

# Form ADV, Part 2A: Firm “*Brochure*”

## CommonWealth Opportunity Capital GP LLC

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This Form ADV, Part 2A (the “*Brochure*”) provides information about the qualifications and business practices of CommonWealth Opportunity Capital GP LLC (the “*Firm*” or “*CommonWealth*”). If you have any questions about the contents of this Brochure, please contact the Firm’s Chief Compliance Officer, Lior Kosovski, at [lk@cwoc.com](mailto:lk@cwoc.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about CommonWealth also is available on the SEC’s website at <http://www.adviserinfo.sec.gov>. Although CommonWealth may refer to itself as a “registered investment adviser” or describe itself as being “registered,” this registration with the SEC does not imply a certain level of skill or training.

**November 1, 2014**

## **Item 2: Material Changes**

This Brochure dated November 1, 2014 has been prepared by CommonWealth as an other-than-annual amendment to the prior version of its Brochure, dated June 1, 2014.

This other-than-annual amendment to the Brochure includes disclosure regarding new clients of CommonWealth, in addition to an update to the disclosure related to cross trades following the addition of new clients.

Please note that only the material changes since the last Brochure are discussed in this Item. There are other non-material changes in this Brochure.

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## Item 4: Advisory Business

CommonWealth is a Delaware Limited Liability Company formed in November 2008. CommonWealth's indirect principal owners are Adam Fisher and Reagan Silber. CommonWealth is headquartered in Los Angeles, California and maintains a branch office in Greenwich, Connecticut. A subsidiary of CommonWealth maintains an office in London, United Kingdom at which investment research activities are conducted.

CommonWealth provides discretionary investment advisory services to pooled investment vehicles (each a "*Fund*" and collectively, the "*Funds*") that are offered only to investors who are both "accredited investors" and "qualified purchasers," as those terms are defined in the Securities Act of 1933, as amended (the "*Securities Act*") and the Company Act. Generally, the Funds' investors are high net worth individuals or institutions. CommonWealth also provides investment advisory services to investors that establish separately managed accounts with CommonWealth (each, an "*SMA*," and collectively with the Funds, the "*Clients*"). In addition to the Clients, CommonWealth also provides sub-advisory services to a managed account comprised of a portion of the assets of a non-affiliated fund on a non-discretionary basis (the "Non-Discretionary Client"). For the avoidance of doubt, with the exception of the Non-Discretionary Client, CommonWealth executes all transactions on a discretionary basis for its Clients.

CommonWealth's advisory services generally consist of the purchase and sale of securities and other instruments on behalf of its Clients. With respect to most of its Clients (which include a new Master Feeder structure (the "CWOC II Funds") for which the same strategy is utilized as the already existing Master-Feeder structure (the "CWOC I Funds) but which targets higher volatility), CommonWealth employs macroeconomic principles to attempt to generate returns by positioning for price movements in credit, currencies, commodities, interest rates and equities in various global markets. CommonWealth's investment process is predicated on a top down approach analyzing key fundamental macro drivers that exist during each business cycle including, but not limited to, economic activity, global risk premiums, monetary policy, capital account, current account balance, trade weighted currency reserves, output gap, political landscape and flow of funds.

CommonWealth may seek to achieve this goal by investing in any types of securities or other instruments, including without limitation equity, corporate debt, municipal or government securities, derivatives or any other type of security or other instrument.

In connection with its global macroeconomic strategy, CommonWealth has hired Tamarisk Global, LLC, a third-party investment advisor ("Tamarisk"), as a non-discretionary sub-advisor with respect to a small subset of the CWOC I Funds' assets. CommonWealth remains solely responsible for all investment decisions made on behalf of the Funds. The amount allocated to Tamarisk may be increased or decreased at any time; however, the advice provided by Tamarisk shall in all cases be non-discretionary. Tamarisk's non-discretionary investment advice will generally focus on publically traded equity securities, but the scope of this advice may be expanded upon the request of CommonWealth. Tamarisk will be compensated by CommonWealth out of the management fees or performance-based fees it receives from the

CWOC I Funds and investors in the CWOC I Funds will not bear any extra layer of fees in connection with the Commonwealth's appointment of Tamarisk.

A free copy of Tamarisk's Form ADV, Part 1A and Part 2A is available at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

With respect to one of its SMA clients (launched on October 2014), Commonwealth is also utilizing a subset of its global macroeconomic strategy, which can potentially focus on different themes. One current such theme focuses on opportunities in Australia.

In addition to the global macroeconomic strategy described above (and its potential subsets), Commonwealth also utilizes a real estate residential mortgage strategy (the "Residential Mortgage Strategy") for certain of its SMA Clients. The objective of the Residential Mortgage Strategy is to generate uncorrelated outsized returns by opportunistically investing in a diversified portfolio of residential mortgage loans primarily acquired directly from banks or other lending institutions ("Banks"). The Firm intends to purchase previously non-performing residential mortgages whose terms have been formally modified by the Bank holding such loans (the "Re-Performing Loans"). The Re-Performing Loans are held in special purpose vehicles known as real estate mortgage investment conduits ("REMICs") or grantor revocable trusts ("Grantor Trusts"). While the Residential Mortgage Strategy's primary investment focus is on Re-Performing Loans, Commonwealth has broad and flexible trading authority to expand the strategy to other residential mortgage loans or mortgage-backed securities.

In connection with the Residential Mortgage Strategy, Commonwealth has hired The Palisades Group, LLC, a third-party real estate investment advisor ("Palisades"), as a non-discretionary sub-advisor. Palisades is responsible for performing due diligence on the Re-Performing Loans and advises the Firm on selecting, purchasing, and selling the Re-Performing Loans based on Commonwealth's investment guidelines. The Firm, however, retains ultimate investment authority relating to the Residential Mortgage Strategy. The success of the Residential Mortgage Strategy is dependent on the performance of Palisades and other service providers that Commonwealth deems necessary for the success of the strategy and the ability of the Firm to analyze and successfully implement the strategy on the basis of Palisades' recommendations. Palisades is registered as an investment adviser with the SEC. A free copy of Palisade's Form ADV, Part 1A and Part 2A may be obtained at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Commonwealth tailors its advisory services to the individual needs of its Clients by negotiating the terms of its advisory contracts. Commonwealth may also tailor advisory services for Clients for legal, regulatory or tax reasons. Although the Firm does not typically provide tailored investment advice to the individual investors in the Funds, it may enter into side letter agreements with certain investors which may modify such investors' rights or obligations under the operating agreements for a particular Fund.

Commonwealth does not participate in wrap fee programs.

