational Costs”) of FCO’s client funds as well as its *pro rata* share of the

Organizational Costs of master funds. Such Organizational Costs will be amortized over the first 60 months of the fund's operations.

In consideration of the management fee, FCO will provide investment management services, office space, utilities, computer equipment and secretarial, clerical and other personnel support to the fund. FCO will bear the costs of providing such goods and services, including paying its own administrative costs and expenses, which include rents, salaries, benefits and other compensation costs, if any, of FCO's employees.

Each FCO fund will pay all ordinary and extraordinary expenses (subject to a cap where applicable) incurred by it or on its behalf, which may include, but not limited to, the management fee, investment related expenses (i.e., expenses that FCO reasonably determines to be related to the acquisition, holding and disposition of the fund's assets, such as due diligence expenses, consultant expenses, brokerage fees and commissions, expenses relating to short sales, clearing and settlement charges, custodial fees, bank service fees, interest expenses, taxes and expenses related to proposed investments that are not consummated), investment-related travel expenses, insurance expenses, legal expenses, regulatory expenses (including expenses related to Form PF), professional fees (including, without limitation, expenses of consultants and experts) relating to investments, internal and external accounting expenses (including the cost of accounting software packages), auditing, reporting and tax preparation expenses, administrative expenses, administrative expenses, expenses relating to maintaining the registered offices of the general partner and the master fund in the Cayman Islands, third-party administrative fees, fees and expenses of service providers retained by the fund or FCO and other similar expenses related to the fund. To the extent that expenses to be borne by the fund are paid by the general partner or its affiliates, the fund will reimburse the general partner or its affiliates for such expenses.

As part of a shared services level agreement, Fundamental Advisors will provide for all associated staff and resources to support and facilitate the management and operations of FCO as well as related expenses for trade support operations, financial and tax reporting, legal, compliance, human resources and administration. To the extent FCO earns management and performance fees, these expenses will be reimbursed.

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

Fundamental or its related persons have a carried interest in each fund client and may also participate in parallel vehicles in which investors may co-invest with the fund clients. Further, although Fundamental Advisors generally agrees with each fund client not to sponsor any additional fund with substantially similar investment strategies until the capital commitments for the existing fund client are at least 75% invested (although may not be deployed), there are times when Fundamental Advisors manages more than one fund client that are in their investment periods. To the extent the carried interest in one fund client is greater or the overall performance of one fund client is better than another, Fundamental may have an incentive to allocate promising investments to the fund client that would result in a greater carried interest to Fundamental and its related persons. The level of anticipated carried interest is not a consideration in allocation decisions.

Fundamental has sole discretion to allocate investment opportunities among the fund clients and no particular fund client has a priority claim on any type of investment. Where Fundamental determines that more than one fund client should participate in a particular investment, it will allocate such investment among them in a way it determines is appropriate bearing in mind, among other things, the size, investment objectives, risk tolerance, return targets, diversification considerations, eligibility to participate in such investment, available capital, permissible and preferred asset classes, and liquidity needs of each fund client. Specific investments and strategies that may be suitable under the hedge fund mandate must be approved by the conflicts committee. The conflicts committee comprises the chief investment officer(s), chief executive officer(s), compliance officers and financial control representatives. The conflicts committee has the responsibility of testing investment criteria prior to approving an investment to avoid potential conflicts of interest and to ensure adherence to the terms of the offering documents, governing documents and side letters.

Item 7 – Types of Clients

Fundamental currently manages the assets of U.S. and non-U.S. privately offered pooled investment vehicles for which its related persons act as general partner or sponsor, as well as certain parallel and alternative investment vehicles. The funds clients' structures most resembles those of "hedge funds" and would be considered "private funds" for purposes of the Investment Advisers Act of 1940. Fundamental also accepts investment mandates from institutional investors to manage separate accounts.

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

Fundamental Advisors

Fundamental Advisors principally invests its fund clients' assets in distressed and special situation opportunities within the municipal markets. Fundamental Advisors intends to opportunistically acquire securities with special circumstances to gain controlling positions in smaller-sized distressed or defaulted municipal bond issuances, along with related securities and underlying assets, and then seek to generate value for clients by actively managing and rehabilitating the assets and businesses underlying these securities. Fundamental Advisors also invests in equity securities related to the core investment strategy. Fundamental Advisors' strategy also uses over-the-counter derivatives, such as total return swaps, interest rate swaps and credit default swaps where we believe these instruments provide a desired exposure and to hedge exposure and risk, and we may in the future access the futures markets for these purposes.

Fundamental Advisors intends to utilize a multi-step approach in implementing its investment strategy, that consists of: (i) sourcing investment opportunities, (ii) performing extensive due diligence on prospective investments (mindful of viable exit strategies), (iii) assessing value, (iv) actively managing the investment, and (v) evaluating appropriate exit alternatives.

Fundamental Advisors targets industries in which the investment professionals of Fundamental Advisors have prior experience and relies on their strong network of relationships.

Fundamental Advisors' underwriting and investment procedures attempt to identify securities for investment that typically have floor values equal to the hard assets securing such securities, which we believe minimizes investment risk and provides favorable risk/reward characteristics. Fundamental Advisors seeks to minimize concentration risk by diversifying fund clients' portfolios among sectors and geographies on the basis of absolute capital committed.

Fundamental Advisors records, categorizes and tracks each potential investment in a proprietary intra-net database. Once an opportunity is identified and approved to proceed to the investment analysis stage, Fundamental Advisors will devote significant resources to up-front due diligence, among other things. Such up-front due diligence generally includes: a thorough review and analysis of financial statements, on-site property visits, meetings with management and local industry professionals, engaging third-party professionals to aid in valuation, sculpting appropriate exit strategies, seeking strategic input from industry consultants, and engaging attorneys to review bond or loan documents.

Once a transaction has materialized, Fundamental Advisors aims to drive value in the underlying assets through, among other things, rehabilitation, restructuring, bankruptcy or recapitalization and the overhaul of the management or marketing function related to the underlying asset. To this end, Fundamental Advisors will leverage its experience along with extensive relationships with seasoned, third-party, industry professionals and affiliates of Fundamental Advisors. During the investment hold period, Fundamental Advisors conducts frequent on-site visits to assess the condition of the asset, participates in strategic and tactical meetings with management, performs ongoing reviews of financial statements, and assesses the external factors impacting the underlying assets/businesses. As appropriate, Fundamental Advisors will actively change management, engage consultants or other advisors, or make capital improvements to assets. This active monitoring is intended to allow Fundamental Advisors to manage its clients' investments to produce attractive returns.

Material Risks

Investing in debt and the municipal bond market involves risk of loss that the fund clients should be prepared to bear. An investment in a fund client involves a high degree of risk, and is suitable only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in such fund client. There can be no assurance that the investment objective of any fund client will be achieved, that any fund client will otherwise be able to successfully carry out its investment program, or that an investor will receive a return of its capital contributed to any fund client. A brief explanation of the material risks associated with Fundamental Advisors' principal investment strategy and methods of analysis follows. Additional risk factors are set forth in the offering documents for each fund client provided to investors and potential investors.

- **Distressed Municipal Debt Investing Risks.** The assets underlying municipal debt will typically have significant risks as a result of business, economic or legal uncertainties. They likely will be experiencing financial or operational difficulties or be otherwise out of favor. Such securities are typically illiquid and may be considered speculative. The ability of Fundamental Advisors to manage and rehabilitate the assets underlying such securities could be adversely affected by interest rate movements, changes in the general

economic climate or the economic factors affecting a particular industry, or specific developments related to such underlying assets. Any such underlying assets that are operating in workout or bankruptcy modes present additional legal risks, including fraudulent conveyance, voidable preference and equitable subordination risks. As part of Fundamental Advisors' strategy to restructure and rehabilitate the assets underlying the municipal bonds in which the fund clients invest, the fund clients may hold various types of other securities, including secured and unsecured notes.

