

Item 1 – Cover Page  
DISCLOSURE BROCHURE

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# Fundamental Advisors LP

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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) 205-5004. 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](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

The last update to Fundamental Advisors LP’s Form ADV Part 2A (this “Brochure”) was in January, 2015. A summary of material changes since the last annual update of this Brochure is as follows:

Item 4: The Regulatory Assets Under Management amount is updated.

Future Disclosure Brochure filings will address “material changes” since the date of this filing concerning Fundamental Advisors LP and FCO Advisors LP, which will either be delivered, or offered for delivery, to clients. A copy may also be downloaded from the SEC’s website, [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

### **IMPORTANT NOTE ABOUT THIS DISCLOSURE BROCHURE**

*This Disclosure Brochure is not:*

- *an offer or agreement to provide advisory services to any person*
- *an offer to sell interests (or a solicitation of an offer to purchase interests) in any Issuer (as defined below)*
- *a complete discussion of the features, risks or conflicts associated with any Issuer*

As required by the Investment Advisers Act of 1940, as amended (“Advisers Act”), the Adviser provides this Brochure to current and prospective clients and may also, in its discretion, provide this Brochure to current or prospective investors in an Issuer, together with other relevant governing documents, such as the Issuer’s offering circular, prior to, or in connection with, such persons’ investment in the Issuer.

Although this publicly available Brochure describes investment advisory services and products of the Adviser, persons who receive this Brochure (whether or not from the Adviser) should be aware that it is designed solely to provide information about the Adviser as necessary to respond to certain disclosure obligations under the Advisers Act. As such, the information in this Brochure may differ from information provided in relevant governing documents. More complete information about each Issuer is included in relevant governing documents, certain of which may be provided to current and eligible prospective investors only by the Adviser. To the extent that there is any conflict between discussions herein and similar or related discussions in any governing documents, the relevant governing documents shall govern and control.

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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 private investment vehicles through separate accounts following strategies similar to our fund clients. We may in the future agree to advise high net worth individuals through separate accounts as well.

Fundamental Advisors’ core investment strategy is primarily to pursue a diverse array of special situation opportunities within and related to the municipal bond market or assets otherwise having significance to the functioning or development of a community, which assets we refer to as “public purpose assets,” to achieve long-term capital appreciation and current income. Fundamental Advisors seeks to achieve its objective by targeting control oriented investments in stressed and distressed assets or securities, financing the development or revitalization of public purpose assets, or acquiring undervalued securities in the secondary market. 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. 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.

Fundamental primarily targets (i) controlling interest in municipal revenue bonds, (ii) assets eligible for municipal financing and (iii) either debt secured by or direct ownership interests in public purpose assets. In many cases, debt securities that the fund client acquires 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. On an opportunistic basis, the fund client may also invest in general obligation bonds, revenue bonds, or other securities where there is no control element but for which a compelling investment opportunity exists.

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 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 December 31, 2014, Fundamental had \$2,190,375,868 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 client's 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 client's 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 or monthly in arrears and a performance fee paid to FCO or its related persons, 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 clients administrator calculates the management fees in the place of the general partners of the fund client's 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 and/or hurdle rate. 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 client's 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 with any excess used as an offset to the Management Fee. The fund clients also bear all regulatory costs (including expenses related to Form PF, and Commodities Futures Trading Commission and National Futures Association filings) and costs of their investments and expenses incurred in connection with the evaluation, acquisition, holding, monitoring, refinancing, recapitalization, disposition or proposed disposition of any investments (including private placement fees, taxes, brokerage fees, sales commissions, underwriting commissions and discounts, appraisal fees, asset management fees and legal, accounting, administrator and consultant fees). Fund clients also bear all costs related to the investments, such as research, borrowing costs, transaction expenses, indemnification expenses of the Fundamental Advisors' fund client, investor communication expenses, all unreimbursed out-of-pocket expenses of the fund client relating to unconsummated transactions (including legal and accounting expenses), fees relating to audit services, the preparation of financial and tax reports, portfolio valuations and tax returns of the fund client, interest on permitted borrowings made by the 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 fund client, liquidating expenses, any taxes, fees or other governmental charges levied against the fund client and all expenses incurred in connection with any tax audit, investigation, settlement or review of the fund client and all other expenses of the 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 fund client, a parallel fund, an alternative investment vehicle and/or another Fundamental Advisors client participate, such costs incurred by a fund client and such client generally will be borne pro rata based on the amount invested by each entity. Each fund client is obligated to reimburse Fundamental and its affiliates or any investor for any such costs advanced by it on behalf of the 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 bears all costs and expenses (subject to a cap where applicable), other than fees paid to placement 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 are amortized over the first 60 months of the fund's operations. FCO bears the costs of any fees paid to placement agents through an offset to the management fee.

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 bears the costs of providing such goods and services, including paying its own administrative costs and expenses, which include rent, salaries, benefits and other compensation costs, if any, of FCO's employees.

Each FCO fund client pays all ordinary and extraordinary expenses (subject to a cap where applicable) incurred by it or on its behalf, which may include, but are 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 client'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 and Form CPO PQR), 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, 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 client or FCO and other similar expenses related to the fund client. To the extent that expenses to be borne by the fund client are paid by FCO or its affiliates, the fund reimburses FCO or its affiliates for such expenses.

As part of a shared services level agreement, Fundamental Advisors provides for associated staff and resources to support and facilitate the management and operations of FCO as well as related expenses for financial and tax reporting, legal, compliance, human resources and administration. FCO reimburses Fundamental Advisors for these expenses from its management and performance fees.

## **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' time horizon, and liquidity needs of each fund client. Specific investments and strategies that may be suitable under the hedge fund and private equity mandates 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 reviewing 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 resemble those of "hedge funds" or "private equity 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 following strategies similar to our fund clients.

## **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 pursues a diverse array of special situation opportunities within and related to the municipal bond market or assets otherwise



having significance to the functioning or development of a community, which assets we refer to as “public purpose assets,” to achieve long-term capital appreciation and current income. Fundamental Advisors seeks to achieve its objective by targeting control oriented investments in stressed and distressed assets or securities, financing the development or revitalization of public purpose assets, or acquiring undervalued securities in the secondary market. 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 uses 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 investments 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. Once an opportunity is identified and approved to proceed to the investment analysis stage, Fundamental Advisors devotes 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 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 Bond Risks. 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 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). 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. 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. 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. The primary source of repayment and collateral for revenue bonds generally consists of revenue from the underlying project (fees, rent, tolls, concessions, etc.), generally, a senior lien on the underlying asset and an obligation for

repayment by the sponsor. 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. If Fundamental is unable to manage and rehabilitate the assets underlying such bonds and improve the prospect for revenue generation, the value of the fund client's investment in such bonds will likely decline.

Each type of municipal obligation may be more or less susceptible to downgrades or defaults during recessions or similar periods of economic stress. The value of the fund client's investments in municipal revenue bonds will be affected by local, state, regional and national factors. These may include economic or policy changes, erosion of the tax base, legislative changes (especially those regarding taxes) and the possibility of credit problems. Any such changes or events may adversely affect the value of the fund client's investments.

For example, the fund clients may invest in municipal revenue bonds issued to fund housing projects. Successful operation of a commercial or multifamily real estate project is dependent upon, among other things, economic conditions generally and in the area of the project, fluctuations in interest rates, the degree to which the project competes with other projects in the area, construction and operating costs and the performance of the management agent. In some cases, that operation may be affected by circumstances outside the control of the borrower or lender, such as the deterioration of the surrounding neighborhood, the imposition of rent control or changes in tax laws. The ability of Fundamental to rehabilitate the housing projects underlying such bonds will be affected by such factors, which could have a negative impact on the value of the fund client's investment in such bonds.

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 the Fundamental Advisors will be able to anticipate these risks effectively.

- Tax Risk Associated with Tax-Exempt Municipal Bonds. The fund client will invest in, among other things, tax-exempt municipal revenue bonds. The interest from such bonds is generally exempt from U.S. federal income tax. The Internal Revenue Code of 1986, as amended (the "Code") imposes certain continuing requirements on issuers of tax-exempt bonds regarding the use, expenditure and investment of bond proceeds, the payment of

rebates to the United States and the registration of certain bonds. Failure by the issuer to comply, subsequent to the issuance of tax-exempt bonds, with certain of these requirements could cause interest on the bonds to become includable in gross income retroactive to the date of issuance, which may reduce the value of the bonds. For example, certain housing authority bonds are subject to special requirements that must be met to preserve the bond's tax-exempt status. If such requirements are not met, the interest on such bonds may become taxable, the value of the bonds may be reduced, the fund client may be required to sell the bonds at a reduced value and fund client investors may be subject to unanticipated tax liabilities.