Commonwealth managed \$2,801,610,126 of regulatory assets under management ("RAUM") on a discretionary basis as of September 30, 2014. Note that since the advisory services provided by Commonwealth to the Non-Discretionary Client do not rise to the level of "continuous and regular supervisory or management services", the assets of such Client are not part of the RAUM calculation.

## Item 5: Fees and Compensation

CommonWealth is compensated for advisory services by a fee based on assets under management. Investors in the CWOC I Funds will generally pay a monthly management fee calculated at the rate of 0.1667% (i.e., approximately 2.0% per year) of the net assets of the applicable Fund (the “*Management Fee*”). Investors in the CWOC II Funds will generally pay a Management Fee at the rate of either 0.125% (i.e. approximately 1.5% per year) or 0.1458% (i.e., approximately 1.75% per year) depending on time of subscription (the 1.5% annual rate will generally only be offered with respect to subscriptions made on either November 1, 2014, December 1, 2014 or January 1, 2015). CommonWealth may offer to waive, reduce or rebate all or any portion of the Management Fee for investors in the Funds. Management fees charged on SMAs, if any, will be negotiated separately at the time of the applicable accounts’ opening and may be significantly lower than the Management Fee.

The Management Fee will be paid monthly in arrears based on the net assets of a Fund as of the last day of each month, and net assets for this purpose will be calculated prior to any reduction for performance-based fee and without regard to the effect of any month-end redemptions/withdrawals. The Management Fee will be prorated for any period that is less than a full month.

As described more fully under Item 6, CommonWealth is also compensated with performance-based fees from all Clients. Fees are not being pre-paid.

CWOC I Fund Clients will typically pay all expenses deemed necessary and desirable by CommonWealth, including, but not limited to, all investment, administrative and operating expenses incurred on behalf of such CWOC I Fund Clients. These expenses may include, but will not be limited to,) (1) brokerage commissions and other transaction charges (for additional disclosure regarding brokerage practices please see Item 12); interest; fees and expenses incurred in the borrowing and lending of securities; the costs implicit in repurchase and reverse repurchase agreements; custodial fees and expenses; tax and other reporting expenses; external legal, compliance, administrative, accounting and audit fees and expenses; fees relating to investment banking and other financial services, whether payable to parties affiliated with CommonWealth or others; due diligence expenses, including travel, related to proposed investments or existing investments; governmental, registration, license and membership fees (including those payable to regulatory as well as self-regulatory organizations); and the costs and expenses related to the offer and sale of Shares; (2) taxes and other governmental charges; (3) all expenses incurred in connection with any threatened, pending or anticipated litigation, examination or proceeding; (4) all expenses incurred as a result of CWOC I Funds’ obligations to indemnify certain persons against losses, liabilities and expenses incurred in connection with the performance of their duties on behalf of, or the provision of services to, such Funds; (5) all expenses and fees of third-party valuation agents, if any; (6) all expenses and fees incurred in connection with any actual or proposed investment or other participation in, or any holding or disposition of any interest in, another investment entity, business entity or organization; and (7) all other expenses and liabilities incurred in connection with or arising out of CommonWealth’s business, including extraordinary or non-recurring charges.

CWOC II Fund Clients will typically pay all expenses deemed necessary and desirable by CommonWealth, including, but not limited to, all investment, administrative and operating expenses incurred on behalf of such CWOC II Fund Clients. These expenses may include, but will not be limited to, (1) brokerage commissions and other transaction charges; interest; fees and

expenses incurred in the borrowing and lending of securities; the costs implicit in repurchase and reverse repurchase agreements; custodial fees and expenses; tax and other reporting expenses; external legal, compliance, administrative, accounting, audit and other professional fees and expenses (including fees charged in negotiating prime brokerage, ISDA Master Agreements and related custody and segregation agreements or other trading or financing arrangements); fees relating to investment banking and other financial services, whether payable to parties affiliated with Commonwealth or others; pricing services, market data and software fees; bank and wire service transaction fees; ticket charges; prime brokerage fees; give up fees; borrow costs; interest on margin account and other indebtedness and similar charges; investment research expenses (including, without limitation, travel, due diligence expenses and the costs of publications and periodicals) related to proposed investments or existing investments; governmental, registration, license and membership fees (including those payable to regulatory as well as self-regulatory organizations); and the costs and expenses related to the offer and sale of Interests; (2) taxes and other governmental charges; (3) all expenses incurred in connection with any threatened, pending or anticipated litigation, examination or proceeding; (4) all expenses incurred as a result of the CWOC II Funds' obligations to indemnify certain persons against losses, liabilities and expenses incurred in connection with the performance of their duties on behalf of, or the provision of services to, CWOC II Fund and/or the Master Fund; (5) all expenses and fees of third-party consultants which provide advice to Commonwealth relating to the operation of the CWOC II Funds; (6) all expenses and fees incurred in connection with any actual or proposed investment or other participation in, or any holding or disposition of any interest in, another investment entity, business entity or organization; (7) all other expenses and liabilities incurred in connection with or arising out of its business, including extraordinary or non-recurring charges; (8) fees and expenses of the CWOC II Funds' and Master Fund's directors (including errors and omissions insurance and general liability insurance of the directors); (9) fees and expenses of any Independent Investor Representative; (10) a CWOC II Fund's *pro rata* share of the organizational, investment, administrative and operational expenses of the CWOC II Funds and Master Fund (as applicable); (11) fees and expenses of the Fund's administrator; and (12) reimbursements due to Commonwealth for all such costs and expenses, if any, borne by Commonwealth on behalf of a CWOC II Fund or any subsidiary entity.

Additional disclosure regarding the specific expenses paid by a Fund can be found in the offering documents of such Fund.

Expenses charged on SMAs will be negotiated separately at the time of the applicable accounts' opening.

Neither Commonwealth nor any of its supervised persons accepts compensation for the sale of securities or other investment products.

## Item 6: Performance-Based Fees

CommonWealth charges a performance-based fee. The performance-based fee generally equals 20% per annum with respect to CWOC I Funds and either 15% or 17.5% for CWOC II Funds (depending on the time of subscription; generally, the 15% rate will only be offered with respect to subscriptions made on either November 1, 2014, December 1, 2014 or January 1, 2015) of the net profit in an investor's account, typically subject to a "high water mark." The fee is generally payable at the end of each calendar year. The fact that such performance-based fee is payable only out of increases in net profits may create an incentive for CommonWealth to make investments that are riskier or more speculative than would be the case if CommonWealth was compensated solely based on a flat percentage of capital. Performance-based fees applied to SMAs will be negotiated separately at the time of the applicable accounts' opening and may be significantly lower than those performance-based fees applied to a Fund.