- Municipal Revenue Bond Risks. Revenue bonds are municipal bonds that finance income-producing projects and are payable only from the revenue derived from a particular project, facility or specific revenue source. Such bonds are typically issued by or on behalf of the political subdivisions, agencies or instrumentalities of states, territories and possessions of the United States and the District of Columbia to obtain funds for a wide range of public facilities including housing projects, industrial projects, hospitals, schools, mass transportation, stadiums, water and sewer systems and highways. In addition, certain types of industrial development bonds are issued by or on behalf of public authorities to obtain funds for many types of local, privately operated facilities (such debt instruments are considered municipal obligations if the interest paid on them is exempt from federal income tax). Unlike general obligation bonds, revenue bonds are not payable from the general taxing power of the municipality and holders of revenue bonds typically have no claims on the issuer's other resources. Municipal revenue bonds carry a higher default risk than general obligation bonds. Not only are they not backed by the full faith and credit of a municipality, but the income from the projects funded by revenue bonds cannot be predicted with certainty. If the projects do not produce enough revenue, the bonds may default. The success of revenue bonds ultimately depends on the projects' ability to produce revenue. The bonds in which Fundamental Advisors expects to invest will typically be experiencing financial or operational difficulties, which heightens the risk that sufficient revenue will not be generated.
- Distressed Securities Risks; Illiquidity. Distressed bonds generally are bonds of issuers that have either defaulted or appear to be at a heightened risk of doing so. The assets underlying such municipal debt will typically have significant risks as a result of business, economic or legal uncertainties. Such portfolio investments are subject to greater risks with respect to the issuing entity and to greater market fluctuations than certain higher rated municipal securities. The market values of such bonds tend to be more sensitive to economic conditions than are higher rated securities. Because there is not an established secondary market for many of these securities, Fundamental Advisors anticipates that such securities could be sold only to a limited number of dealers or institutional investors. The lack of a liquid secondary market may have an adverse impact on market price and Fundamental Advisors' ability to dispose of particular bonds when necessary to meet a fund client's liquidity needs or in response to a specific economic event such as a deterioration in the condition or prospects of the project for which such bonds were issued. The lack of a liquid secondary market for certain securities also may make it more difficult for Fundamental Advisors to obtain accurate market quotations for purposes of determining the value of a prospective investment or valuing a fund client's portfolio.

- Restructuring Risks. Certain fund clients expect to be involved in restructurings involving underlying projects that are experiencing or are expected to experience financial difficulties. These financial difficulties may never be overcome and may cause such projects to become subject to bankruptcy proceedings. Such investments could, in certain circumstances, subject fund clients to certain additional potential liabilities which may exceed the value of fund clients' original investment. As part of Fundamental Advisors' strategy to restructure and rehabilitate the assets underlying the municipal bonds in which fund clients invest, fund clients may hold various types of securities, including secured and unsecured notes. As a holder of notes, fund clients are subject to the risk that the issuer of the note will default in the payment of the principal and/or interest on the instrument.
- Risks in Effecting Operating Improvements. The success of the fund client's investment strategy will depend, in part, on the ability of Fundamental Advisors to restructure and effect improvements in the operations of a portfolio investment. The activity of identifying and implementing restructuring programs and operating improvements with respect to portfolio investments entails a high degree of uncertainty. There can be no assurance that Fundamental Advisors will be able to successfully identify and implement such restructuring programs and improvements.
- Uncertainty of Financial Projections. Fundamental Advisors will generally determine the necessary restructuring and rehabilitation for portfolio investments on the basis of financial projections and other information provided by such portfolio investments. Projected operating results will normally be based primarily on management judgments. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. There can be no assurance that the projected results will be obtained, and actual results may vary significantly from the projections. General economic conditions, which are not predictable, can have a material adverse impact on the reliability of such projections.
- Bankruptcy Risks. Fundamental Advisors expects to invest in municipal bonds whose underlying projects may be operating in workout or bankruptcy modes, or may enter into bankruptcy proceedings following investment by certain fund clients. There are a number of significant risks inherent in the bankruptcy process.

As part of Fundamental Advisors' efforts to rehabilitate the assets underlying the fund client's portfolio investments, Fundamental Advisors may seek to sponsor certain sales under the U.S. Bankruptcy Code which permit a debtor in bankruptcy to sell its assets outside the ordinary course of business. Such sales typically can be accomplished on an expedited basis and prior to proposing a plan of reorganization or liquidation. Although such sales can be an effective way to maximize the going concern value of a project's assets, and thereby increase the value of the fund client's investment, such sales must take place within the context of a bankruptcy proceeding and are subject to the bankruptcy rules and bankruptcy court approval. There is no guarantee that such sales can be successfully arranged by Fundamental Advisors to increase the value of the assets underlying the fund clients' portfolio investments.

- Control Investments. Certain fund clients may make control investments. These investments could expose a fund client to risk of liability for environmental damage, product defect, failure to supervise management, violation of governmental regulations and other types of liability, in which the limited liability characteristics of business operations may be ignored. Certain fund clients may also be exposed to risk in connection with the disposition of these investments.
- Legislation Risks. From time to time, proposals have been introduced before the United States Congress for the purpose of restricting or eliminating the federal income tax exemption for interest on tax-exempt bonds, and similar proposals may be introduced in the future. It is not possible to determine what effects the adoption of such proposals could have on the availability of municipal securities for investment by fund clients and the value of fund clients' investment portfolios. In addition, each industry in which Fundamental Advisors determines to invest is exposed to legislative risks that are particular to each such industry.
- Identification of Investments; Competition. Fundamental Advisors' task of identifying, completing and realizing attractive client investment opportunities is difficult and involves a high degree of uncertainty. Investors in fund clients are relying on the skill of Fundamental Advisors to identify and successfully close on investment opportunities. The availability of investment opportunities generally will be subject to market conditions as well as the prevailing regulatory or political climate. Fund clients will be competing for investments with other financial institutions and other investors. Fundamental Advisors expects that competition for appropriate investment opportunities may increase, which could reduce the number of investment opportunities available to fund clients and adversely affect the terms upon which investments can be made.
- Limited Number of Investments. Fund clients are expected to make only a limited number of investments, and as a consequence, the aggregate return on certain fund client's investments may be substantially adversely affected by the unfavorable performance of even a single fund client investment. The value of an interest in a fund client may be more susceptible to any single economic, political or regulatory event than interests in a more diversified fund.
- Long-Term Investments. Investment in a fund client requires a long-term commitment with no certainty of return. Many of the investments of fund clients will be highly illiquid, and there can be no assurance that a fund client will be able to realize on such investments in a timely manner. Although investments by fund clients may occasionally generate some current income, the return of capital and the realization of gains, if any, will occur only upon the partial or complete disposition of any investment.
- Risks of Investments. The types of investments contemplated by the fund clients are subject to various risks, particularly the risk that the fund clients will be unable to dispose of their investments by sale or other means at attractive prices or will otherwise be unable to complete any exit strategy. These risks include changes in the financial condition or prospects of the assets underlying the bonds in which the fund clients invest.