The interest payable on the municipal bonds in which the fund client expects to invest may be under forbearance or deferred. Any interest that accrues while such bonds are held by the fund client may be exempt from U.S. federal income tax, and will increase the fund client's basis in such bonds. There is no guarantee, however, that such interest will have or retain such a tax-exempt status.

- Distressed Securities Risks; Illiquidity. Distressed securities generally are securities of issuers that have either defaulted or appear to be at a heightened risk of doing so. The assets underlying such securities will typically have significant risks as a result of business, economic or legal uncertainties. Although investments in distressed securities may result in significant returns, such investments are subject to greater risks with respect to the issuing entity and to greater market fluctuations than certain higher rated securities and also may not show any return for a considerable amount 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 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 that limit the access of Fundamental Advisors 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 the Fundamental Advisors 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.

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, including but not limited to bonds, Fundamental Advisors anticipates that such securities could be sold only to a limited number of dealers or institutional investors. To the extent a secondary trading market for these securities does exist, it generally is not as liquid as the secondary market for higher rated securities. With respect to bonds, 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 securities 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.

Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the values and liquidity of these securities. These securities may be particularly susceptible to economic downturn and be subject to substantial market price volatility. It is likely that any economic recession would disrupt severely the market for such securities and have an adverse impact on their value.

To enforce its rights in defaulted bonds, a fund client may be required to participate in various legal proceedings or take possession of and manage assets securing the issuer's obligations on the defaulted securities. This will increase the fund client's operating expenses and could adversely affect the value of its investments.

- 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 therein. For example, under certain circumstances, a lender that has inappropriately exercised control over the management and policies of a debtor may have its 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 (a) 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, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (d) 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"). Among other things, the nature of the fund clients' control-oriented investments and Fundamental's active management of the fund clients' investments may expose the fund client to such adverse actions or liabilities. Fundamental Advisors 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.

In addition, under certain circumstances, payments to the fund client and distributions by a fund client to the investors may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, preferential payment or similar transaction under applicable bankruptcy and insolvency laws. Furthermore, such restructurings may be adversely affected by local statutes relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims.

As part of Fundamental Advisors' strategy to restructure and rehabilitate the assets underlying the municipal bonds or other securities in which fund client's 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. Further, although the fund client may hold a security interest in certain collateral with respect to such notes, such collateral may turn out to be inadequate, especially if the collateral is "distressed." Holding such notes may also subject the fund client to the interest rate risk discussed below – if interest rates rise, the value of the notes may decrease.

- 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.
- 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 securities 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. First, many events in a bankruptcy are the product of contested matters and adversary proceedings and are beyond the control of the creditors. While creditors are generally given an opportunity to object to significant actions, there can be no assurance that a bankruptcy court in the exercise of its broad powers would not approve actions that would be contrary to the interests of the fund client. Second, the effect of a bankruptcy filing on a project may adversely and permanently affect the project. Third, the duration of a bankruptcy proceeding is difficult to predict. The fund client's return on investment could be adversely affected by delays while the plan of reorganization is being negotiated, approved by the creditors and confirmed by the bankruptcy court and until it ultimately becomes effective. Fourth, the administrative costs in connection with a bankruptcy proceeding are frequently high and will be paid out of the debtor's estate prior to any return to creditors. For example, if a proceeding involves protracted or difficult litigation, or turns into a liquidation, substantial assets may be devoted to administrative costs. Fifth, bankruptcy law permits the classification together of "substantially similar" claims in determining the classification of claims in a reorganization. Because the standard for classification is vague, there exists the risk that the fund client's influence with respect to the class of securities it owns can be lost by increases in the number and amount of claims in that class or by different classification and treatment. Sixth, in the early stages of the bankruptcy process, it is often difficult to estimate the extent of, or even to identify, any contingent claims that might be made. Seventh, especially in the case of investments made prior to the commencement of bankruptcy proceedings, creditors can lose their ranking and priority if they exercise "domination and control" over a debtor and other creditors can demonstrate that they have been harmed by such actions. Eighth, certain claims that have priority by law (for example, claims for taxes) may be quite significant. Another risk involves the failure of a municipality to pay its creditors on time. Chapter 9 of the U.S. Bankruptcy Code provides a financially distressed municipality with protection from its creditors while it develops and negotiates a plan for adjusting its debts. The commencement of a Chapter 9 bankruptcy case operates as a stay, applicable to all creditors of the municipality, of most efforts to collect prepetition claims. Such a stay would operate to restrict the municipality from making payments of either principal or interest on accounts of its general obligation bonds. In general, numerous important legal issues under Chapter 9 are unsettled and evolving. Accordingly, a Chapter 9 filing by an issuer of securities may result in an adverse effect on the value of general obligation bonds and special revenue bonds. All of the above risks may undermine Fundamental's strategy of rehabilitating the assets or projects underlying the securities in which the fund client invests, resulting in an adverse effect on the value of those securities.

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.

The fund client may also be exposed to risk in connection with the disposition of these investments. When disposing of these investments, the fund client may be required to make representations and warranties about the business and financial affairs of the investments typical of those made in connection with the sale of any business, or may be responsible for the contents of disclosure documents under applicable securities law. The fund client may also be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations and warranties or disclosure documents turn out to be incorrect, inaccurate or misleading.

- 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. The securities industry generally, and the varied strategies and techniques to be engaged in by Fundamental Advisors in particular, are extremely competitive. Fund clients will be competing for investments with other financial institutions and other investors, including many of the larger securities and investment banking firms, which have substantially greater financial resources and research staffs. 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. In recent years there has been a marked increase in the



number of, and flow of capital into, investment vehicles established in order to implement alternative asset investment strategies. While the precise effect cannot be determined, such increase may result in greater competition for investment opportunities, or may result under certain circumstances in increased price volatility or decreased liquidity with respect to certain positions. Prospective investors should understand that the fund client may compete with other investment vehicles, as well as investment and commercial banking firms, which have substantially greater resources, in terms of financial wherewithal and research staffs, than may be available to the fund client. Accordingly, there can be no assurance that the fund client will be able to identify and complete attractive investments or that it will be able to invest fully its committed capital. Competitive investment activity by other firms may reduce the fund client's opportunity for profit by reducing or amplifying the magnitude as well as the duration of the market inefficiencies which it seeks to exploit.

- 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. Other than as set forth in its operating documents, a fund client has no assurance as to the degree of diversification in its investments, either by geographic region or asset type.
- 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. While an investment may be sold at any time, it is expected that an investment will not generally be sold until a number of years after it is made. Prior to such time, there may not be any current return on investment.
- Nature and Risks of Investments. The types of investments contemplated by the fund clients are subject to various risks, particularly the risk that the fund client's 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 client's invest. The fund clients will generally not be able to sell the securities or other 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 or other assets 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.

Fundamental Advisors will have broad discretion in making investments for the fund client and expects to utilize highly speculative investment techniques, including leverage, and derivative transactions. There can be no assurance that Fundamental Advisors 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 a 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.

- 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.

Additionally, underlying portfolio investments may be subject to restrictive financial and operating covenants as a result of their leverage. This leverage may impair these portfolio investments' ability to finance their future operations and capital needs. As a result, their flexibility to respond to changing business and economic conditions and to business opportunities may be limited. A leveraged entity's income and net assets will tend to increase or decrease at a greater rate than if borrowed money were not used.

The fund client may achieve leverage through, among other methods, purchases of securities on margin and the use of options, futures, contracts for differences, swaps and other derivatives. 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 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, contracts for differences, swaps and other derivatives often 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.

- 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 close out or unwind a hedging transaction. 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 investors in the fund client than would apply if the fund client had not entered into such hedging transactions.

The success of the fund client's hedging strategy will be subject to Fundamental Advisors' 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 fund client's hedging strategy will also be subject to Fundamental Advisors' 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, Fundamental Advisors 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, Fundamental Advisors 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.

- Systems Risk. Fundamental Advisors relies on computer programs and systems (and may rely on new systems and technology in the future) in connection with the fund client's investment activities, including, without limitation, to trade, clear and settle securities transactions, to evaluate investments, to monitor the fund client's investments, to generate risk management and other reports that are critical to oversight of the fund client's activities and to store confidential information. In addition, certain of the fund client's, Fundamental Advisors' and their affiliates' operations interface with or depend on systems operated by third-parties such as service providers and market counterparties, and Fundamental Advisors may not be in a position to verify the risks or reliability of such third-party systems. These programs or systems may be subject to certain defects, failures, interruptions or security breaches, including, but not limited to, those caused by computer "worms," viruses, malware, hacking, social engineering schemes such as "phishing" and power failures. Fundamental Advisors' operations are highly dependent on each of these systems and the successful operation of such systems is often out of Fundamental Advisors' control. Any such defect, failure or breach could have a material adverse effect on the fund client, Fundamental Advisors, their affiliates and their clients and investors. For example, systems failures or breaches could cause settlement of trades to fail, lead to inaccurate accounting, recording or processing of transactions, cause inaccurate reports and loss of

data, and result in personal client or investor information being compromised, which may adversely affect the ability of Fundamental Advisors to manage the fund client's investments and risks and to protect confidential information.