CommonWealth does not currently provide advisory services to any Client which is not charged comparable performance-based fees. However, there may be variations in fee rate and timing of payment for different Clients. To date, CommonWealth's investments have not generally been subject to limits on availability of assets. Rather, the size of the position taken devoted to each investment theme in a Client account is determined based on different Clients' risk and investment suitability parameters, as set forth in the Client account's governing documents. Therefore, CommonWealth does not believe it faces a material conflict of interest between accounts charged different performance-based fees. If an investment theme leads CommonWealth to make an investment in an asset with a limited investment opportunity, CommonWealth shall allocate the investment based on criteria that result in a fair allocation for each Client, such as *pro rata* based on desired order size.

As disclosed more fully in each Client's governing documents, performance-based fees create an incentive for CommonWealth to make riskier or more speculative investments than CommonWealth might consider in the absence of such fees.



## **Item 7: Types of Clients**

CommonWealth provides advisory services to pooled investment vehicles that are offered only to Accredited Investors and Qualified Purchasers as such terms are defined in the Federal Securities Laws. Underlying investors in such pooled investment vehicles include individuals, trusts, pension plans, corporations, and public and private entities. The pooled investment vehicles generally operate as exempt investment companies under the Investment Company Act of 1940, as amended. The minimum investment in each Fund is generally \$1 million, although CommonWealth maintains discretion to individually waive, increase or reduce the minimum investment required.

CommonWealth also provides advisory services to individual investors through SMAs. CommonWealth requires such individual investors to be Qualified Clients. Although CommonWealth does not have rigid criteria in place of maintaining or opening an SMA, it would generally require \$50 million to remain continuously under management.

As previously noted, in addition to the Firm's Clients, CommonWealth also provides sub-advisory services to a managed account comprised of a portion of the assets of a non-affiliated fund on a non-discretionary basis.

## **Item 8: Methods of Analysis, Investment Strategies and Risk of Loss**

### ***Global Macro Strategy***

For the majority of its Clients, CommonWealth utilizes an opportunistic global macro strategy. CommonWealth focuses on understanding the impact of economic, political and social events on the world's financial markets. CommonWealth employs macroeconomic principles to attempt to generate returns by positioning for price movements in credit, currencies, commodities, interest rates and equities in any global market. CommonWealth's investment process is predicated on a top-down approach, analyzing key fundamental macro drivers that exist during each business cycle including, but not limited to: economic activity, global risk premiums, monetary policy, capital account, current account balance, trade weighted currency reserves, output gap, political landscape and flow of funds. CommonWealth utilizes leverage to increase its exposure to investments and therefore potential for profits and losses, both through traditional borrowing and through the use of derivatives and other financial instruments. CommonWealth seeks to maintain on behalf of its Clients diversified portfolios across a variety of industries, issuers, asset classes and obligations. *There can be no assurance that CommonWealth's investment objectives will be achieved or that investors will not lose some or all of their investment.*

### **Structural and General Market Risks**

#### **Reliance on Adam Fisher**

Adam Fisher is principally responsible for the Clients' investment activities. If Mr. Fisher is not available to the Firm, the Clients' performance could be adversely affected. The Firm will provide investors with prompt notice in the event that Mr. Fisher is not available to lead CommonWealth's investment activities.

#### **Other Business Activities of the Firm**

Neither the Firm nor any of its principals or employees are required to devote their full time to managing the Clients. They may conduct other businesses and provide investment management services to other funds or accounts, including, without limitation, other affiliated or unaffiliated investment funds and managed accounts (such as corporate or governmental benefit plans, institutional investors and high net worth individuals), some of whom may have objectives similar to those of the Firm's Clients. They may give advice and make recommendations to such other accounts, which may be the same, similar to or different from those rendered to Clients. The compensation arrangements with other clients may create incentives for the Firm or its principals or employees to favor such other clients. However, the Firm will not knowingly or deliberately favor any other account at the expense of the Clients. Decisions affecting the Clients may be made independently from such other accounts.

**Mark-to-Market**

The Firm may, in its sole and absolute discretion, mark-to-market certain investments. If an investment is marked-to-market and thereafter declines in value, then a performance fee may be payable with respect to appreciation in such investment, even though such appreciation is never realized.

**Non-Disclosure of Positions**

In an effort to protect the confidentiality of its positions, a Fund may not generally disclose any or all of its positions to shareholders on an ongoing basis, although the Firm, in its sole discretion, may permit such disclosure on a select basis to certain investors if it determines that there are sufficient confidentiality procedures in place.

**Possibility of Losses**

An investment in a Client is speculative and involves a high degree of risk, including the risk that the entire amount invested may be lost. The value of interests in the Funds or a SMA will fluctuate based upon a multitude of factors, including the financial condition, results of operations and prospects of the issuers of the underlying securities acquired, governmental intervention, market conditions, and local, regional, national and global economic conditions. Therefore, investors may lose all or a portion of their principal invested in a Client if the Client's trading strategies are not successful.

**Substantial Costs**

A Client is subject to fees, transactional and operating costs and expenses irrespective of its performance which, in the aggregate, may be substantial. If these fees, costs and expenses are not offset by investment gains, then the Client will not achieve its investment objective.

**Differential Access to Information**

The Firm will execute transactions on behalf of Clients with other market participants who may have market information or intelligence superior to that available to the Firm. From time to time, a Client may incur substantial losses caused by an information disadvantage.

**Possible Ineffectiveness of Risk Reduction Techniques**

The Firm may employ various risk reduction strategies designed to minimize the risk of the Clients' trading positions. A substantial risk remains, nonetheless, that such strategies will not always be possible to implement, and when possible will not always be effective in limiting losses. If the Firm analyzes market conditions incorrectly, or employs a risk reduction strategy that does not correlate well with the Client's investments, such risk reduction techniques could increase rather than mitigate losses. These risk reduction techniques may also increase the volatility of the Client and/or result in a loss if the counterparty to the transaction does not perform as promised. Moreover, even though the Firm may employ "stop loss" orders on individual positions, there is no assurance that any such order will be executed at or near the desired "stop loss" level.

### **Financing Arrangements; Availability of Credit**

To the extent the Fund utilizes leverage, the Fund will depend on the availability of credit in order to finance its portfolio. There can be no assurance that the Fund will be able to maintain adequate financing arrangements under all market circumstances. As a general matter, certain of the dealers that provide financing to the Fund can apply essentially discretionary margin, haircut, financing, security and collateral valuation policies. Changes by dealers in such financing policies or the imposition of other credit limitations or restrictions, whether due to market circumstances or governmental, regulatory or judicial action, may result in large margin calls, loss of financing, forced liquidation of positions at disadvantageous prices, termination of swap and repurchase agreements and cross-defaults to agreements with other dealers. Any such adverse effects may be exacerbated in the event that such limitations or restrictions are imposed suddenly and/or by multiple market participants at or about the same time. The imposition of such limitations or restrictions could compel the Fund to liquidate all or a portion of its portfolio at disadvantageous prices.