The fund clients will generally not be able to sell the securities of portfolio investments publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. In addition, in some cases the fund clients may be prohibited by contract or regulatory reasons from selling certain securities for a period of time. To the extent that there is no liquid trading market for an investment, the fund clients may be unable to liquidate that investment or may be unable to do so at a profit. Moreover there can be no assurances that private purchasers for the fund client's investments will be found.

- Leverage. Fund clients may invest in portfolio investments with leveraged capital structures and Fundamental Advisors and/or related persons of Fundamental Advisors will seek to use leverage in a manner it believes is prudent. Use of leverage is a speculative investment technique and involves certain risks to investors in fund clients. The use of leverage creates an opportunity for increased income and gains to investors but also increases the risk of loss of capital. To the extent that any investment is made in a portfolio investment with a leveraged capital structure, such investment will be subject to increased exposure to adverse economic factors such as a significant rise in interest rates, a severe downturn in the economy, or deterioration in the condition of such portfolio investment or its industry. In the event that such a portfolio investment is unable to generate sufficient cash flow to meet principal and interest payments on its indebtedness, the value of a fund client's investment in such portfolio investment could be significantly reduced or even eliminated.
- Lack of Diversification. Fund clients may not be diversified among a wide range of financial instruments, industries or asset classes. As such, a fund client may be exposed to wider fluctuations in value than otherwise would be the case if the fund client were required to maintain a high degree of diversification among the investments. The fund client may have no restrictions on either the amount of assets that can be invested in a certain industry or the percentage of assets invested in a single security. Therefore, the fund client may be subject to greater risk than diversified portfolios.
- Risks Associated With Hedging. Fund clients may utilize financial instruments to hedge investments and the interest rate risk associated therewith. There can be no assurance that a fund client will hedge when appropriate or choose the correct hedge if it does hedge. The use of hedging transactions involves certain risks. These risks include: (i) the possibility that the market will move in a manner or direction that would have resulted in gain for the fund client had a particular hedging transaction not been utilized, in which case the fund client's performance would have been better had the fund client not engaged in the hedging transaction; (ii) the risk of imperfect correlation between the risk sought to be hedged and the hedging instrument used; and (iii) potential illiquidity for the hedging instrument used, which may make it difficult or costly for the fund client to closeout or unwind a hedging transaction.
- Counterparty and Settlement Risk. Fund clients may transact "over-the-counter" in securities, swaps, and other derivatives and in other assets not traded on exchanges. To the extent that it does, the fund client will bear the credit risk of the parties with whom it

trades and may also bear the risk of transfer, clearance, or settlement default. Transactions entered directly between two counterparties expose the parties to the risk of counterparty defaults. In addition, the bonds and other securities held by the fund client will generally be custodied with the fund client's prime broker or other qualified custodian. The failure or bankruptcy of any such prime broker or custodian could have a material adverse impact on the fund client.

- Derivative Instruments. The risks associated with derivative financial instruments, both exchange-traded and over-the-counter, are potentially greater than those associated with the direct purchase or sale of the underlying instrument because of the additional complexity and potential for leverage. Such 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, 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 funds actually placed as initial margin and may result in unquantifiable further losses exceeding any margin deposited.

The trading of over-the-counter derivatives will subject the fund client to a variety of risks including: (i) counterparty risk, (ii) basis risk, (iii) interest rate risk, (iv) settlement risk, (v) legal risk, (vi) operational risk and (vii) reputational risk. Transactions in over-the-counter derivatives may involve other risks as well, 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.

Exchange-traded derivatives may be subject to position limits and other regulatory rules that could result in the fund clients not achieving its intended result.

The foregoing does not purport to be a complete explanation of the risks involved in trading debt and securities or with respect to any investment strategy.

Fundamental Credit Opportunities

FCO employs a municipal credit strategy that seeks to deliver consistent total returns investing across a range of opportunities in the large, fragmented municipal universe. FCO believes its unique platform is well positioned to capitalize on the frequent, recurring opportunities and offers a sophisticated strategy for the new era in this asset class.

FCO will specifically invest in opportunities as follows: (i) Technical and Relative Value created by recurring supply/demand imbalances in new issue and secondary markets generate tactical investments for FCO to invest in securities with shorter to medium-term holding periods; (ii) Structural Complexity borne from the large universe of uniquely constructed and misunderstood instruments (e.g., floating rate bonds, taxable securities, and derivatives) provide strategic investments with medium to longer-term time horizons; and (iii) Credit-Driven situations generated by stressed issuers, complicated security packages and other distinctive credit features offer fundamental investments of medium to longer-term duration.

FCO employs: i) a best-in-class team with extensive municipal market experience, advanced product knowledge and substantial structuring capabilities; ii) an agnostic mandate without bias toward instrument type, tax-exemption, current yield, duration, callability or direction; iii) active management for an absolute return by hedging, buying and selling (as opposed to the traditional passive, long and unhedged retail and fund investors); and iv) a liquid but patient, longer-term capital base to better match the opportunity set and mitigate risk. FCO will also adhere to a rigorous risk management framework: i) maintaining a diverse portfolio with respect to liquidity, credit quality, credit sector and geography; ii) utilizing modest leverage, primarily in connection with the use of derivatives as opposed to yield enhancement; iii) reviewing the inputs and drivers to underlying investment theses, adapting to changing credit and market conditions; and iv) deploying real-time, state-of-the-art risk reporting technologies to inform hedge and position size rebalancing.

Material Risks

An investment in a fund client is speculative, involves a high degree of risk and is suitable only for sophisticated investors who can assume the risks of losing their entire investment. There can be no assurances or guarantees that (i) the fund client's investment objectives will be realized, (ii) the fund client's investment strategy will prove successful or (iii) investor will not lose all or a portion of their investment in the fund client. Prospective investors should carefully consider, with their respective financial, tax and legal advisors, the following risk factors before subscribing. Please note that the following is not meant to be an exhaustive listing of all potential risks associated with investing in a fund client. Additional risk factors are set forth in the offering documents for each fund client provided to investors and potential investors.

- Nature of Investments. FCO will have broad discretion in making investments for the fund client and expects to utilize highly speculative investment techniques, including leverage, futures, options and derivative transactions. There can be no assurance that FCO will correctly evaluate the nature or magnitude of the various factors that could affect the value of and return on investments. Prices of investments may be volatile. A variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, may detrimentally impact the value of the securities and other financial instruments in which the fund client invests, including access by the issuers of such securities and instruments to capital and public market valuations. These factors and others may significantly affect the results of the fund client's activities and the value of its investments. In addition, the value of the fund client's portfolio may fluctuate in response to fluctuations in the general level of interest rates.
- Municipal Credit Risk Instrument Risks. The fund clients expect to make investments primarily in municipal credit risk instruments. Investments in municipal credit risk instruments are subject to various risks that are not generally found in investments in other types of securities. There can be no assurance that FCO will correctly evaluate the nature and magnitude of the various factors that could affect the value of, and return on, such investments.