- Financial Model Risk. Certain of the fund client's investments and investment strategies require the use of quantitative and qualitative valuation models developed by Fundamental Advisors 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 Fundamental Advisors recognizing the change before significant losses are incurred. The fund client's model risk extends to the valuation of its investments, which may be made on the basis of internal Fundamental Advisors models in the absence of any readily determinable market value. The valuations so determined may differ materially from realized values.
- Ability to Enforce Legal Rights. Because the effectiveness of the judicial systems in certain non-U.S. countries in which the fund client may invest varies, the fund client 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 client may obtain a judgment but is required to seek its enforcement in the courts of one of the countries in which the fund client invests, there can be no assurance that such courts will enforce such judgment.
- Forward-Looking Statements; Opinions. Statements contained in this Memorandum (including those relating to current and future market conditions and trends in respect thereof) that are not historical facts are based on current expectations, estimates, projections, opinions and/or beliefs of Fundamental. Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon. Moreover, certain information contained in this Memorandum constitutes "forward-looking" statements, which can be identified by the use of forward-looking terminology such as "may," "can," "will," "would," "seek," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," "target," or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, including those set forth herein, actual events or results, market conditions, investment opportunities or the actual performance of the fund client or its investments may differ materially from those reflected or contemplated in such forward-looking statements.
- Counterparty and Settlement Risk. The fund client is subject to the risk of the inability of any counterparty (including prime brokers) 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 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. It is

expected that Fundamental Advisors will monitor on an ongoing basis the creditworthiness of firms with which it will enter into swaps or other over-the-counter derivatives on behalf of the fund client. If there is a default by the counterparty to such a transaction, the fund client will under most normal circumstances have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in losses. Furthermore, there is a risk that any of such counterparties could become insolvent. If one or more of the fund client's counterparties were to become insolvent or the subject of liquidation proceedings in the United States (either under the Securities Investor Protection Act or the U.S. Bankruptcy Code), there exists the risk that payment of amounts that the counterparty owes the fund client or the return of collateral that the fund client has posted to the counterparty will be delayed or otherwise impaired. The insolvency of any counterparty would almost certainly result in a loss to the fund client, which loss could be material.

- Derivative Instruments. The fund client may invest in derivative financial instruments, which include, but are 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, as part of its investment strategy and for hedging purposes, as well as other derivatives. Regulatory restraints may restrict the instruments that the fund client 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 subjects 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. Counterparty risk is the risk that one of the fund client'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.

- Swap Agreements. The fund client may enter into swap agreements. Swap agreements can be individually negotiated and structured to include exposure to a variety of different types

of investments or market factors. Depending on their structure, swap agreements may increase or decrease the fund client's exposure to long-term or short-term interest rates (in the United States or abroad), non-U.S. currency values, corporate borrowing rates or other factors such as security prices, prices of baskets of equity securities or inflation rates. Swap agreements can take many different forms and are known by a variety of different names. The fund client is not limited to any particular form of swap agreement if consistent with the fund client's investment objective and policies. The Dodd-Frank Act mandates the establishment of clearing requirements with respect to standardized swaps and margin requirements with respect to swap agreements that can be expected to impact the manner in which the fund client engages in swap transactions and the margin that the fund client must post in swap transactions, both cleared and uncleared.

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

- Fixed Income Securities. The fund client may invest in bonds or other fixed income securities of U.S. and non-U.S. issuers, including without limitation, bonds notes and debentures issued by corporations, debt securities issued or guaranteed by the U.S. Government or one of its agencies or instrumentalities and bonds and notes issued by states, municipalities, agencies of states or municipalities or by such other governmental entities on behalf of not-for-profit and other organizations. Fixed income securities pay fixed, variable or floating rates of interest. The value of fixed income securities in which the fund client invests will change in response to fluctuations in interest rates. In addition, the value of certain fixed-income securities can fluctuate in response to perceptions of credit worthiness, political stability or soundness of economic policies. Fixed income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (i.e., credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (i.e., 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.
- Equity Securities. The fund client does not expect to invest in equity securities. In the event

the fund client 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.

- 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 Fundamental Advisors will consider such events in its determination of whether the fund client should continue to invest in such securities.
- Lending Risks. The fund client may originate or invest in debt instruments. Such lending activities entail a number of risks:

*General Credit Risks.* The fund client 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 client may invest in subordinate or second priority liens). There is no assurance that Fundamental Advisors 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. Fundamental Advisors 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, Fundamental Advisors 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's may be deemed to have substantial vulnerability to default in payment of interest and/or principal. Certain of the loans that the fund client may originate or invest in may 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.

*Fraud.* Of paramount concern when originating or investing 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. Fundamental Advisors 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.

- Loan Participation 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 Fundamental Advisors' research in an attempt to avoid situations where fraud or misrepresentation could adversely affect the fund client.

- Reliance on Management of Projects. Fundamental Advisors will monitor the performance of each portfolio investment by maintaining an ongoing dialogue with the underlying project's management team and by actively participating in the rehabilitation of project assets and, in some cases, by actively participating on the boards of directors (or equivalent governing bodies) of underlying portfolio investment entities. However, it will be primarily the responsibility of the project's management team to operate the project on a day-to-day basis. There can be no assurance that the management team, or any successor, will be able to successfully operate the project in accordance with the fund client's plans to increase the value of the project assets. The death, disability or resignation of key members of any such management team could adversely affect a portfolio investment's performance.
- Certain Regulatory Considerations. The fund clients expect to make investments in a number of different industries, some of which are or may become subject to regulation by one or more U.S. federal agencies and by various agencies of the states, localities and counties in which they operate. New and existing regulations, changing regulatory schemes and the burdens of regulatory compliance all may have a material negative impact on the performance of portfolio investments that operate in these industries. Fundamental Advisors cannot predict whether new legislation or regulation governing those industries will be enacted by legislative bodies or governmental agencies, nor can it predict what effect such legislation or regulation might have.
- Taxation Risks. Certain of the fund clients' investments are in distressed tax-exempt municipal revenue bonds. The interest from such bonds is generally exempt from federal income tax. The Internal Revenue Code of 1986, as amended (the "Code") imposes certain continuing requirements on issuers of tax-exempt bonds regarding the use, expenditure and investment of bond proceeds, the payment of rebates to the United States and the registration of certain bonds. Failure by the issuer to comply, subsequent to the issuance of tax-exempt bonds, with certain of these requirements could cause interest on the bonds to become includable in gross income retroactive to the date of issuance, which may reduce the value of the bonds. For example, certain housing authority bonds are subject to special requirements that must be met to preserve the bonds' tax-exempt status. If such requirements are not met, the interest on such bonds may become taxable, the value of the bonds may be reduced, the fund client may be required to sell the bonds at a reduced value and fund client's investors may be subject to unanticipated tax liabilities.

Certain provisions of the Code relating to the issuance of municipal bonds may reduce the volume of municipal bonds qualifying for federal tax exemption. One effect of these provisions could be to increase the cost of the municipal bonds available for purchase by the fund client. Proposals that may restrict or eliminate the income tax exemption for

interest on municipal bonds may be introduced in the future. If any such proposal were enacted the availability of municipal bonds for investment by the fund client would be reduced and the liquidity of any bonds held by the fund client may be adversely affected.

The interest payable on the distressed municipal bonds in which the fund client expects to invest may be under forbearance or deferred. Any interest that accrues while such bonds are held by the fund client may have tax- exempt status, and will increase the fund client's basis in such bonds. There is no guarantee, however, that such interest will have or retain such a tax-exempt status.

The fund client may take positions with respect to certain tax issues that depend on legal conclusions not yet resolved by the courts. Should any such positions be successfully challenged by the United States Internal Revenue Service or another applicable taxing authority, an investor in the fund client might be found to have a different tax liability for that year than that reported on his or its United States federal income tax return.

In addition, an audit of the fund client as a partnership for United States federal income tax purposes may result in an audit of the returns of some or all of the investors in the fund client, which examination could result in adjustments to the tax consequences initially reported by the fund client and affect items not related to an investor's investment in the fund client. If such adjustments result in an increase in a fund client investor's United States federal income tax liability for any year, such investor may also be liable for interest and penalties with respect to the amount of underpayment. The legal and accounting costs incurred in connection with any audit of the fund client's tax return will be borne by the fund client. The cost of any audit of a fund client investor's tax return will be borne solely by the investor.