During the “financial crisis” of 2008-2009, the availability of financing for speculative strategies was materially restricted. In addition, many dealers have materially increased the cost and margin requirements applicable to outstanding financing, materially adversely affecting certain funds.

### **Reliance on Corporate Management and Financial Reporting**

The Firm selects investments for a Client in part on the basis of information and data filed by issuers of securities with various government regulators and publicly available or made directly available to the Firm by such issuers or third parties. Although the Firm will evaluate all such information and data and seek independent corroboration when it considers it appropriate and reasonably available, the Firm may not be in a position to confirm the completeness, genuineness or accuracy of such information and data. The Firm is dependent upon the integrity of the management of such issuers and of such third parties as well as the financial reporting process in general. Recurring instances have demonstrated the material losses that investors such as a Client can incur as a result of corporate mismanagement, fraud and accounting irregularities.

### **Rating Agency Uncertainty**

Downgrading of issuers and/or investment assets in which a Client has invested could lead to substantial losses, and the Firm may not be able to rely with confidence on the ratings given to issuers in which the Firm is considering investing on behalf of a Client.

The ratings of a number of asset-backed securities have proved to have materially understated the actual risks of such securities, leading to severe losses by institutional investors who acquired such securities on the strength of their ratings.

### **Risk of Loss Due to the Bankruptcy or Failure of Custodians and Brokers**

Institutions, such as brokerage firms, futures commission merchants (“FCMs”), banks and broker-dealers, generally have custody of the Clients’ assets. A Client is subject to the risk that these firms and other brokers, FCMs, counterparties, clearinghouses or exchanges with which a

Client deals may default on their obligations to the Client. Any default by any of such parties could result in material losses to the Client. Bankruptcy or fraud at one of these institutions could also impair the operational capabilities or the capital position of the Client. The Client's assets could be lost or impounded during such a party's bankruptcy or insolvency proceedings and a substantial portion or all of the Client's assets may become unavailable to it either permanently or for a matter of years. In addition, securities and other assets deposited with custodians, brokers or FCMs may not be clearly identified as being assets of the Client, causing the Client to be exposed to a credit risk with regard to such parties. In some jurisdictions, the Client may also only be an unsecured creditor of its brokers in the event of bankruptcy or administration of such brokers. The Client attempts to limit its brokerage and custody transactions to well-capitalized and established banks and brokerage firms in an effort to mitigate such risks. Certain OTC derivatives a Client may trade may be required to be submitted for clearing at regulated clearinghouses. With respect to such cleared OTC derivatives, the Client does not face a clearinghouse directly but rather through an OTC derivatives dealer that is registered with the CFTC or SEC to act as a clearing member. A Client is subject to the risk that these clearing members and/or the clearinghouse may default on their obligations to the Client, including the indirect risk of a default caused by the failure of another clearing member customer to meet its obligations to its clearing member. Such scenario could arise due to a default by the clearing member on its obligations to the clearinghouse, triggered by a customer's failure to meet its obligations to the clearing member (a "double default").

### **Counterparty Risk**

A Client effects transactions in "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to the same level of credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes the Client to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract or because of a credit or liquidity problem, thus causing the Client to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Client has concentrated its transactions with a single or small group of counterparties. A Client will only be an unsecured creditor of its trading counterparties in the event of bankruptcy or administration of such counterparties. The Client is not restricted from dealing with any particular counterparty or in the size of the exposure which the Client may provide to a given counterparty. The inability to make complete and "foolproof" evaluations of the financial capabilities of a Client's counterparties and the absence of a regulated market to facilitate settlement increases the risk to the Client.

The Wall Street Reform and Consumer Protection Act (the "Reform Act") is intended to bring more stability and lower counterparty risk to derivatives markets by requiring certain derivatives trades to be centrally cleared or traded on a regulated market. In particular, certain swaps (including certain foreign exchange forwards defined as swaps by U.S. regulators) that a Client may trade are required to be cleared by a regulated clearinghouse, and it is likely that some of these trades will be required to be executed on a regulated market in the future. However, not all of a Client's swaps are subject to the Reform Act's clearing requirement, either because the trades are grandfathered or because they are bespoke. Furthermore, it is yet to be seen whether the Reform Act will be effective in reducing counterparty risk or if such risk may

actually increase as a result of market uncertainty, mutuality of loss to clearinghouse members, or other reasons.

#### **E.U. Directive on Alternative Investment Fund Managers**

The EU Alternative Investment Fund Managers Directive (the “AIFMD”) applies to alternative investment fund managers (“AIFMs”) which manage and/or market alternative investment funds (“AIFs”) in the European Economic Area (“EEA”) as from 22 July 2013.

For an AIFM established in a jurisdiction outside the EEA (a “non-EEA AIFM”) marketing an AIF established in a jurisdiction outside the EEA (a “non-EEA AIF”), the AIFMD requires that, at a minimum, the non-EEA AIFM must provide certain disclosures to EEA investors in the non-EEA AIF, as well as provide reports on a regular basis to the regulator in each EEA Member State where the non-EEA AIF is marketed. In addition, the AIFMD includes a requirement that there must be cooperation arrangements in place between the regulator in each of: (i) the jurisdiction where the non-EEA AIFM is established; (ii) the jurisdiction where the non-EEA AIF is established (if different from (i)); and (iii) each EEA Member State into which the non-EEA AIF is being marketed. Individual EEA Member State regulators may also impose additional marketing restrictions on a national basis.

As such, the provisions of the AIFMD may limit Commonwealth’s ability to market the Fund in the EEA.

#### **Investment Risks Related to the Global Macro Strategy**

##### **No Investment Limitations**

There are typically no limits on the types of securities or other instruments in which a Client may take positions, the choice of sector or sectors within which it seeks to identify securities, the choice of markets (domestic or foreign) within which Clients may invest, the type of positions it may take, the investment or trading strategies it may use, its ability to borrow or use other types of leverage, or the concentration of the Client’s investments. Further, Commonwealth may engage in transactions for which no specific “risk factors” are provided. Nevertheless, such transactions should be considered to be speculative, volatile and, in general, no less risky than others more fully described herein. **The risk considerations summarized in this brochure only address a subset of the risks applicable to certain types of investments. Other risks applicable to such types of investments or other types of investments not described in this brochure may have an adverse impact on Clients.**

##### **Investments in Financial Instruments**

A Client may invest in a broad array of financial instruments. These may include the financial instruments of foreign entities, both public and private. In addition to the risks associated with investments of this kind in general, such investments may also involve the risks associated with currency fluctuations and various political factors, as described below. The Client may also invest in treasury securities and other cash equivalents when attractive opportunities for capital appreciation appear to be limited.