There are two common types of municipal bonds: general obligation bonds and revenue bonds. Both general obligation bonds and revenue bonds are typically issued by or on behalf of states, territories and possessions of the United States, the District of Columbia and their political subdivisions, agencies or instrumentalities to obtain funds for a wide range of public facilities including housing projects, industrial projects, hospitals, schools, mass transportation, stadiums, waterworks and sewer systems and highways. General obligation bonds are backed by the “full faith and credit” of the governmental entity issuing the bonds. The creditworthiness of general obligation bonds is primarily based upon the “ability to pay”, generally defined by the overall financial health of the issuer and its “willingness to pay” generally determined by the history of fiscal responsibility, necessity of market access and current political climate. Unlike general obligation bonds, revenue bonds are not payable from the general taxing power of the municipality and holders of revenue bonds typically have no claims on the issuer’s other resources. Revenue bonds traditionally depend on a specific source(s) of revenue designated to satisfy the issuer’s obligations to capture that stream of revenues or finance a specific project or enterprise. Each type of municipal obligation may be more or less susceptible to downgrades or defaults during recessions or similar periods of economic stress. As such, the value of the fund client’s investments in municipal credit risk instruments will be affected by local, state, regional and national factors. These may include economic or policy changes, erosion of the tax base, population changes, legislative changes (especially those regarding taxes) and the possibility of other credit problems. Any such changes or events may adversely affect the value of the fund client’s investments.

In addition to being downgraded, an insolvent municipality may file for bankruptcy. The reorganization process of a municipality’s debts has little precedent and may significantly affect the rights of creditors. Moreover, there is political risk that state legislatures or municipal authorities will seek to interfere with or rescind the revenue streams required for the issuer to satisfy its obligations, leaving the creditor with no recourse. This risk exists for both performing and non-performing or defaulted obligations. Furthermore, states and municipalities face uncertainty in respect of Federal mandates, Federal assistance and subsidies, a rapidly changing and unpredictable regulatory landscape and other political and regulatory policy changes, any of which may adversely affect the performance of municipal obligations. There is no guarantee that FCO will be able to anticipate these risks effectively.

- Leverage. The fund client has the power to borrow funds and may do so when deemed appropriate by FCO, including if doing so would enhance the fund client’s returns and enable the fund client to meet withdrawals that would otherwise result in the premature liquidation of investments. The Fund will borrow funds from brokers, banks and other lenders to finance its trading operations. The use of such leverage can, in certain circumstances, maximize the losses to which the fund client’s investment portfolio may be subject. Such leverage, which may be substantial, may be achieved through, among other methods, purchases of securities on margin and the use of options, futures, forward contracts, repurchase and reverse repurchase agreements and swaps. The access to capital could be impaired by many factors, including market forces or regulatory changes.

There could also be other factors more specific to the fund client, such as fraud on behalf of one of its employees.

The fund client may achieve better margin lending terms from certain of its prime brokers than are generally available to U.S. investors. As a result, the level of margin available to the fund client for its investments will generally be limited only by the credit decisions of its prime brokers. There can be no assurance, however, that such prime brokers will either continue such arrangements with the fund client or that such prime brokers and other lenders will approve extensions of credit to the fund client at the levels requested by the fund client. Any restriction on the availability of credit from such parties could adversely affect the fund client's performance.

The use of margin and short-term borrowings creates several risks for the fund client. If the value of the fund client's securities falls below the margin level required by a prime broker, the fund client could be subject to a "margin call," pursuant to which the fund client must deposit additional funds or securities with such prime broker. If the fund client is unable to satisfy any margin call by a prime broker, then the prime broker could liquidate the fund client's positions in some or all of the financial instruments that are in the fund client's accounts at the prime broker and cause the fund client to incur significant losses. The failure to satisfy a margin call, or the occurrence of other material defaults under margin or other financing agreements, may trigger cross-defaults under the fund client's agreements with other brokers, lenders, clearing firms or other counterparties, multiplying the adverse impact to the fund client. In addition, because the use of leverage allows the fund client to control positions worth significantly more than its investments in those positions, the amount that the fund client may lose in the event of adverse price movements is high in relation to the amount of its investment.

In the event of a sudden drop in the value of the fund client's assets, the fund client might not be able to liquidate assets quickly enough to satisfy its margin requirements. In that event, the fund client may become subject to claims of financial intermediaries that extended "margin" loans. Such claims could exceed the value of the assets of the fund client. The banks and dealers that provide financing to the fund client can apply essentially discretionary margin, haircut, financing and collateral valuation policies. Changes by banks and dealers in any of the foregoing may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous prices. There can be no assurance that the fund client will be able to secure or maintain adequate financing, without which the fund client may not continue to be viable.

The purchase of options, futures, forward contracts, repurchase agreements, reverse repurchase agreements and equity swaps generally involves little or no margin deposit and, therefore, provides substantial leverage. Accordingly, relatively small price movements in these financial instruments may result in immediate and substantial losses to the fund client.

While leverage presents opportunities for increasing the fund client's total return, it has the effect of potentially increasing losses as well. Accordingly, any event that adversely affects the value of an investment by the fund client would be magnified to the extent the

fund client is leveraged. The cumulative effect of the use of leverage by the fund client in a market that moves adversely to the fund client's investments could result in a substantial loss to the fund client that would be greater than if the fund client were not leveraged.

- Volatility. The market value of certain of the fund client's investments may be volatile, and will generally fluctuate due to a variety of factors that are inherently difficult to predict, including, among other things, the macro economic environment, specific developments or trends within a company or in any particular sector, the market's overall perception of risk, general economic conditions, the condition of certain financial markets, domestic and international economic or political events, prevailing credit spreads, changes in prevailing interest rates and the financial condition of counterparties.
- Liquidity of Investments. The Fund may acquire thinly traded investments that are difficult to dispose of quickly. In addition, investments that were once liquid may become illiquid, making it difficult to acquire or dispose of them at the prices quoted on the various exchanges. The Fund may also acquire investments that may not be sold except pursuant to a registration statement filed under the Securities Act of 1933, as amended (the "Securities Act") or in accordance with Rule 144 or another exemption under the Securities Act. In that event, the Fund's ability to respond to market movements may be impaired and the Fund may experience adverse price movements upon liquidation of its investments.

Restricted and illiquid securities may sell at a lower price than similar securities that are not illiquid or subject to restrictions on resale, and the sale of restricted and illiquid investments often requires more time and results in higher brokerage costs 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. Because of the speculative and non-public nature of some restricted or illiquid investments, the Fund may, from time to time, sell or otherwise dispose of such investments that later prove to be more valuable than anticipated at the time of such disposition. Any premature sales or dispositions may prevent the Fund from realizing as great an overall return on investment as may have been realized if such sales or dispositions had been made at a later date.

- Concentration of Investments. The Investment Manager generally seeks to maintain a diversified portfolio of investments. However, the Fund may at certain times hold relatively few investments, which could subject the Fund to significant losses if it holds a large position in a particular investment that declines in value or is otherwise adversely affected. In addition, the same result might occur if the Fund's investments experience a greater than anticipated correlation. In that circumstance, Fund positions that may have been considered diversified could be subject to significant losses due to related events or changes in investment correlation more generally.
- Financial Model Risk. Most, if not all, of the Fund's investments and investment strategies require the use of quantitative and qualitative valuation models developed by the Investment Manager and third-parties. As market dynamics (for example, due to changed market conditions and participants) shift over time, a previously highly

successful model often becomes outdated or inaccurate, perhaps without the Investment Manager recognizing the change before significant losses are incurred. The Fund's model risk extends to the valuation of its investments, which may be made on the basis of internal Investment Manager models in the absence of any readily determinable market value. The valuations so determined may differ materially from realized values.