- Interest Rate Risk. Changes in the general level of interest rates cause fluctuations in the prices of fixed-income securities already outstanding and will therefore result in fluctuations in the value of the fund client's portfolio investments. If rates increase, the value of the fund client's investments generally declines. The effects of changes in the level of interest rates can be magnified when securities are subject to financing. On the other hand, if rates fall, the value of the investments generally increases. Distressed tax-exempt municipal revenue bonds such as those in which the fund client expects to invest may be subject to wider fluctuations in market values than higher rated securities.
- Investments in Undervalued Municipal Securities. The identification of investment opportunities in undervalued securities is a difficult task and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued municipal securities offer the opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the fund client's investments may not adequately compensate for the business and financial risks assumed.

The fund client may make certain speculative investments in municipal securities which Fundamental Advisors believes to be undervalued; however, there are no assurances that the

securities purchased will in fact be undervalued. In addition, the fund client may be required to hold such securities for a substantial period of time before realizing their appreciated value. During this period, a portion of the fund client's capital would be committed to the securities purchased, thus possibly preventing the fund client from investing in other opportunities. Further, the fund client may finance such purchases with borrowed funds and thus will have to pay interest on such funds during the holding period.

- Taxation in Local Jurisdictions. The fund client or the limited partners may be subject to income or other tax in jurisdictions in which the fund client invests. Moreover, withholdings tax or branch tax may be imposed on earnings of the fund client from investments in such jurisdictions. In addition, local tax incurred in such jurisdictions by the fund client or vehicles through which it invests may not be creditable to or deductible by the limited partners in their respective jurisdictions, including the United States. Municipal bonds may qualify for special tax treatment under state and local laws. Potential investors should consult their own tax advisors concerning the possible state and local tax consequences of investment in the fund client.
- Interest Rate Risk. Changes in the general level of interest rates cause fluctuations in the prices of fixed-income securities already outstanding and will therefore result in fluctuations in the value of the fund client's portfolio investments. If rates increase, the value of the fund client's investments generally declines. The effects of changes in the level of interest rates can be magnified when securities are subject to financing. On the other hand, if rates fall, the value of the investments generally increases. Distressed tax-exempt municipal revenue bonds such as those in which the fund client expects to invest tend to be subject to wider fluctuations in market values than higher rated securities.
- Market Conditions and Opportunities. The fund client's strategy may in some investments be based, in part, upon the premise that securities or other investments will be available for purchase by the fund client at prices that Fundamental Advisors considers favorable. Furthermore, the fund client's strategy relies, in part, upon the availability of investment opportunities identified by Fundamental Advisors, the continuation of existing market conditions or, in some circumstances, upon more favorable market conditions or anticipated investment opportunities existing prior to the termination of the term of the fund client. These conditions and opportunities may include, among others, continued economic growth in a particular state or region; the continuation of certain existing laws, regulations or government policies; or the continuation of certain trends related to unemployment, inflation, demographics and other factors. No assurance can be given that such conditions or opportunities will arise or continue, as applicable, or that businesses and assets can be acquired or disposed of at favorable prices or that the market for such assets will either remain stable or, as applicable, recover or improve, since this will depend upon events and factors outside the control of Fundamental Advisors. In 2009, 2013 and at other times, technical factors in the municipal and other markets caused unprecedented volatility, and markets may remain volatile in the intermediate term.
- Nature and Risks of Investments. The types of investments contemplated by the fund client are subject to various risks, particularly the risk that the fund client will be unable to dispose

of its 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 client invests. The fund client will generally not be able to sell the securities or other 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 client may be prohibited by contract or regulatory reasons from selling certain securities or other assets for a period of time. To the extent that there is no liquid trading market for an investment, the fund client 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.

Fundamental Advisors will have broad discretion in making investments for the fund client and expects to utilize highly speculative investment techniques, including leverage, and derivative transactions. There can be no assurance that Fundamental Advisors 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.

- Long-Term Investments. Investment in the fund client requires a long-term commitment with no certainty of return. Many of the investments of the fund client will be highly illiquid, and there can be no assurance that the fund client will be able to realize on such investments in a timely manner. Although investments by the fund client 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. While an investment may be sold at any time, it is expected that an investment will not generally be sold until a number of years after it is made. Prior to such time, there may not be any current return on investment.
- Third-Party Involvement. The fund client may co-invest with third parties through partnerships, joint ventures or other entities. Such investments may involve risks not present in investments where a third-party is not involved, including the possibility that a third-party co-venturer or partner may at any time have financial difficulties resulting in a negative impact on such investment, economic or business interests or goals that are inconsistent with those of the fund client, or may be in a position to take or block action contrary to the fund client's investment objectives. In addition, the fund client may in certain circumstances be liable for actions of its third-party co-venturer or partners. Furthermore, if a co-venturer defaults on its funding obligations, the fund client may be required to make up the shortfall.

- Follow-On Investments. In certain investments, the fund client may be called upon to provide additional funds to a portfolio investment. There is no assurance that the fund client will make such follow-on investment or that the fund client will have sufficient funds to make such investments. Failure to make such investments may have an adverse effect on the performance of the fund client's portfolio.
- Bridge Investments. From time to time, the fund client may provide interim financing to facilitate a fund client investment on a short-term, unsecured basis or otherwise invest on an interim basis in portfolio investments in anticipation of a future issuance of equity or long-term debt securities or other refinancing or syndication. Such bridge loans or interim investments may be repaid, syndicated, transferred or converted into a more permanent, long-term security. However, for reasons not always in the fund client's control, such long-term securities issuance or other refinancing or syndication may not occur and such bridge loans or interim investments may remain outstanding. In such event, the interest rate on such loans or the terms of such interim investments may not adequately reflect the risk associated with the unsecured position taken by the fund client.
- 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 other entity 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. The fund client 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 client 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 client's ability to respond to market movements may be impaired and the fund client 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 client 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 client 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. Fundamental Advisors generally seeks to maintain a diversified portfolio of investments. However, the fund client may at certain times hold relatively few investments, which could subject the fund client 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 client's investments experience a greater than anticipated correlation. In that circumstance, fund client positions that may have been considered diversified could be subject to significant losses due to related events or changes in investment correlation more generally.
- Brokers and Custodians. Institutions, such as brokerage firms or banks, will have custody of a portion of the fund client's assets. These assets will often be registered in "street name" and not in the fund client's name. Bankruptcy or fraud at one of these institutions could impair the operational capabilities or the capital position of the fund client. The fund client will attempt to concentrate its investment transactions with well-capitalized and established banks and brokerage firms in an effort to mitigate such risks. The brokers, as brokerage firms or commercial banks, are subject to various laws and regulations in various jurisdictions some of which are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to the fund client's assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a broker or any of its sub-custodians, agents or affiliates, it is impossible to generalize about the effect of their insolvency on the fund client and its assets. Investors should assume that the insolvency of any of the fund client's brokers or other service providers could result in the loss of all or a substantial portion of the fund client's assets held by or through such entity.

The fund client will rank as an unsecured general creditor to its broker in relation to assets that the broker borrows, lends or otherwise uses and, in the event of the insolvency of the broker, the fund client might not be able to recover equivalent assets in full. In addition, if applicable law permits, cash that a broker holds or receives on the fund client's behalf may not be treated by the broker as client money, may not be segregated from the broker's own cash and may be used by the broker in the course of its investment business. In such event, the fund client will rank as one of the broker's unsecured general creditors.

Pursuant to a prime brokerage agreement, margin lending agreement or other agreement with the broker or its affiliates, the fund client may authorize each of the broker and its affiliates to lend either to itself or to others any or all assets deposited with the broker and its affiliates, to convey therewith 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 its general loans within the limits of applicable law and regulations. Unless otherwise agreed between the fund client and the broker (or its affiliates), any such assets used as collateral, together with all attendant rights of ownership, may be pledged, replighted, hypothecated or rehypothecated by the broker or its affiliates either separately or in common with other property for any amounts due to the broker or its affiliates thereon or

for a greater sum, and the broker or its affiliates shall have no obligation to retain a like amount of similar property in its possession and control. As a result of such activities, the prime broker or its affiliates may receive and retain certain benefits to which the fund client will not be entitled. In certain circumstances, such loans, pledges, repledges, hypothecations and rehypothecations may limit, in whole or in part, the fund client's ability to exercise voting and other attendant rights of ownership with respect to the loaned or pledged assets.