## **Investments in Restricted Securities**

A Client may be prevented from buying or selling certain publicly traded securities if the Firm or the Client acquires material, non-public information with respect to such securities. Such securities will be placed on a “restricted securities list” maintained by the Firm and will not be traded until the material, non-public information becomes public or is no longer material. In addition, if such information is acquired with respect to a publicly traded security that the Client already holds, such security will also be placed on the “restricted securities list” and will similarly not be traded until the material, non-public information becomes public or is no longer material. Accordingly, the Client may be disadvantaged due to its inability to participate in investments that would otherwise be suitable for the Client or to liquidate existing investments during favorable market conditions.

## **Leverage**

Clients utilize leverage as part of their investment strategy and process. Leveraging may arise by margin loans on the Client’s securities, through borrowing or through the use of derivatives. If the amount of leverage the Client has outstanding at any one time is large in relation to the value of its assets, fluctuations in the market value of the Client’s portfolio will have a disproportionately large effect in relation to the value of its assets and the possibilities for profit and the risk of loss will therefore be increased. Any investment gains (in excess of borrowing costs) made with the additional monies borrowed will generally cause the NAV of the Client to rise more rapidly than would otherwise be the case. Conversely, any investment losses with respect to the additional monies borrowed (including the failure to cover their cost to the Client) will generally cause the NAV of the Client to decline faster than would otherwise be the case. To the extent that the Client’s assets are deposited as margin and therefore not fully paid for, a bankruptcy of any broker of the Client may expose the Client to loss in that it may only be able to share as an unsecured creditor in such broker’s assets.

The more the Client leverages itself, the more likely a substantial change will occur, either up or down, in the value of the interests in the Client’s portfolio. The Client may be subject to major losses in the event that market events disrupt the nature of its positions or it is forced to liquidate positions at a disadvantageous time. Furthermore, the credit extended to the Client by dealers to permit it to maintain its leveraged positions can be terminated by the dealers largely in their discretion, forcing such liquidation or margin calls at potentially material losses.

## **Hedging Transactions**

Hedging techniques involve one or more of the following risks: (i) imperfect correlation between the performance and value of the instrument and the value of the Client’s securities or other objective of the Firm; (ii) possible lack of a secondary market for closing out a position in such instrument; (iii) losses resulting from interest rate, spread or other market movements not anticipated by the Firm; (iv) the possible obligation to meet additional margin or other payment requirements, all of which could worsen the Client’s position; and (v) default or refusal to perform on the part of the counterparty with which the Client trades. Furthermore, to the extent that any hedging strategy involves the use of OTC derivatives transactions, such a strategy may be affected by implementation of the various regulations adopted pursuant to the Reform Act.

The Firm will not attempt to hedge all market or other risks inherent in the Client's positions, and will hedge certain risks, if at all, only partially. Specifically, the Firm may choose not, or may determine that it is economically unattractive, to hedge certain risks — either in respect of particular positions or in respect of the Client's overall portfolio. The Client's portfolio composition will commonly result in various directional market risks remaining unhedged. The Firm may rely on diversification to control such risks to the extent that the Firm believes it is desirable to do so; however, the Client is not subject to formal diversification policies.

The ability of the Client to hedge successfully will depend on the ability of the Firm to predict relevant market movements, which cannot be assured. The Firm is not required to hedge and there can be no assurance that hedging transactions will be available or, even if undertaken, will be effective. In addition, it is not possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of independent factors not related to currency fluctuations. Moreover, it should be noted that the portfolio will always be exposed to certain risks that cannot be hedged, such as counterparty credit risk. Furthermore, by hedging a particular position, any potential gain from an increase in the value of such position may be limited.

### **Non-Investment Grade Investments**

CommonWealth may purchase financial instruments of, or make direct loans to, companies that are not of investment grade. CommonWealth may purchase loans that are in default or are from issuers in financial distress. CommonWealth may also purchase trade or other claims against credit impaired companies, which generally represent money owed by the company to a supplier of goods and services. Loans or claims purchased by CommonWealth may not have any maturity and may be secured or unsecured. As with other types of debt instruments, loans and trade claims involve the risk of loss in case of default or insolvency of the borrower, particularly if the borrowing is unsecured. In addition, trade claims may be subject to other defenses such as warranty claims or failure to provide the product or services. Such loans are also less liquid than are the debt instruments of publicly traded companies.

### **Loans**

Clients may trade in the secondary markets for loans. Such loans may be privately negotiated transactions, each of which has individualized terms. These positions may be illiquid and difficult to value. In addition, in the case of such trading, the Firm may come into possession of material non-public information relating to the borrower, preventing the Client from trading in any securities of such issuer.

Loans are subject to price volatility due to various factors including, but not limited to, changes in interest rates, market perception of the creditworthiness of the borrower and general market liquidity. The Client may invest in loans to distressed borrowers, which are typically subject to greater market fluctuations and risks of loss of income and principal and are often influenced by many of the same unpredictable factors which affect equity prices. Loans involve a fundamental credit risk based on the borrower's ability to make principal and interest payments.

Clients may experience delays in the settlement of certain loan and/or bank debt transactions, particularly in the case of investments that are or become distressed. Until such transactions



are settled, the Client is subject to counterparty insolvency risk. Pursuant to certain insolvency laws, a counterparty may have the ability to reject or terminate an unsettled loan transaction. If a counterparty rejects an unsettled transaction, the Client might lose any increase in value with respect to such loan that accrued while the transaction was unsettled.

Clients may also invest in loan participations where it will be subject to certain additional risks as a result of having no direct contractual relationship with the borrower of the underlying loan. In such circumstances, the Client generally would depend on the lender to enforce its rights and obligations under the loan arrangements in the event of a default by the borrower on the underlying loan and will generally have no voting rights with respect to the issuer, as such rights are typically retained by the lender. Such investments are subject to the credit risk of the lender (as well as the borrower) since they will depend upon the lender forwarding payments of principal and interest received on the underlying loan. There can be no assurance that the lender will not default on its obligations under such arrangements, resulting in substantial losses to the Client.