- Transaction Costs. The Fund's investment approach may involve a high level of trading and turnover of the Fund's investments, which may generate substantial transaction costs.
- Spread Trading Risks. A part of the Fund's trading operations may involve spreads between two or more positions. To the extent the price relationships between such positions remain constant, no gain or loss on the positions will occur. In addition, such positions entail substantial risk that the price differential could change unfavorably, causing a loss to the spread position. In periods of trendless, stagnant markets and/or deflation, many alternative investment strategies have materially diminished prospects for profitability.
- Arbitrage Transaction Risks. Arbitrage strategies attempt to take advantage of perceived price discrepancies of identical or similar financial instruments, on different markets or in different forms. FCO may employ any one or more of these arbitrage strategies. If the requisite elements of an arbitrage strategy are not properly analyzed, or unexpected events or price movements intervene, losses can occur which can be magnified to the extent the Fund is employing leverage. Moreover, arbitrage strategies often depend upon identifying favorable "spreads," which can also be identified, reduced or eliminated by other market participants. In particular, the success of a capital structure arbitrage strategy depends on the ability of FCO to identify and exploit the relationships between movements in different securities and instruments within an issuer's capital structure (e.g., bank debt, convertible and non-convertible senior and subordinated debt and preferred and common stock). Identification and exploitation of these opportunities involve uncertainty. In the event that the perceived pricing inefficiencies underlying an issuer's securities were to fail to materialize as expected by FCO, the Fund could incur a loss.
- Hedging Transactions. The success of the fund client's hedging strategy will be subject to FCO's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the funds client's hedging strategy will also be subject to ability to continually recalculate, readjust, and execute hedges in an efficient and timely manner.

While the fund client may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the fund client than if it had not engaged in any such hedging transactions. For a variety of reasons, FCO may not seek to establish a perfect correlation between such hedging instruments and the risks being hedged. Such imperfect correlation may prevent the fund client from achieving the intended hedge or expose the fund client to risk of loss. In addition, FCO may not hedge

a risk inherent in the fund client's portfolio because a hedge may not be available or is too costly in light of the likelihood of the possible risk actually occurring or because the risk simply could not be reasonably anticipated. Additionally, such hedging transactions will add to the cost of the investment, may require ongoing cash payments to counterparties, subject the fund client to the risk that the counterparty defaults on its obligations, and may produce different tax consequences to the limited partners than would apply if the fund client had not entered into such hedging transactions.

- Possible Positive Correlation. One of the goals in incorporating non-traditional investment strategies such as those to be utilized by the Fund into a portfolio or series of portfolios is to provide a potentially valuable element of diversification. However, there can be no assurance, particularly during periods of market disruption and stress, when the risk control benefits of diversification may be most important, that the Fund will, in fact, be negatively-correlated or non-correlated with a traditional portfolio of stocks or bonds.
- Equity Securities. The Fund does not expect to invest in equity securities. In the event the Fund did invest in equity securities, such investments are subordinate to the claims of an issuer's creditors and, to the extent such securities are common securities, preferred stockholders. Dividends customarily paid to equity holders can be suspended or cancelled at any time. For the foregoing reasons, investments in equity securities can be highly speculative and carry a substantial risk of loss of principal.
- Short Selling. The Fund may engage in short selling. Short selling involves selling securities that may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the Fund to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. However, since the borrowed securities must be replaced by purchases at market prices in order to close out the short position, any appreciation in the price of the borrowed securities would result in a loss. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. In addition, there can be no assurance that securities necessary to cover a short position will be available for purchase or that securities will be available to be borrowed by the Fund at reasonable costs. If a request for return of borrowed securities occurs at a time when other short sellers of the security are receiving similar requests, a "short squeeze" can occur, and the Fund may be compelled to replace borrowed securities previously sold short with purchases on the open market at the most disadvantageous time, possibly at prices significantly in excess of the proceeds received in originally selling the securities short. Short selling activities with respect to U.S. securities are subject to other restrictions imposed by U.S. securities laws and the various U.S. securities exchanges that may affect investment activities of the Fund. If short sales are effected on an exchange or over-the-counter market outside the United States, such transactions will be subject to the applicable local law, which may be more or less restrictive than U.S. law.
- "New Issues". The Fund may invest in "new issues," which pose unique risks arising out of their transient illiquidity, lack of trading history and concentration of ownership. In

the event that the Fund elects to trade “new issues,” limited partners of the Fund that are “restricted persons” or “Covered Persons” under applicable FINRA rules may not be permitted to participate or participate fully in the returns generated by those trades.

- Convertible Securities. Convertible securities provide higher yields than the underlying equity securities, but generally offer lower yields than non-convertible securities of similar quality. The value of convertible securities fluctuates in relation to changes in interest rates like bonds and, in addition, fluctuates in relation to the underlying common stock. In addition, convertible securities are often held in large concentrations by levered investors and hence may be materially devalued when those investors are selling, irrespective of the underlying issuer’s financial health.
- Foreign Securities. The Fund may invest in securities and other instruments of foreign corporations and foreign countries. Investing in such securities involves certain considerations not usually associated with investing in securities of U.S. companies or the U.S. government, including, among other things, political and economic considerations, such as greater risks of general social, political and economic instability; 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, imposition of withholdings and other taxes and certain government policies that may restrict the Fund’s investment opportunities. In addition, accounting and financial reporting standards that prevail in many foreign countries are not equivalent to U.S. standards and, consequently, less information may be available to investors in companies located in foreign countries than is available to investors in companies located in the U.S. There is also less regulation, generally, of the securities markets in many foreign countries than there is in the U.S.
- Options. The Fund may engage in the trading of options. Such trading involves risks substantially similar to those involved in trading margined securities in that options are speculative and highly leveraged. Specific market movements of the securities underlying an option cannot accurately be predicted. The purchaser of an option is subject to the risk of losing the entire purchase price of the option. The writer of an option is subject to the risk of loss resulting from the difference between the premium received for the option and the price of the security underlying the option which the writer must purchase or deliver upon exercise of the option.
- Derivatives. The Fund may invest in derivative financial instruments which includes, but is not limited to, futures, options, interest rate swaps, forward currency contracts and credit derivatives such as credit default swaps. In addition, the Fund may from time to time utilize both exchange-traded and over-the-counter futures, options and contracts for differences, for hedging purposes, as well as other derivatives. Regulatory restraints may restrict the instruments that the Fund may trade. Such 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, 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 funds actually placed as initial margin and may result in unquantifiable further losses exceeding any margin deposited. Further, when used for hedging purposes there may be an imperfect correlation between these instruments and the investments or market sectors being hedged. The trading of over-the-counter derivatives will subject the Fund to a variety of risks including: (i) counterparty risk, (ii) basis risk, (iii) interest rate risk, (iv) settlement risk, (v) legal risk and (vi) operational risk. Counterparty risk is the risk that one of the Fund's counterparties might default on its obligation to pay or perform generally on its obligations. Basis risk is the risk that the normal relationship between two prices might move in opposite directions. Interest rate risk is the general risk associated with movements in interest rates. Settlement risk is the risk that a settlement in a transfer system does not take place as expected. Legal risk is the risk that a transaction proves unenforceable in law or because it has been inadequately documented. Operational risk is the risk of unexpected losses arising from deficiencies in a firm's management information, support and control systems and procedures. Transactions in over-the-counter derivatives may involve other risks as well, 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.