- Additional Capital. Certain of the fund client's portfolio investments may be expected to require additional financing to satisfy their working capital requirements or restructuring strategies. The amount of such additional financing needed will depend upon the maturity and objectives of the particular portfolio investment. If the funds provided are not sufficient, an entity may have to raise additional capital at a price unfavorable to the existing investors, including the fund client. In addition, the fund client may make additional debt and equity investments or exercise warrants, options or convertible securities that were acquired in the initial investment in such portfolio investment in order to preserve the fund client's proportionate ownership when a subsequent financing is planned, or to protect the fund client's investment when such portfolio investment's performance does not meet expectations. The availability of capital is generally a function of capital market conditions that are beyond the control of the fund client or any portfolio investment. There can be no assurance that the portfolio investments will be able to predict accurately the future capital requirements necessary for success or that additional funds will be available from any source.
- No Assurance of Investment Return. All securities and other investments risk the loss of capital. No guarantee or representation is made that the fund client will achieve its investment objective or that a fund client will not lose all or substantially all of its investment. Fundamental Advisors cannot provide assurance that it will be able to choose, make and realize investments in any particular portfolio investment. There can be no assurance that the fund client will be able to generate returns for its investors or that the returns will be commensurate with the risks of investing in the type of investments and transactions described herein. There can be no assurance that any limited partner will receive any distribution from the fund client. Accordingly, an investment in the fund client should only be considered by persons who can afford a loss of their entire investment. Past performance is not necessarily indicative of future results, and there can be no assurance that the fund client will achieve comparable results or that targeted returns will be achieved.
- Availability of Insurance against Certain Catastrophic Losses. Certain losses of a catastrophic nature, such as wars, earthquakes, terrorist attacks or other similar events, may be either uninsurable or insurable at such high rates that to maintain such coverage would cause an adverse impact on the related investments. In general, losses related to terrorism are becoming harder and more expensive to insure against. Some insurers exclude terrorism coverage from their all-risk policies.
- Available Information. Fundamental Advisors selects investments in part on the basis of information and data filed by the issuers of securities or owners of other assets with various



government regulators or made directly available to Fundamental Advisors by such issuers or owners, or through sources other than the issuers or owners. Fundamental Advisors evaluates all such information and data and seeks independent corroboration when Fundamental Advisors considers it appropriate and when it is reasonably available, Fundamental Advisors is not in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases complete and accurate information is not readily available.

- Financial Market Fluctuations. General fluctuations in the market prices of securities may affect the value of the investments held by the fund client. Instability in the securities markets may also increase the risks inherent in the fund client's investments. The ability of portfolio investments to refinance debt securities may depend on their ability to sell new securities in the public high-yield debt market or otherwise.

The fund client may incur substantial losses in the event of disrupted markets or other extraordinary events in which historical pricing relationships (on which Fundamental Advisors may base certain investment positions) become materially distorted. The risk of loss from pricing distortions is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. Portfolio investments may also be subject to catastrophic events and other *force majeure* events, such as fires, earthquakes, adverse weather conditions, changes in law and other similar risks, which events could result in the partial or total loss of the investment or significant down time resulting in lost revenues, among other potentially detrimental effects.

- General Economic Conditions. Changes in economic conditions, including changes in interest rates, inflation rates, industry conditions, government regulation, competition, technological developments, political events and trends, tax laws and many other factors can affect substantially and adversely the business and prospects of the fund client and of the value of the securities and other financial instruments in which it may invest. None of these conditions is within the control of Fundamental Advisors. The fund client's strategy may in some investments be based, in part, upon the premise that securities or other assets will be available for purchase by the fund client at prices that Fundamental Advisors considers favorable. Furthermore, the fund client's strategy relies, in part, upon the availability of investment opportunities identified by Fundamental Advisors, the continuation of existing market conditions or, in some circumstances, upon more favorable market conditions or anticipated investment opportunities existing prior to the termination of the term of the fund client. These conditions and opportunities may include, among others, continued economic growth in a particular state or region; the continuation of certain existing laws, regulations or government policies; or the continuation of certain trends related to unemployment, inflation, demographics and other factors. No assurance can be given that such conditions or opportunities will arise or continue, as applicable, or that businesses and assets can be acquired or disposed of at favorable prices or that the market for such assets will either remain stable or, as applicable, recover or improve, since this will depend upon events and factors outside the control of Fundamental Advisors.

- Investment Longer than Term. Fundamental Advisors expects to make investments for fund clients which may not be advantageously disposed of prior to the date that the fund client will be dissolved, either by expiration of the fund client's term or otherwise. Fundamental Advisors expects that portfolio investments will be disposed of prior to dissolution or be suitable for in-kind distribution, and has a limited ability to extend the term of the fund client. However, the fund client may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution.
- Material, Non-Public Information. By reason of their responsibilities in connection with other activities of Fundamental Advisors, certain employees of Fundamental Advisors and its affiliates may acquire confidential or material non-public information or be restricted from initiating transactions in certain securities. The fund client will not be free to act upon any such information. Due to these restrictions, the fund client may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell an investment that it otherwise might have sold.
- Environmental Liabilities. Under certain circumstances, courts have held that a parent company or a person exercising control is responsible for the environmental clean-up obligations of a subsidiary or a controlled entity imposed by applicable federal statutes. If the fund client acquires a controlling interest in or otherwise controls a portfolio investment a court might find that the fund client is liable for such environmental obligations.
- Overseas Investing Risks. Parallel funds or feeder funds may be organized under the laws of non-United States jurisdictions. The fund client and/or any such parallel funds or feeder funds may invest in securities of non-U.S. portfolio investments. Non-U.S. portfolio investments may present a variety of risks not presented by investments in U.S. entities, including risks associated with: (i) fluctuating currency exchange rates; (ii) limitations on currency exchange or the transfer of capital/profits across international boundaries; (iii) different accounting standards; (iv) different legal protections for investors; (v) unusual regulatory burdens; (vi) political instability; and (vii) multiple taxing jurisdictions. Any adverse change to the political, economic, military or social environments in the host countries of such parallel funds or feeder funds or the portfolio investments could have a significant adverse effect upon the operations or financial performance of the fund client.
- Student Housing. The fund client may make investments in student housing properties. Properties specified for student housing are generally leased under 12-month leases, and in certain cases, under nine-month or shorter-term semester leases. As a result, the student housing industry may experience significantly reduced cash flows during the summer months at properties with lease terms shorter than 12 months. Furthermore, all student housing properties must be entirely re-leased each year, which would expose the fund client to increased leasing risk. In addition, there is increased leasing risk on properties under construction and future acquired properties based on the management's lack of experience in leasing those properties and unfamiliarity with their leasing cycles.

Other risks with respect to investing in student housing properties include changes in university admission policies regarding on-campus housing for students or the number of students that maybe admitted, competition with on-campus housing facilities and inability to successfully complete and operate properties due to various factors, including financing and budget constraints, delays as result of local government rules and regulations, legislative changes, acts of nature, increased government regulation and changes in market and economic conditions with respect to occupancy and rental rates.

- Senior Care Assisted Living Communities. Investments by the fund client in senior care assisted living communities are subject to various risks. Since state regulations governing assisted living communities typically require a written resident agreement with each resident that gives such resident the ability to terminate the agreement for any reason on reasonable notice, the revenues of a community will be materially and adversely affected if a large number of residents elected to terminate their resident agreements at or around the same time. The operating success of assisted living communities is primarily driven by occupancy of the communities, Medicare and Medicaid reimbursement and private pay rates. Revenues from government reimbursement have been, and may continue to be, subject to rate cuts and further pressure from federal and state budgetary cuts and constraints. Overall weak economic conditions in the United States may adversely affect occupancy rates of healthcare facilities that rely on private pay residents. Expenses of the communities are driven by the costs of labor, food, utilities, taxes, insurance and rent or debt service. To the extent any decrease in revenues and/or any increase in operating expenses results in lower profits for the communities, the fund client's investment in such communities could be materially adversely affected.

Assisted living communities are subject to extensive and frequently changing federal, state and local laws and regulations that could adversely impact the ability of its tenants to pay rent, the profitability of the communities and the value of the properties. Over the last several years, the regulatory environment of the long-term healthcare industry has intensified both in the amount and type of regulations and in the efforts to enforce those regulations. This is particularly true for large for-profit, multi-facility providers. The extensive federal, state and local laws and regulations affecting the healthcare industry include those relating to, among other things, licensure, conduct of operations, ownership of facilities, addition of facilities and equipment, allowable costs, services, prices for services, qualified beneficiaries, quality of care, patient rights, fraudulent or abusive behavior and financial and other arrangements that may be entered into by healthcare providers. Changes in enforcement policies by federal and state governments have resulted in a significant increase in the number of inspections, citations of regulatory deficiencies and other regulatory sanctions, including terminations from the Medicare and Medicaid programs, bars on Medicare and Medicaid payments for new admissions, civil monetary penalties and even criminal penalties.

If assisted living communities fail to comply with the extensive laws, regulations and other requirements applicable to their businesses and the operation of the property, they could become ineligible to receive reimbursement from governmental and private third-party payor programs, face bans on admissions of new patients or residents, suffer civil or criminal

penalties or be required to make significant changes to their operations. Assisted living communities also could be forced to expend considerable resources responding to an investigation or other enforcement action under applicable laws or regulations. In such event, the results of operations and financial condition of the communities and the results of operations of the properties operated by those entities could be adversely affected, which, in turn, could have a material adverse effect on the fund client's investment. Fundamental Advisors is unable to predict future federal, state and local regulations and legislation, including the Medicare and Medicaid statutes and regulations, or the intensity of enforcement efforts with respect to such regulations and legislation, and any changes in the regulatory framework could have a material adverse effect on the assisted living communities, which, in turn, could have a material adverse effect on the fund client's investment.