### **Prepayment Risk**

The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to default and foreclosures) occur on loans and other debt underlying certain of a Client's investments will be affected by a variety of factors including, but not limited to, the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. In general, "premium" financial instruments (*i.e.*, financial instruments whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" financial instruments (*i.e.*, financial instruments whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since the Client's investments may include discount financial instruments when interest rates are high, and may include premium financial instruments when interest rates are low, such investments may be adversely affected by prepayments in any interest rate environment.

### **Corporate Debt Obligations and High-Yield Securities**

Commonwealth may invest in corporate debt obligations and high-yield securities. The market value of debt securities generally tends to decline as interest rates increase and, conversely, increase as interest rates decline. Debt obligations are subject to the risk of an issuer's inability to meet principal and interest payments on the obligations, *i.e.*, credit risk. "High yield" bonds and securities, which are rated in the lower rating categories by the various credit rating agencies, are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be speculative. They are also generally considered to be subject to greater risk than securities with higher ratings because the yields and prices of such securities tend to fluctuate more than those for higher-rated instruments and the market for lower-rated securities is less liquid and less active.

### **Equity Risks in General**

A Client's equity investments are subject to multiple dimensions of market risk: unexpected directional price movements, momentum pricing continuing to influence economic factors,

deviations from historical pricing relationships, changes in the regulatory environment, changes in market volatility, “flights to quality” and “credit squeezes.”

The particular or general types of market conditions in which a Client may incur losses or experience unexpected performance volatility cannot be predicted, and the Client may materially underperform other investment funds with a substantially similar investment objective and approaches.

### **Reliance on Corporate Management and Financial Reporting in Equity Investing**

The Firm necessarily relies on the financial information made available by the issuers of the equities in which a Client may invest. The Firm has no ability to independently verify the financial information disseminated by the issuers in which a Client invests and is dependent upon the integrity of both the management of these issuers and the financial reporting process in general. Past and recurring events have demonstrated that investors such as the Clients can incur material losses as a result of corporate mismanagement, fraud and accounting irregularities.

### **Small- to Medium-Capitalization Companies**

A Client may invest in the securities of companies with small- to medium-market capitalizations. Although the Firm believes that these securities may provide significant potential for appreciation, such securities, particularly smaller-capitalization stocks, often involve higher risks than do investments in the securities of larger-capitalization companies. Smaller-capitalization stocks are often more volatile and more illiquid than large-capitalization stocks.

### **High Growth Company-Related Risks**

A Client may invest in high growth companies, which may allocate, or may have allocated, greater than usual amounts to research and product development. The securities of these companies may experience above-average price movements associated with the perceived prospects of success of their research and development programs. In addition, companies in which a Client may invest could be adversely affected by the lack of commercial acceptance of a new product or products or by technological change and obsolescence. Many of these companies may participate in undeveloped or limited markets, have limited products, rely on proprietary technology that may be difficult to protect from competitors, have no proven profit-making history, operate at a loss or with substantial variations in operating results from period to period, have limited access to capital and/or be in the developmental stages of their businesses.

### **Risk Arbitrage**

In addition to general risks of market behavior and currency fluctuations, merger arbitrage is subject to “deal risk” – the risk of non-consummation of the transaction. A number of factors may lead to deal collapse or delay, such as either party’s inability to satisfy conditions to closing, failure to obtain shareholder approval, failure to meet regulatory or antitrust requirements, failure to obtain required financing, or other events that may change the target’s or the acquirer’s willingness to consummate the transaction.

## **Short Sales**

A Client may make short sales in any type of securities for profit in anticipation of a change in the market price of a financial instrument or as a hedge against other positions held by the Client. A short sale of a security is subject to materially greater restrictions than, for example, short sales of commodities or currencies. A short sale of a security is effected by selling a security that a Client does not own, or selling a security which the Client owns but that it does not deliver upon consummation of the sale. In order to make delivery to the buyer of a security sold short, the Client must borrow the security. In so doing, it incurs the obligation to replace that security, whatever its price may be, at the time it is required to re-deliver such asset to the lender. The Client must also pay to the lender of the security any dividends or interest payable on the security during the borrowing period and may have to pay a premium to borrow the security. This obligation must, unless the Client then owns or has the right to obtain, without payment, securities identical to those sold short, be collateralized by a deposit of cash or marketable securities with the lender. Short-selling is subject to a theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. There can be no assurance that the securities necessary to cover the short position will be available for purchase by the Client. In addition, purchasing securities to close out the short position can itself cause the price of the relevant securities to rise further, thereby increasing any loss incurred by the Client. Furthermore, the Client may be forced to close out a short position prematurely if a counterparty from which the Client borrowed securities demands their return, resulting in a loss on what might otherwise have been a profitable position. Under adverse market conditions, the Client might have difficulty purchasing securities to meet its short sale delivery obligations, and might have to sell portfolio securities to raise the capital necessary to meet its short sale obligations at a time when fundamental investment considerations would not favor such sales.

From time to time, various regulatory authorities have imposed “short-selling bans” in selected securities (often, however, a wide population of securities), making it difficult if not impossible to continue to implement certain long/short (as well as other) equity strategies.

The SEC adopted a new “uptick rule” in 2010 and securities exchanges have also reinstated “uptick rules” — generally prohibiting short sales unless the last recorded sale price of a stock was higher than the previous transaction. Over time, the “uptick rule” could materially increase a Client’s transaction costs by requiring the Firm to delay executing certain short sales (as well as to execute them at higher prices than would otherwise be the case), and in certain circumstances could prevent the Client from acquiring a short position which the Firm would otherwise have acquired for it.

## **Acquisition of Illiquid Securities**

Some of a Client’s positions may be or become relatively or entirely illiquid or may cease to be traded after the Client invests. The Client may acquire substantial positions in some securities. In such cases, and in the event of extreme market activity, the Client may not be able to liquidate its positions promptly if the need should arise. In addition, the Client’s sales of some securities could depress the market value of such securities and thereby reduce the Client’s profitability or increase its losses. During the “financial crisis” of 2008-2009, many securities which were formerly “thinly traded” ceased being traded as all. The Client’s holding of illiquid securities may adversely affect the ability of investors to receive redemption proceeds.

Lack of liquidity can result in significant losses. The risk of market illiquidity is materially heightened by the use of leverage and the possibility that margin calls or redemption requests will need to be met in declining or disrupted market conditions.