- Credit Default Swaps. The Fund may invest in credit default swaps. A credit default swap is a contract between two parties that transfers the risk of loss if a company fails to pay principal or interest on time or files for bankruptcy. In essence, an institution which owns corporate debt instruments can purchase a limited form of default protection by entering into a credit default swap with another bank, broker-dealer or financial intermediary. Upon an event of default, the swap may be terminated in one of two ways: (i) the purchaser of credit protection may deliver the referenced instrument to the swap counterparty and receive a payment of par value or (ii) the parties may pair off payments, in which case the purchaser of the protection receives a payment equal to the par value of the reference security less the price at which the reference security trades subsequent to default. The first way is the more common form of credit default swap termination. In the manner described above, credit default swaps can be used to hedge a portion of the default risk on a single corporate bond or a portfolio of bonds. Credit default swaps can be used to implement FCO's view that a particular credit, or group of credits, will experience credit improvement. In the case of expected credit improvement, the Fund may sell credit default protection in which it receives a premium to take on the risk. In such an instance, the obligation of the Fund to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. The Fund may also "purchase" credit default protection even in the case in which it does not own the referenced instrument if, in the judgment of FCO, there is a high likelihood of credit deterioration. The credit default swap market in high yield securities (both corporate and municipal) is comparatively new and rapidly evolving compared to the credit default swap market for more seasoned and liquid investment grade securities. Swap transactions dependent upon credit events are priced incorporating many variables including the pricing and volatility of the common stock, potential loss upon default and the shape of the U.S. Treasury Yield curve, among other factors. As such, there are many factors upon which market participants may have divergent views. FCO may also enter

into credit default swap transactions, even if the credit outlook is positive, if it believes that participants in the marketplace have incorrectly valued the components which determine the value of a swap. Investments in credit default swaps can involve a high degree of risk.

- Debt Securities. The fund client will invest, directly or indirectly, in debt securities. Debt securities are subject to the risk of an issuer's ability to meet principal and interest payments on the obligation (credit risk), and are also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (market risk). Changes in interest rates may cause a decline in the market value of an investment. With bonds and other fixed income securities, a rise in interest rates typically causes a fall in values, while a fall in interest rates typically causes a rise in values. Bonds and other fixed income securities generally involve less market risk than stocks. However, the risk of bonds can vary significantly depending upon factors such as the issuer and maturity. The bonds of some companies may be riskier than the stocks of others.
- High-Yield Securities. The fund client may invest in "high yield" bonds and other debt securities which are rated in the lower rating categories by the various credit rating agencies (or in comparable non-rated securities). For example, the fund client may invest, directly or indirectly, in debt securities which rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of which may be secured by substantially all of that issuer's assets. The fund client may invest, directly or indirectly, in debt securities which are not protected by financial covenants or limitations on additional indebtedness. Debt securities in the lower categories are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than debt securities with higher ratings in the case of deterioration or general economic conditions. Because investors generally perceive that there are greater risks associated with the lower-rated debt securities, the yields and prices of such securities may tend to fluctuate more than those of higher-rated securities. The market for lower-rated debt securities is thinner and less active than that for higher rated securities, which can adversely affect the prices at which these securities can be sold. Holders of such securities may have difficulty disposing of certain of these securities due to a thin trading market. The lack of a liquid secondary market for certain securities may have an adverse impact on the holder's ability to dispose of such securities and may make it more difficult for the holder to obtain accurate market quotations. In addition, adverse publicity and investor perceptions about lower rated debt securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such lower-rated securities. Limited partners should be aware that ratings are relative and subjective and are not absolute standards of quality. An issue of securities may cease to be rated or its rating may be reduced. Neither event will require the fund client to reduce its exposure to such securities, although FCO will consider such events in its determination of whether the fund client should continue to invest in such securities.

- Distressed Securities. The fund client may purchase, directly or indirectly, debt securities and other obligations of companies or municipalities that are experiencing significant financial or business distress, including companies or municipalities involved in bankruptcy or other reorganization and liquidation proceedings. Although such purchases may result in significant returns, they involve a substantial degree of risk and may not show any return for a considerable period of time. In fact, many of these securities and investments ordinarily remain unpaid unless and until the entity reorganizes and/or emerges from bankruptcy proceedings, and as a result may have to be held for an extended period of time. In some circumstances, such debt securities may be converted to equity as part of the reorganization. A wide variety of considerations, including, for example, the possibility of litigation between the participants in a reorganization or liquidation proceeding or a requirement to obtain mandatory or discretionary consents from various governmental authorities or others may affect the value of these securities and investments. The uncertainties inherent in evaluating such investments may be increased by legal and practical considerations which limit the access of FCO to reliable and timely information concerning material developments affecting a company or municipality, or which cause lengthy delays in the completion of the liquidation or reorganization proceedings. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies or municipalities experiencing significant business and/or financial distress is unusually high. There is no assurance that FCO will correctly evaluate the nature and magnitude of the various factors that could affect the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to the entity in which the fund client invests, the fund client may lose its entire investment or may be required to accept cash or securities with a value less than the fund client's original investment.
- Futures Contracts. The Fund may invest in futures contracts. 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." Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Futures contract prices in various commodities occasionally have moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Fund from promptly liquidating unfavorable positions and subject the Fund to substantial losses. In addition, FCO may not be able to execute futures contract trades at favorable prices if trading volume in such contracts is low. It also is possible that an exchange or the Commodity Futures Trading Commission may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract or order that trading in a particular contract be conducted for liquidation only.
- Unregulated Transactions. Certain instruments that may be traded by the fund client may not be traded on exchanges and such trading may not be regulated by any government agency. Accordingly, the protections accorded by such regulation will not be available in connection with such investments.

- Sovereign Risk; Emerging Markets. Although the fund client's investment program will generally focus on domestic securities, instruments and markets, the fund client may invest in sovereign debt and may invest in securities and instruments of developing or emerging market issuers that are or may become non-performing and/or where the issuer is in default, at the time of purchase, of principal repayment obligations. Such foreign debt securities may be subject to restructuring arrangements, which may adversely affect the value of such investments. If a foreign sovereign defaults on its foreign debt, there may be limited legal recourse against the issuer and/or guarantor.

Investments in emerging markets instruments, while generally providing greater potential opportunity for capital appreciation and higher yields than investments in more developed market instruments, may also involve greater risk. While FCO intends to manage the Fund in a manner that will minimize the fund client's exposure to unreasonable risks within the emerging markets asset class, and to diversify the fund client's investments among various emerging countries, there can be no assurance that adverse political and economic risks will not cause the fund client to suffer a loss of principal or interest in respect of any of its holdings.

Many laws that govern private and foreign investments, securities transactions, and other contractual relationships in emerging markets are relatively new and largely untested. As a result, the fund client may be subject to certain risks not present in more developed markets, including unclear and changing laws, inconsistent enforcement of laws, and difficulty in enforcing payment obligations.

Investment in emerging markets may expose the fund client to local risks such as counterparty, repatriation, exchange controls or other monetary restrictions, taxation risks, and special considerations due to limited publicly available information, less stringent regulatory standards, and lack of uniformity in accounting.

- Lending Risks. The fund client may invest in loans. Such lending activities entail a number of risks:

General Credit Risks. The Fund may be exposed to losses resulting from default and foreclosure. The value of the underlying collateral, if any, the creditworthiness of the borrower and the priority of the lien are each of great importance (although the Fund may invest in subordinate or second priority liens). There is no assurance that the Fund will correctly evaluate the value of the assets collateralizing the loans or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to borrower, the fund client may lose all or part of the amounts advanced to that borrower. The fund client cannot guarantee the adequacy of the protection of the fund client's interests, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, the fund client cannot assure that claims may not be asserted that might interfere with enforcement of the fund client's rights. In the event of a foreclosure, the fund client or an affiliate of the fund client may assume direct ownership of the underlying asset. The liquidation proceeds upon sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan, resulting in a loss to the

fund client. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.