Assisted living communities depend on third-party payors, including Medicare, Medicaid or private third-party payors, for the majority of their revenue. The reduction in reimbursement rates from third-party payors, including Medicare and Medicaid programs, or other measures reducing reimbursements for services provided by the assisted living communities, has resulted, and may continue to result, in a reduction in such communities' revenues and operating margins. In addition, reimbursement from private third-party payors may be reduced as a result of retroactive adjustment during claims settlement processes or as a result of post-payment audits. Furthermore, new legislative and regulatory proposals could impose additional limitations on government and private payments to healthcare providers. Fundamental Advisors cannot guarantee that adequate reimbursement levels will continue to be available for the services provided by assisted living communities. Although moderate reimbursement rate reductions may not affect a community's ability to meet its financial obligations, significant limits on reimbursement rates or on the services reimbursed could have a material adverse effect on its business, financial position or results of operations, which could materially adversely affect its ability to meet its financial obligations.

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act, along with the Health Care and Education Reconciliation Act of 2010 (collectively, the "Affordable Care Act"). The passage of the Affordable Care Act has resulted in comprehensive reform legislation that expanded health care coverage to millions of previously uninsured people beginning in 2014 and is expected to provide for significant changes to the U.S. healthcare system over the next ten years. To help fund this expansion, the Affordable Care Act outlines certain reductions in Medicare reimbursement rates for various healthcare providers, including long-term acute care hospitals and skilled nursing facilities, as well as certain other changes to Medicare payment methodologies.

In addition to the Affordable Care Act and related rulemaking, other legislation that could also affect Medicare reimbursement rates includes the enactment of the Consolidated Appropriations Act of 2014 and Congressional consideration of legislation pertaining to the federal debt ceiling, tax reform and entitlement programs, including reimbursement rates for physicians. These legislative changes could have a material adverse effect on assisted living communities' liquidity, financial condition or results of operations. In particular, funding for entitlement programs such as Medicare and Medicaid may result in increased costs and

fees for programs such as Medicare Advantage Plans and reductions in reimbursements to providers; Congressional action related to the federal debt ceiling may have an impact on credit markets; and tax reform may impact corporate and individual tax rates as well as impact retirement plans. Additionally, amendments to the Affordable Care Act, implementation of the Affordable Care Act, and decisions by the Centers for Medicare and Medicaid Services could impact the delivery of services and benefits under Medicare, Medicaid or Medicare Advantage Plans. Such changes could have a material adverse effect on assisted living communities' business, financial position or results of operations, which could materially adversely affect their ability to meet their financial obligations and could have a material adverse effect on the fund client's investment.

- Hospitality Industry. The hospitality industry is subject to various operating risks which could adversely impact the fund client's investments, including without limitation, competition from other hotel properties, financial resources of competitive hotels and room rates for hotels near the properties in which the fund client invests, overbuilding of hotels, which results in increased supply and adversely affects occupancy and revenues of hotels, dependence on business and commercial travelers and tourism, increases in operating costs due to inflation, increased energy and labor costs and other factors that may not be offset by increased room rates, changes in interest rates and in the availability, cost and terms of debt financing, increases in assessed property taxes from changes in valuation or real estate tax rates, enactment of unfavorable real estate taxes, hospitality taxes, environmental or zoning laws and hazardous material laws, increases in the cost of property insurance, uninsured losses, availability of vendors for hotel services, fees and availability of contractors for renovations, continued availability and enforceability of licensing and branding agreements, changes in government laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with such laws, regulations, policies and ordinances, force majeure events, such as terrorist attacks, travel related health concerns, travel-related accidents and unusual weather patterns, adverse changes in local population trends and neighborhood values, adverse effects of national, regional and local economic, market and social conditions which may, among other things, affect travel patterns, availability of hotel employees, adverse effects of a downturn in the lodging industry and risks generally associated with the ownership of hotel properties and real estate.

The hospitality industry is highly competitive. All hotels compete on the basis of location, room rates, quality, service levels, amenities, reputation and reservation systems, among many other factors. New hotels may be constructed and these additions to supply create new competitors, in some cases without corresponding increases in demand for hotel rooms. The hotel industry is also seasonal in nature, and such seasonality can cause quarterly fluctuations in the hotels' financial condition and operating results, such as reduced cash flow and thus lower profits. Many real estate costs, such as taxes, insurance premiums and maintenance costs are fixed and are not reduced even when a hotel is not fully occupied, resulting in a reduction of revenues. Recently there has been an increase in travelers booking through internet travel intermediaries, such as Expedia.com and Travelocity.com. As such bookings increase, the intermediaries may be able to reduce room rates and other contract concessions from management companies. Therefore, if the

amount of sales made through internet intermediaries increases significantly, room revenues may be lower than expected.

Fundamental Advisors may seek higher returns by acquiring opportunistic and underperforming value-added properties in need of better management, repositioning, physical improvements and other enhancements. Thus these properties may not generate positive cash flow (or may have a cash deficit and require significant cash). There may be unanticipated delays in, or increases in the cost of, improving or repositioning such properties which are beyond the control of Fundamental Advisors. Further, there is no assurance Fundamental Advisors will be successful in improving the cash results of the properties, as this depends in a significant part on a number of factors beyond Fundamental Advisors' control, including general or local economic conditions, and demand for hotel rooms, residential and commercial real estate in the local market. Thus, opportunistic and underperforming value-added properties may pose greater investment risk than fully stabilized properties.

Hotels are particularly vulnerable to the risks that economic conditions or employment conditions may decline in the country resulting in decreased vacation or travel time by potential guests. Any of these developments likely would have an adverse impact on the size or affluence of the potential guest population in the area and a negative impact on the occupancy rates, room rents and property values of hotels in the area. Unlike many other types of real estate investment, hotels do not have guests occupying large portions of the property for extended periods of time in order to provide reliable sources of income. Instead, such properties will typically have individual guests with fluctuating visits lengths. Hotels experience frequent guest turnover due to factors such as reduced vacation lengths, new competition in the area, and changes in the guests' economic status. In addition to continuously needing to replace vacating guests, guest turnover at hotels causes property owners to incur rehabilitation and maintenance costs in order to prepare hotel rooms for new guests. Fluctuations in occupancy rates, hotel room rate schedules and operating expenses can adversely affect operating results or render the sale or refinancing of such properties difficult or unattractive.

If efforts to increase occupancy and revenue levels of distressed hospitality properties are not successful, the operating results of such hospitality properties could be substantially adversely affected by the loss of revenue and possible increase in operating expenses. Fundamental Advisors cannot assure that certain assumptions as to the future levels of occupancy of such properties, cost of repositioning such properties in the marketplace or future costs of operating such properties will be accurate since such matters will depend on events and factors beyond the control of Fundamental Advisors. The fund client's ability to make required payments on any loans related to such properties and to make distributions to the investors will be adversely affected if hospitality properties fail to generate sufficient net operating income.

- Gaming Industry. Investments by the fund client in the gaming industry are subject to certain risks over which Fundamental Advisors has no control, including without limitation competition from other gaming facilities, financial resources of competitive gaming

facilities and room rates for facilities near the properties in which the fund client invests, overbuilding of gaming facilities, which results in increased supply and adversely affects occupancy and revenues of gaming facilities, dependence on commercial travelers and tourism, increases in operating costs due to inflation, increased energy and labor costs and other factors that may not be offset by increased room rates, changes in interest rates and in the availability, cost and terms of debt financing, increases in assessed property taxes from changes in valuation or real estate tax rates, enactment of unfavorable real estate taxes, gambling taxes, environmental or zoning laws and hazardous material laws, increases in the cost of property insurance, uninsured losses, availability of vendors for gaming facility services, fees and availability of contractors for renovations, continued availability and enforceability of licensing and branding agreements, changes in government laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with such laws, regulations, policies and ordinances, force majeure events, such as terrorist attacks, travel related health concerns, travel-related accidents, adverse changes in local population trends and neighborhood values, adverse effects of national, regional and local economic, market and social conditions which, among other things, may affect travel patterns, availability of gaming facility employees, adverse effects of a downturn in the gaming industry and risks generally associated with the ownership of gaming properties and real estate.

The operations of gaming facilities are also subject to disruptions or reduced patronage as a result of severe weather conditions, natural disasters and other casualty events which could impact returns from investment in gaming facilities. Many gaming facilities that are located on or adjacent to bodies of water are subject to risks in addition to those associated with land-based facilities, including loss of service due to casualty, forces of nature, mechanical failure, extended or extraordinary maintenance, flood, hurricane or other severe weather conditions.