### **Currency and Foreign Risks**

Clients may, from time to time, invest in non-dollar denominated debt instruments or in securities of companies domiciled or operating outside of the United States. Investing in these securities involves considerations and possible risks not typically involved in investing in securities of companies domiciled and operating in the United States, including instability of some governments, capital controls, the possibility of expropriation, limitations on the use or removal of funds or other assets, changes in governmental administration or economic or monetary policy (in the United States or abroad) or changed circumstances in dealings between nations. The application of tax laws applicable outside the United States (*e.g.*, the imposition of withholding taxes on interest and dividend payments, income taxes and excise taxes) or confiscatory taxation may also affect the Client's investments. Moreover, less information may be publicly available concerning certain of the foreign issuers of securities held by Commonwealth than is available concerning U.S. companies. Commonwealth may incur higher expenses with respect to investments made outside the United States compared to investing in U.S. securities because of the costs incurred in connection with conversions between various currencies and the fact that brokerage commissions outside the United States may be higher than commissions in the United States.

Non-U.S. markets also may be less liquid, more volatile and less subject to governmental supervision than in the United States. Commonwealth's investments could be adversely affected by other factors not present in the United States, including lack of uniform accounting, auditing and financial reporting standards and potential difficulties in enforcing contractual obligations. Many of the laws that govern private and foreign investment, securities transactions, creditors' rights and other contractual relationships in developing countries may be recently developed and largely untested. As a result, Commonwealth may be subject to a number of unusual risks, including inadequate investor protection, contradictory legislation, incomplete, unclear and changing laws, unknowing breaches of regulations on the part of other market participants, lack of established or effective avenues for legal redress, lack of standard practices and confidentiality customs characteristic of developed markets, and lack of enforcement of existing regulations. This difficulty in protecting and enforcing rights may have an adverse effect on Commonwealth and its operations. Furthermore, it may be difficult to obtain and enforce a judgment in court outside of the U.S. regulatory controls and corporate governance of companies in developing countries may confer little protection on investors. For example, anti-fraud and anti-insider trading legislation, and the concept of fiduciary duty, may be less developed or limited compared to those in more developed markets.

### **Currency Exposure**

Shares/interests in Clients are denominated in U.S. dollars and are issued and redeemed in U.S. dollars. Certain of the assets of a Client may, however, be invested in securities and other investments 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 and may be subject to foreign exchange risks. In addition, prospective investors 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.

### **Recent Developments in Europe**

Global markets have recently experienced upheaval and above-average volatility due to developments in Europe that have raised doubts about the ability of certain European countries to meet their sovereign debt obligations. The fallout from such developments could have a significant impact on the stability and credit ratings of various European countries and financial institutions with exposure to European sovereign debt, and even the continued viability of the European Union and the Euro currency. There can be no assurance that the Firm will accurately predict or adequately prepare for the impact of such developments, and therefore they may have a materially negative effect on a Client's investments, particularly those made in European entities or denominated in the Euro currency.

The same sovereign debt risk which applies in Europe also affects the Asian and Latin American equities markets to which a Client may have some exposure.

### **Contrarian Investing**

Certain investments are made after a financial crisis or other major uncertainty depresses the price of company's securities and CommonWealth is of the opinion that such securities have lower downside risk than other investors may perceive (*i.e.*, an investment will generally be made only if it is believed that the current market price is less than the intrinsic value of the security, based on assumptions as to asset values, total liabilities or claims, timing and the rate of return on the investment). Because of the substantial uncertainty concerning the outcome of transactions involving financially troubled companies undergoing fundamental changes, there is always the potential risk of a substantial loss.

### **Emerging Markets**

CommonWealth may trade in emerging markets. These markets tend to be inefficient and illiquid as well as subject to political and other factors that do not typically affect more developed economies. CommonWealth may sustain losses as a result of market inefficiencies or interference in emerging markets which would not take place in more developed markets.

### **Mortgage-Backed Securities**

A Client may invest in residential mortgage-backed securities ("RMBS") and commercial mortgage-backed securities ("CMBS"), securitized pools of mortgage loans which may include mortgages of various types (including Alt-A, subprime and pay-option adjustable rate mortgages, in addition to traditional first-lien mortgages). As pools of underlying mortgages, RMBS and CMBS are subject to all of the special risks associated with such mortgages, including those described below and elsewhere in this Brochure. Further, investing in certain RMBS and CMBS involves the general risks typically associated with investing in traditional fixed-income securities (including interest rate and credit risk), and certain additional risks and special considerations, including the risk of principal prepayment and defaults as well as the risk of investing in real estate.

Mortgage-backed securities (other than the residential agency mortgage-backed securities) are generally not guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on mortgage-backed securities depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans. Mortgage-backed securities generally provide for the payment of interest and principal on the mortgage-backed securities on a frequent basis, and there also exists the possibility, particularly with respect to RMBS, that principal may be prepaid at any time due to, among other reasons, prepayments on the underlying mortgage loans or other assets. As a result of prepayments, a Client may reinvest assets at an inopportune time, which may expose a Client to a lower rate of return. The rate of prepayments on underlying mortgages affects the price and volatility of a mortgage-backed security and may have the effect of shortening or extending the effective average life beyond what was anticipated. Further, different types of mortgage-backed securities are subject to varying degrees of prepayment risk. The rate of principal payments on mortgage loans is influenced by a wide variety of economic, geographic, social and other factors, including general economic conditions, the level of prevailing interest rates, the availability of alternative financing and homeowner mobility.

The risks of investing in RMBS and CMBS reflect the risks of investing in real estate securing the underlying loans, including the effect of local and other economic conditions, the possibility of changes in the structure or effectiveness of the government sponsored enterprises, Fannie Mae, Freddie Mac and Ginnie Mae, the ability of tenants to make payments, and the ability to attract and retain tenants. Increasing rates of delinquencies, foreclosures and other losses on mortgages could, in turn, adversely affect certain securities in which the Client may invest.

If the Client invests in mortgage-related debt securities, it is possible that the Client may, whether through a foreclosure proceeding or otherwise, become the owner (directly or indirectly) of a United States real property interest. In such circumstance, or in any other circumstance in which an investment could cause the Client to become “engaged in a U.S. trade or business” or have “effectively connected income,” the Firm is authorized to cause the Client to use an alternative investment vehicle (or “AIV”) for such investment in order to mitigate the risk that the Client could be deemed to be engaged in a U.S. trade or business or have effectively connected income. The Client may hold such investment through an AIV that is taxable as a corporation for federal income tax purposes, in which case the economic return to all investors from such investment would be reduced by the amount of any corporate income and other taxes owed by such corporation from such investment.

### **Mortgage Market Disruptions in General**

Widespread defaults on subprime loans and other asset-backed securities have led to market turmoil and resulted in price volatility and ratings downgrades, which have been continuing and are expected to continue for some time. In addition to risks associated with attempting to predict default and recovery rates on the mortgages underlying mortgage-backed securities acquired by a Client, the creditworthiness and viability of the servicers of such mortgages are also significant risks. Illiquidity and unpredictability in these markets make it difficult to determine whether such servicers have sufficient capital and adequate staffing levels to fulfill their servicing obligations and the extent to which such servicers are subject to regulatory risks and risk of error. A credit event at, or other failure by, a servicer could result in losses to the Client.