Lower Credit Quality Loans. There are no restrictions on the credit quality of the fund client's loans. Loans held by the fund client may be deemed to have substantial vulnerability to default in payment of interest and/or principal. Certain of the loans which the fund client may fund have large uncertainties or major risk exposures to adverse conditions, and may be considered to be predominantly speculative. Generally, such loans offer a higher return potential than better quality loans, but involve greater volatility of price and greater risk of loss of income and principal. The market values of certain of these loans also tend to be more sensitive to changes in economic conditions than better quality loans.

Equitable Subordination. Loans to companies operating in workout modes or under Chapter 11 of the Bankruptcy Code are, in certain circumstances, subject to certain potential liabilities which may exceed the amount of the fund client's loan. For example, under certain circumstances, lenders who have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. Under common law principles that in some cases form the basis for lender liability claims, if a lender (i) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called "equitable subordination"). The fund client does not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the nature of the debt obligations, the fund client may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the issuer should be equitably subordinated.

Fraud. Of paramount concern in investments in loans is the possibility of material misrepresentation or omission on the part of the borrower. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of the fund client to perfect or effectuate a lien on the collateral securing the loan. The fund client will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable when it makes investments, but cannot guarantee accuracy or completeness. Under certain circumstances, payments to the fund client may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

- Loan Participations and Assignments. The fund client may invest in debt securities in the form of loan participations and assignments of portions of such loans. Loan

participations typically represent direct participation in a loan to a corporate or municipal borrower, and generally are offered by banks or other financial institutions or lending syndicates. When purchasing loan participations, the fund client assumes the credit risk associated with the borrowing entity and may assume the credit risk associated with an interposed bank or other financial intermediary, and may only be able to enforce its rights through the lender, and may assume the credit risk of the lender in addition to the borrower. The participation interests in which the fund client invests may not be rated by any nationally recognized rating service.

Investments in loans through a direct assignment of a financial institution's interests with respect to the loan may involve additional risks to the fund client. For example, if a loan is foreclosed, the fund client could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral. In addition, it is conceivable that, under emerging legal theories of lender liability, the fund client could be held liable as a co-lender. Also, environmental liabilities may arise with respect to collateral securing the obligations in which the fund client invests. It is unclear whether loans and other forms of direct indebtedness offer securities laws protections against fraud and misrepresentation. In the absence of definitive regulatory guidance, the fund client relies on FCO's research in an attempt to avoid situations where fraud or misrepresentation could adversely affect the fund client.

- Currency Exposure. The Interests will be issued and liquidated in U.S. Dollars. The Fund's portfolio may have positions which are denominated in currencies other than U.S. Dollars. Accordingly, the value of such assets may be affected favorably or unfavorably by fluctuations in currency rates. FCO may not necessarily seek to hedge the foreign currency exposure of the Fund, and as such, the Fund would be subject to varying degrees of foreign exchange risks. In addition, prospective limited partners whose assets and liabilities are predominately in other currencies should take into account the potential risk of loss arising from fluctuations in value between the U.S. Dollar and such other currencies.
- Prime Brokers. Pursuant to prime brokerage agreements, margin lending agreements or other agreements with the "Prime Brokers" or their affiliates, the Fund may authorize each of the Prime Brokers and their affiliates to lend either to themselves or to others any or all assets deposited with such Prime Broker and its affiliates, to convey all attendant rights of ownership (including voting rights and the right to transfer the assets to others), and to use all such assets as collateral for their general loans within the limits of applicable law and regulations. Unless otherwise agreed between the Fund and a Prime Broker (or its affiliates), any such assets used as collateral, together with all attendant rights of ownership, may be pledged, repledged, hypothecated or rehypothecated by such Prime Broker or its affiliates either separately or in common with other property for any amounts due to such Prime Broker or its affiliates (or for a greater amount), and neither such Prime Broker nor its affiliates shall have any obligation to retain a like amount of similar property in their possession or control. The Fund will rank as an unsecured creditor to each of its Prime Brokers in relation to assets that such Prime Broker borrows, lends or otherwise uses and, in the event of the insolvency of a Prime Broker, the Fund

might not be able to recover equivalent assets in full. In addition, if applicable law permits, cash that a Prime Broker holds or receives on the Fund's behalf may not be treated by the Prime Broker as client money, may not be segregated from the Prime Broker's own cash and may be used by the Prime Broker in the course of its investment business. In such event, the Fund will rank as one of the Prime Broker's general creditors with respect to such cash deposits. Limited partners should assume that the insolvency of any of the Fund's Prime Brokers or other service providers could result in the loss of all or a substantial portion of the Fund's assets held by or through such entity.

- Custodians. Institutions, such as brokerage firms or banks, will have custody of a portion of the Fund's assets. These assets will often be registered in "street name" and not in the Fund's name. Bankruptcy or fraud at one of these institutions could impair the operational capabilities or the capital position of the Fund. The Fund will attempt to concentrate its investment transactions with well-capitalized and established banks and brokerage firms in an effort to mitigate such risks.
- Counterparty Risk. Under certain circumstances, the fund client may be subject to the risk of the inability of any counterparty (including the brokers and custodians) to perform with respect to transactions, whether due to insolvency, bankruptcy or other causes. To the extent the fund client invests in swaps, derivative or synthetic instruments, or other over-the-counter transactions including forward contracts, or in certain circumstances, non-U.S. securities, the fund client may take a credit risk with regard to parties with whom it trades and may also bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded transactions which generally are backed by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default.
- Systemic Risk. Credit risk may also arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This is sometimes referred to as a "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which the Fund will interact on a daily basis.
- Ability to Enforce Legal Rights. Because the effectiveness of the judicial systems in certain non-U.S. countries in which the Fund may invest varies, the Fund may have difficulty in successfully pursuing claims in the courts of such countries, as compared to the United States or other developed countries. Furthermore, to the extent the Fund may obtain a judgment but is required to seek its enforcement in the courts of one of the countries in which the Fund invests, there can be no assurance that such courts will enforce such judgment.

Item 9 – Disciplinary Information

There is no disciplinary information to report.

Item 10 – Other Financial Industry Activities and Affiliations

Fundamental and its affiliates do not engage in asset management services of FAM. Fundamental is a commodity pool operator that is subject to CFTC jurisdiction and registered with the NFA. FCO is a commodity pool operator that is subject to CFTC jurisdiction and is pending registration with the NFA.

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

Fundamental has adopted a Code of Ethics (the “Code”) which sets forth the ethical and fiduciary principles and related compliance requirements under which Fundamental operates and the procedures for implementing those principles.

The Code contains policies and procedures that, among other things:

- prohibit Employees from taking personal advantage of opportunities belonging to clients;
- prohibit trading on the basis of material nonpublic information;
- place limitations on personal trading by Employees and impose preclearance (in certain cases) and reporting obligations with respect to trading; and
- require initial and annual reports of securities holdings and quarterly transaction reports by Employees.

The Code also provides guidance on fiduciary duty, gifts and entertainment, political contributions, outside business activities and confidentiality.

A copy of Fundamental’s Code is available upon request by contacting Nathan Hersch, Fundamental’s Chief Compliance Officer, at (212) 205-5000.

Fundamental does not engage in principal transactions with fund client accounts and if it did so, it would secure applicable fund client consent.

Item 12 – Brokerage Practices

Fundamental has complete discretion in deciding which brokers and dealers its fund clients use and in negotiating the rates of compensation they pay. In addition to using brokers as “agents” and paying commissions, Fundamental may cause the fund clients to buy or sell securities directly from or to dealers acting as principal at prices that include markups or markdowns, and may buy securities from underwriters or dealers in public offerings at prices that include compensation to the underwriters and dealers.