The gaming industry is characterized by an increasingly high degree of competition among a large number of participants, including riverboat casinos, dockside casinos, land-based casinos, video lottery, sweepstakes and poker machines not located in casinos, Native American gaming and other forms of gaming in the U.S. Furthermore, competition from internet lotteries, sweepstakes and other internet wagering gaming services, which allow their customers to wager on a wide variety of sporting events and play Las Vegas-style casino games from home or in non-casino settings, could divert customers from gaming facilities and thus adversely affect the gaming industry. Such internet wagering services are often illegal under federal law but operate from overseas locations, and are nevertheless sometimes accessible to domestic gamblers. Currently, there are proposals that would legalize internet poker and other varieties of internet gaming in a number of states and at the federal level. Several states, including Nevada, New Jersey and Delaware, have enacted legislation authorizing intrastate internet gaming and internet gaming operations have begun in these states. Expansion of internet gaming in other jurisdictions (both legal and illegal) could further compete with the gaming industry's traditional operations, which could have an adverse impact on the fund client's investments in the gaming industry.

Fundamental Advisors may seek higher returns by acquiring opportunistic and

underperforming properties in need of better management, repositioning, physical improvements and other enhancements. These properties may not generate positive cash flow (or may have a cash deficit and require significant cash). There may be unanticipated delays in, or increases in the cost of, improving or repositioning such properties which are beyond the control of Fundamental Advisors. Further, there is no assurance Fundamental Advisors will be successful in improving the cash results of the properties, as this depends in a significant part on a number of factors beyond Fundamental Advisors' control, including general or local economic conditions, and demand for gaming facility rooms, residential and commercial real estate in the local market. Thus, opportunistic and underperforming properties may pose greater investment risk than fully stabilized properties.

Gaming facilities are particularly vulnerable to the risks that economic conditions or employment conditions may decline in the country resulting in decreased income levels of, and travel time by, potential guests. Any of these developments likely would have an adverse impact on the size or affluence of the potential guest population in the area and a negative impact on the property values of gaming facilities in the area.

If efforts to increase revenue levels of distressed gaming facility properties are not successful, the operating results of such gaming facility properties could be substantially adversely affected by the loss of revenue and possible increase in operating expenses. Fundamental Advisors cannot assure that certain assumptions as to the future revenues or the future cost of repositioning such properties in the marketplace or future costs of operating such properties will be accurate since such matters will depend on events and factors beyond the control of Fundamental Advisors.

Investments by the fund client in gaming operations could subject the fund client and its affiliates, and certain of their officers, directors, key employees, stockholders and other affiliates ("Regulated Persons"), to strict legal and regulatory requirements, including mandatory licensing and approval requirements, suitability requirements, and ongoing regulatory oversight with respect to such gaming operations. Such legal and regulatory requirements and oversight will be administered and exercised by the relevant regulatory agency or agencies in each jurisdiction (the "Regulatory Authorities"). The entities subject to future licensure and the Regulated Persons will need to satisfy the licensing, approval and suitability requirements of each jurisdiction in which the fund client or its affiliates seeks to become involved in gaming operations. These requirements vary from jurisdiction to jurisdiction, but generally concern the responsibility, financial stability and character of the owners and managers of gaming operations as well as persons financially interested or involved in gaming operations. In general, the procedures for gaming licensing, approval and finding of suitability require the entities subject to licensure and each Regulated Person to submit detailed personal history information and financial information to demonstrate that the proposed gaming operation has adequate financial resources generated from suitable sources and adequate procedures to comply with the operating controls and requirements imposed by law and regulation in each jurisdiction, followed by a thorough investigation by such Regulatory Authorities. In general, the entities subject to licensure and each Regulated Person must pay the costs of such investigation. An application for



any gaming license, approval or finding of suitability may be denied for any cause that the Regulatory Authorities deem reasonable. Once obtained, licenses and approvals may be subject to periodic renewal and generally are not transferable. The Regulatory Authorities may at any time revoke, suspend, condition, limit or restrict a license, approval or finding of suitability for any cause that they deem reasonable. Fines for violations may be levied against the holder of a license or approval, and in certain jurisdictions, gaming operation revenues can be forfeited to the state under certain circumstances. There can be no assurance that any entities subject to future licensure will obtain all of the necessary licenses, approvals and findings of suitability or that their officers, directors, key employees, other affiliates and certain other equity holders will satisfy the suitability requirements in one or more jurisdictions, or that such licenses, approvals and findings of suitability, if obtained, will not be revoked, limited, suspended or not renewed in the future.

Failure by any entity subject to licensure to obtain, or the loss or suspension of, any necessary licenses, approval or findings of suitability would prevent the fund client or any other affiliated entities from conducting gaming operations in such jurisdiction and possibly in other jurisdictions, which may have an adverse effect on the fund client's results of operations. The fund client, portfolio companies or any other affiliated entities also could be required to submit detailed financial and operating reports to Regulatory Authorities.

Gaming authorities can generally require that any holder or beneficial owner interests in a gaming operation be licensed or be found qualified or suitable under applicable gaming laws. In the event that any such holder or beneficial owner is unable to timely satisfy any such regulatory requirements, it may not be permitted to continue to hold its interests.

- Infrastructure and Energy Assets. The fund client may invest in municipal and other public purpose assets in the energy and transportation infrastructure sectors. Factors that may affect such investments include, but are not limited to, changes in supply and demand for infrastructure consumption, prices of national and global commodities, government regulation, world and regional events and general economic conditions. The operations and financial performance of companies in the infrastructure sector may be directly or indirectly affected by commodity prices and fluctuations in infrastructure supply and demand. Commodity prices and infrastructure demand fluctuate for several reasons, including changes in market and economic conditions, the impact of weather on demand or supply, levels of domestic production and imported commodities, energy conservation, domestic and foreign governmental regulation and taxation and the availability of local, intrastate and interstate transportation systems. Fluctuations in commodity prices may increase costs for consumers of energy-related infrastructure assets and therefore reduce demand for such infrastructure. Further, extreme price fluctuation upwards or downwards could lead to the development of alternatives to existing energy-related infrastructure and could impair the value of the fund client's investments.

Volatility in commodity prices or in the supply of and demand for infrastructure assets may make it more difficult for companies in the infrastructure sector to raise capital to the extent the market perceives that their performance may be tied directly or indirectly to commodity prices. Historically, commodity prices have been cyclical and have exhibited significant

volatility. Should infrastructure companies experience variations in supply and demand, the resulting decline in operating or financial performance could adversely affect the value or quality of the fund client's investments. Infrastructure assets are also subject to obsolescence risks that could occur as a result of changing supply and demand, new types of construction, changing demographics, changing weather patterns and new technologies. In any such event, there might be few alternative uses for the fund client's investments in such assets, and such investments might drop in value.

The infrastructure industry is subject to substantial regulation by U.S. federal, state and local government agencies. For example, many projects require government permits, licenses, concessions, leases or contracts. Government entities, due to the wide-ranging scope of their authority, have significant leverage in setting their contractual and regulatory relationships with third parties. In addition, government permits, licenses, concessions, leases and contracts are generally very complex, which may result in periods of non-compliance, or disputes over interpretation or enforceability. If the projects fail to obtain or comply with applicable regulations, permits or contractual obligations, they could be prevented from being constructed or subjected to monetary penalties or loss of operational rights, which could negatively impact project operating results and the returns on the fund client's investments in such projects. In addition, government counterparties also may have the discretion to change or increase regulation of project operations, or implement laws or regulations affecting project operations, separate from any contractual rights they may have. These actions could adversely impact the efficient and profitable operation of the projects in which the fund client invests.

Federal, state and local government regulations and policies concerning the electric utility industry, and internal policies and regulations promulgated by electric utilities, heavily influence the market for electricity products and services. These regulations and policies often relate to electricity pricing and the interconnection of customer-owned electricity generation. In the United States, governments and utilities continuously modify these regulations and policies. These regulations and policies could deter customers from purchasing energy efficiency and clean energy systems. This could result in a significant reduction in the potential demand for such systems. For example, utilities commonly charge fees to larger, industrial customers for disconnecting from the electric grid or for having the capacity to use power from the electric grid for back-up purposes. In addition, there is an increasing trend towards initiating or increasing fixed fees for users to have electricity service from a utility. These fees could increase the cost to use clean energy and energy efficiency systems not supplied by the utility and make them less desirable, thereby affecting the value of the fund client's investments in such systems. In addition, any changes to government or internal utility regulations and policies that favor electric utilities could reduce competitiveness and cause a significant reduction in demand for such systems.

Sustainable infrastructure projects that involve the generation, transmission or sale of electricity such as clean energy projects may be "qualifying facilities" that are exempt from regulation as public utilities by the Federal Energy Regulatory Commission, (the "FERC") under the Federal Power Act (the "FPA") while certain other such projects may be subject to rate regulation by the FERC under the FPA. FERC regulations under the FPA confer

upon these qualifying facilities key rights to interconnection with local utilities, and can entitle such facilities to enter into power purchase agreements with local utilities, from which the qualifying facilities benefit. Changes to these U.S. federal laws and regulations could increase regulatory burdens and costs, and could reduce revenue for the projects. In addition, modifications to the pricing policies of utilities could require sustainable infrastructure projects to achieve lower prices in order to compete with the price of electricity from the electric grid and may reduce the economic attractiveness of certain energy efficiency measures. To the extent that the projects are subject to rate regulation, the project owners will be required to obtain FERC acceptance of their rate schedules for wholesale sales of energy, capacity and ancillary services. Any changes in the rates projects owners are permitted to charge could raise credit risks in the clean energy projects which could adversely affect the fund client's investment in such projects.

Clean energy and other sustainable infrastructure projects are subject to various construction and operating delays and risks that may cause them to incur higher than expected costs or generate less than expected amounts of output such as electricity in the case of a clean energy project. These risks include construction delays, a failure or degradation of the project's, their customers' or a utility company's equipment; an inability to find suitable equipment or parts; labor shortages; less than expected supply of a project's source of clean energy, such as geothermal steam or biomass; or a faster than expected diminishing of such supply. Any extended interruption in the project's construction or operation, any cost overrun or failure of the project for any reason to generate the expected amount of output, could have a material adverse effect on the fund client's investments in such projects.

Renewable energy investments may be adversely affected by variations in weather patterns, including shifting wind or solar resources and including variations brought about by climate changes, which would cause volatility in the returns on such investments. Renewable energy projects are dependent on a variety of factors, including equipment costs and federal and state incentives. Changes in some or all of these factors could result in reduced construction of renewable projects and may make it harder for the fund client to source investments that are attractive to it, and this could have an adverse effect on the fund client's business. Volatility in project development and construction may result in uneven growth and negatively impact the fund client's investments.

The foregoing does not purport to be a complete explanation of the risks involved in any Fundamental Advisors investment strategy.

### **FCO Advisors LP**

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 specifically invests 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 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, call ability 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 has 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 will 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.

Another risk involves the failure of a municipality to pay its creditors on time. Chapter 9 of the U.S. Bankruptcy Code provides a financially distressed municipality with protection

from its creditors while it develops and negotiates a plan for adjusting its debts. The commencement of a Chapter 9 bankruptcy case operates as a stay, applicable to all creditors of the municipality, of most efforts to collect prepetition claims. Such a stay would operate to restrict the municipality from making payments of either principal or interest on accounts of its general obligation bonds. In general, numerous important legal issues under Chapter 9 are unsettled and evolving. Accordingly, a Chapter 9 filing by an issuer of securities may result in an adverse effect on the value of general obligation bonds and special revenue bonds.

- 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 client 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 macroeconomic 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. A fund client 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 client 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 client's ability to respond to market movements may be impaired and the fund client 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 client 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 client 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. FCO generally seeks to maintain a diversified portfolio of investments. However, a fund client may at certain times hold relatively few investments, which could subject the fund client 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 client's investments experience a greater than anticipated correlation. In that circumstance, fund client 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 client's investments and investment strategies require the use of quantitative and qualitative valuation models developed by FCO 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 FCO recognizing the change before significant losses are incurred. The fund client's model risk extends to the valuation of its investments, which may be made on the basis of internal FCO models in the absence of any readily determinable market value. The valuations so determined may differ materially from realized values.
- Transaction Costs. The fund client's investment approach may involve a high level of trading and turnover of the fund client's investments, which may generate substantial transaction costs.
- Spread Trading Risks. A part of the fund client'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 client 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 client 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 client 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 client will, in fact, be negatively-correlated or non-correlated with a traditional portfolio of stocks or bonds.
- Equity Securities. The fund client do not expect to invest in equity securities. In the event a fund client 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. A fund client 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 client 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 client 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 client 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 client. 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 client 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 client elects to trade “new issues,” limited partners of the fund client 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 client 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 client'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 client 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 client 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 client 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 client's 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 client 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 client'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 client 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 client 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 client to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. The fund client 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 client 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 client from promptly liquidating unfavorable positions and subject the fund client 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 client 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 client 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 client may invest in subordinate or second priority liens). There is no assurance that the fund client 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"). FCO 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. Interests in the fund client will be issued and liquidated in U.S. Dollars. The fund client'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 client, and as such, the fund client would be subject to varying degrees of foreign exchange risks. In addition, prospective investors in a fund client 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 client 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 client 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 client 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 client 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 client'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 client 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 client's Prime Brokers or other service providers could result in the loss of all or a substantial portion of the fund client'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 client's assets. These assets will often be registered in "street name" and not in the fund client's name. Bankruptcy or fraud at one of these institutions could impair the operational capabilities or the capital position of the fund client. The fund client 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 client 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 client may invest varies, the fund client 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 client may obtain a judgment but is required to seek its enforcement in the courts of one of the countries in which the fund client invests, there can be no assurance that such courts will enforce such judgment.
- Market Disruptions. General fluctuations in the market prices of securities may affect the value of the investments held by the fund client. Instability in the securities markets may also increase the risks inherent in the fund client’s investments. The fund client may incur substantial losses in the event of disrupted markets or other extraordinary events in which historical pricing relationships (on which FCO bases a number of its trading positions) become materially distorted. The risk of loss from pricing distortions is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. Investments may also be subject to catastrophic events and other force majeure events, such as fires, earthquakes, adverse weather conditions, changes in law and other similar risks, which events could result in the partial or total loss of the investment or significant down time resulting in lost revenues, among other potentially detrimental effects. The financing available to the fund client from its banks, dealers and other counterparties is typically reduced in disrupted markets. Such a reduction could require the fund client to sell off into a declining market, which would result in substantial losses to the fund client.

Market disruptions may from time to time cause dramatic losses for the fund client, and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk.

- Tax Risk Associated with Tax-Exempt Municipal Bonds. The fund client will invest in, among other things, tax-exempt municipal revenue bonds. The interest from such bonds is generally exempt from U.S. federal income tax. The United States Internal Revenue Code of 1986, as amended (the “Code”) imposes certain continuing requirements on issuers of tax- exempt bonds regarding the use, expenditure and investment of bond proceeds, the payment of rebates to the United States and the registration of certain bonds. Failure by the issuer to comply, subsequent to the issuance of tax-exempt bonds, with certain of these requirements could cause interest on the bonds to become includable in gross income retroactive to the date of issuance, which may reduce the value of the bonds. For example, certain housing authority bonds are subject to special requirements that must be met to preserve the bond’s tax-exempt status. If such requirements are not met, the interest on such bonds may become taxable, the value of the bonds may be reduced, the fund client may be required to sell the bonds at a reduced value and fund client investors may be subject to unanticipated tax liabilities.

Certain provisions of the Code relating to the issuance of municipal bonds may reduce the volume of municipal bonds qualifying for U.S. federal income tax exemption. One effect of these provisions could be to increase the cost of the municipal bonds available for purchase by the fund client. Proposals that may restrict or eliminate the income tax exemption for interest on municipal bonds may be introduced in the future. If any such proposal were enacted the availability of municipal bonds for investment by the fund client would be reduced and the liquidity of any bonds held by the fund client may be adversely affected.

The interest payable on the municipal bonds in which the fund client expects to invest may be under forbearance or deferred. Any interest that accrues while such bonds are held by the fund client may be exempt from U.S. federal income tax, and will increase the fund client’s basis in such bonds. There is no guarantee, however, that such interest will have or retain such a tax-exempt status.

The fund client may take positions with respect to certain tax issues, including issues not related to the tax treatment of municipal bonds, that depend on legal conclusions not yet resolved by the courts. Should any such positions be successfully challenged by the United States Internal Revenue Service or another applicable taxing authority, the fund client might be found to have a different tax liability for that year than that reported on its U.S. federal income tax return.

## **Item 9 – Disciplinary Information**

There is no disciplinary information to report.

## **Item 10 – Other Financial Industry Activities and Affiliations**

FAM was formed by Fundamental Advisors in 2009. FAM provides monitoring and supervisory services to fund clients managed by Fundamental Advisors. Fundamental Advisors 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 registered 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 of Ethics”) 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 of Ethics 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 of Ethics also provides guidance on fiduciary duty, gifts and entertainment, political contributions, outside business activities and confidentiality.

A copy of Fundamental’s Code of Ethics is available upon request by contacting Robyn Huffman, Fundamental’s Chief Compliance Officer, at (212) 205-5004.

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*

Fundamental’s investments may only be available through certain brokers. In general, Fundamental will execute trades on behalf of its fund clients with the broker that provides best execution. In the event that Fundamental 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 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 monthly or 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 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. FCO will bear the costs of any fees paid to placement agents through an offset to the management fee. 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, 25th 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.