Fundamental Advisors

The majority of Fundamental Advisors’ investments may only be available through certain brokers. In general, Fundamental Advisors will execute trades on behalf of its fund clients with the broker that provides best execution. In the event that Fundamental Advisors sources a trade and determines that the trade should be executed by a third party, it generally will select the

broker that has the best relationship with the seller in the transaction, and thereby the best opportunity to secure the trade.

Best Execution and Soft Dollars

Fundamental does not adhere to any rigid formulas in making its selection of brokers, but will weigh a combination of criteria, including, commission rates, reliability, financial responsibility, strength of the broker and ability of the broker to efficiently execute transactions. Fundamental may also consider the broker's referrals of potential investors for fund clients, provision or payment of the costs of brokerage, research and other investment management-related services or property that are of benefit to fund clients, related persons of Fundamental, Fundamental and other accounts managed by Fundamental or its affiliates. Fundamental need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. Accordingly, if Fundamental determines in good faith that the amount of commissions charged by a broker is reasonable in relation to the value of such products or services provided by such broker, the fund clients may pay commissions to such broker in an amount greater than the amount another broker might charge. Fundamental does not currently have any formal "soft dollar" arrangements with brokers, but may accept products or services within the parameters of the safe harbor of Section 28(e) of the Securities Exchange Act of 1934, as amended. Within the last fiscal year, Fundamental Advisors' employees may have participated in educational seminars or webinars produced by brokers free of charge and we expect Fundamental to continue to take advantage of these opportunities in the future.

Aggregation of Client Orders (Bunched Trades)

Fundamental currently does not, but may in the future, aggregate fund client trades if we believe such aggregation will benefit the fund clients and will be consistent with our obligation to seek best execution. We will not necessarily aggregate all trades when fund client specifications, nature of the investment, logistics of the trade itself or other circumstances make aggregation difficult, impossible or disadvantageous. In such situations, the inability to aggregate the trade could result in an increase in transaction costs for the fund client.

Item 13 – Review of Accounts

Fundamental's investment team understands that they are responsible for making investments consistent with each fund client's investment objectives, policies and restrictions as set forth in the applicable offering and governing documents of the fund client. The investments made for Fundamental Advisor's fund clients often involve revenue bonds where the underlying asset/business is in need of repositioning, restructuring, or recapitalization and Fundamental Advisors intends to target positions that afford a level of control. After identifying an investment opportunity and making the investment, Fundamental Advisors and its investment team engage in ongoing monitoring and management of the underlying assets. The investment team also monitors the investment portfolios of each fund client on an ongoing basis and will adjust the composition, increase or decrease exposure to identified risks and evaluate exit strategies.

Fundamental Advisors' investment process consists of: (i) sourcing investment opportunities, (ii) performing extensive diligence on prospective investments (while being mindful of viable exit

strategies), (iii) assessing value, (iv) actively managing the investment, and (v) evaluating appropriate exit alternatives.

FCO's investment process consists of : (i) identifying imbalances in the new issue and secondary markets driven by technical and market conditions, (ii) employing a bottom-up fundamental credit analysis, (iii) providing in depth analysis of relative value and risk/reward metrics, (iv) providing quantitative analysis and stress testing, and (v) active portfolio and position management.

Investors in the fund clients generally are provided with unaudited quarterly statements and annually receive audited fiscal year-end financial information. Fundamental has in the past and will continue to provide a monthly or quarterly management letter to investors in fund clients describing fund client positions and performance and its views on the market and potential investment pipeline. We expect to continue this practice and may also provide investors in the fund clients other periodic narrative reports from Fundamental regarding fund client positions or the markets. Certain large investors and members of the advisory committees of the fund clients of Fundamental Advisors may request more frequent or more in depth investment analysis not generally provided to all investors by the fund clients.

Fundamental's Chief Compliance Officer or designated compliance personnel periodically (and at least once per week and at each month-end) reviews the trades and positions of each fund client and such other information as he deems necessary to evaluate whether investment decisions are consistent with the investment guidelines set forth in the governing documents of each fund client. If any discrepancy is found, he discusses the discrepancy with the investment team and the Chief Executive Officer to determine if modifications to the portfolio can or should be made or other remedial actions should be taken.

Item 14 – Client Referrals and Other Compensation

As described in Item 5 – “Fees and Compensation” above, in addition to management fees and carried interest allocable to Fundamental Advisors and its affiliates, Fundamental Advisors and its affiliates may receive acquisition, disposition and ongoing fees with respect to advisory and related services provided in connection with investments by fund clients.

In addition, Fundamental may enter into, or cause the fund clients to enter into, cash compensation arrangements with unaffiliated placement agents or third parties for introducing investors to invest in the Fundamental fund clients. As described in each offering memorandum, all offering expenses are borne by the respective fund client subject to a cap agreed between Fundamental and its affiliates with the fund client and the amount of aggregate offering expenses over the cap reduce the management fee otherwise payable to Fundamental and its affiliates. Each of such third-party placement agents represents to Fundamental that it is registered with the SEC as a broker-dealer if active in the U.S. and that each employee engaged in soliciting investors in the United States for Fundamental's fund clients is a registered representative of such broker-dealer.

Item 15 – Custody

Fundamental is deemed to have custody of the assets of its fund clients because an affiliate of Fundamental generally acts as general partner or managing member of the fund vehicle. Fundamental also verifies the fund administrator's calculations of the fees and instructs the third party custodians to pay such fees out of the fund client accounts. Fundamental arranges for all securities to be held by qualified, third-party custodians in accounts in the name of the relevant fund client. Fundamental expects to rely on an exception to the SEC's reporting and surprise audit obligations under the "custody rule" by making each fund client's year end audit by an accounting firm registered with the Public Company Accounting Oversight Board ("PCAOB") available to investors in the fund clients within 120 days of the clients' fiscal year ends.

Item 16 – Investment Discretion

Fundamental generally manages its fund clients' investments on a discretionary basis under the fund clients' governing agreement (such as a limited partnership agreement) or under an investment management agreement between the fund client and the general partner of the fund client. Typically, an affiliate of Fundamental is granted full authority as general partner or managing member to make all decisions for a fund client, subject only to such restrictions or investment guidelines as may be set forth in the governing agreement and offering documents, and the general partner delegates such authority and duty to carry out such functions as well as certain administrative functions to Fundamental.

Item 17 – Voting Client Securities

The nature of certain of the instruments in which Fundamental invests client funds does not often require the voting of proxies. Where such proxy voting is called for and when granted the discretion to do so, Fundamental's policy is to vote all proxies in the fund client's best interest and to maximize the value of the investment to the fund client, on a case-by-case basis, considering such facts as it deems material. The decision on how to vote proxies generally will be made by the investment team in the same manner as other investment decisions. Because we do not invest directly in securities in which our fund clients invest and we restrict investment in industries and sectors related to our fund clients' investments, we do not expect any material conflicts of interest to arise in voting. Where the interests of different fund clients may conflict, the investment team will report the circumstances to the Chief Compliance Officer who will determine the appropriate course of action.

Proxy voting reports, identifying how proxies were voted where Fundamental has been delegated proxy voting discretion and Fundamental's Proxy Voting Policies and Procedures are available upon written request to the Chief Compliance Officer, Fundamental Advisors LP/FCO Advisors LP, 745 Fifth Avenue, 30th Floor, New York, NY 10151.

Item 18 – Financial Information

Fundamental is not aware of any financial condition that could impair its ability to meet its contractual and fiduciary commitments to fund clients and Fundamental has not been the subject of any bankruptcy petition since Fundamental Advisors' formation in 2007.