## **Certain Risks Associated with Investments in RMBS**

The residential mortgage market in the United States and elsewhere continues to experience disruptions and instability. Delinquencies and losses with respect to residential mortgage loans increased dramatically beginning in the second half of 2008. Such increases are continuing and may continue even if the broader economy recovers. In addition, the value of mortgaged properties in many states has declined or remained stable, after extended periods of appreciation. A continued decline or an extended flattening of those values may result in additional increases in delinquencies and losses on residential mortgage loans generally. In addition, a number of originators and servicers of mortgage loans have experienced serious financial difficulties and, in some cases, have entered bankruptcy proceedings. These difficulties have resulted in part from declining markets for their mortgage loans as well as from claims for repurchases of mortgage loans previously sold under provisions that require repurchase in the event of early payment defaults or for breaches of representations regarding loan quality.

### **Interest Rate Risk**

The prices of portfolio investments can be sensitive to interest rate fluctuations, and unexpected fluctuations in interest rates could cause the corresponding prices of a position to move in directions which were not initially anticipated. In addition, interest rate increases generally will increase the interest carrying costs to the Client of borrowed securities and leveraged investments.

### **Board Membership and Control Positions**

Subject to the limitations contained in CommonWealth's compliance manual, employees of CommonWealth may serve on boards of directors or executive committees or in other management capacities at companies in which a Client invests, either directly or indirectly. Serving in such a capacity may expose such employee, and by association CommonWealth and the Client, to certain limitations on the ability to trade the securities of the issuer company and certain conflicts of interest. An employee may become aware, from time to time, of material non-public information about the company in which the Client invests, and the employee's knowledge is likely to be attributed to CommonWealth and the Client, and therefore, the Client's ability to trade the securities of such company may become substantially restricted. The Client's ability to buy and sell such securities may be limited to such times as company insiders are permitted to do so. Such limitations may cause the Client to forgo sales that it would otherwise make, thereby exposing the Client to losses, or to forgo purchases, thereby exposing the Client to lost opportunities.

Furthermore, the exercise of control or influence over the management and policies of a company through the service of an officer or employee of CommonWealth as an officer or director of such company could expose the assets of the Client to claims by the portfolio company, its security holders and creditors, or could impose additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability. If these liabilities were to occur, the Client directly, and the investors indirectly, could suffer losses in their investments.

## Derivatives

CommonWealth uses derivative financial instruments, which may include, without limitation, warrants, options, swaps, convertible securities, notional principal contracts, contracts for differences, forward contracts, futures contracts and options thereon, and uses derivative techniques for hedging and for other trading purposes. The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage often embedded in such instruments and the possibility of counterparty non-performance in principal-to-principal or uncleared OTC trades as well as material and prolonged deviations between the actual and the theoretical value of a derivative, due to circumstances such as nonconformance to anticipated or historical correlation patterns. In addition, the markets for certain derivatives are frequently characterized by limited liquidity, which can make it difficult as well as costly to CommonWealth to close out positions in order either to realize gains or to limit losses. The value of a derivative depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives trading.

Some of the derivatives that may be traded by CommonWealth will be principal-to-principal or “over-the-counter” contracts between Clients and third parties entered into privately, rather than on an established exchange and will not be submitted to a regulated clearinghouse. As a result, Clients will not be afforded the regulatory protections of an exchange or its clearinghouse, or of a government regulator that oversees the exchange or clearinghouse, if a counterparty fails to perform. In privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices.

## Swap Agreements

CommonWealth’s Clients from time to time enter into various swap agreements (“Swaps”) as part of their investment program. A Swap is an agreement between two parties to exchange cash flows (and sometimes principal amounts) measured by different interest rates, commodity prices, exchange rates, indices or prices, with payments generally calculated by reference to a principal (“notional”) amount or quantity. Some Swaps and similar derivative contracts are not traded on exchanges; rather, banks and dealers act as principals in these markets. Other Swaps Clients may trade are currently required to be traded on regulated exchanges or execution facilities. Furthermore, certain Swaps traded by the Fund may be subject to the Reform Act’s mandatory clearing requirement and thus required to be submitted to regulated clearinghouses for clearing, or may be voluntarily submitted to such a clearinghouse. See *“Risk of Loss Due to the Bankruptcy or Failure of Custodians and Brokers.”* However, certain Swaps traded by Clients may not be submitted to regulated clearinghouses. As a result, Clients are subject to the risk of the inability or refusal to perform with respect to such uncleared Swaps on the part of the counterparties with which the Clients trade. Swaps may be subject to various other types of risk, including market risk, liquidity risk, counterparty credit risk, legal risk and operations risk. In addition, Swaps can involve considerable economic leverage and may, in some cases, involve significant risk of loss. Depending on their structure, Swaps may increase or decrease exposure to the corporate credit market, equity securities, long-term or short-term interest rates, foreign currency values, corporate borrowing rates or other factors. Swaps can take many different forms and are known by a variety of names. Clients are not limited to any particular form of Swap if its use is consistent with the Clients’ investment objectives and policies, and



CommonWealth anticipates that Clients will invest in interest rate swaps, credit default swaps, total return swaps, variance swaps and other types of Swaps.

Depending on how they are used, Swaps may increase or decrease the overall volatility of a portfolio. The most significant factor in the performance of Swaps is the change in the specific interest rate, currency, equity index or other factors that determine the amounts of payments due to and from the Client. If a Swap calls for payments by the Client, the Client must be prepared to make such payments when due. In addition, if a counterparty's creditworthiness declines, the value of a Swap with such counterparty can be expected to decline, potentially resulting in losses by the Client.

### **Credit Default Swap Agreements**

CommonWealth's Clients may also enter into credit derivative contracts. The typical credit default swap contract requires the seller to pay to the buyer, in the event that a particular reference entity experiences specified credit events, the difference between the notional amount of the contract and the value of a portfolio of securities issued by the reference entity that the buyer delivers to the seller. In return, the buyer agrees to make periodic and/or up-front payments equal to a fixed percentage of the notional amount of the contract. Clients may also purchase or sell credit default swaps on a basket of reference entities or an index.

In circumstances in which the Client is the credit default swap buyer and does not own the debt securities that are deliverable under a credit default swap, the Client will be exposed to the risk that deliverable securities will not be available in the market, or will be available only at unfavorable prices, as would be the case in a so-called "short squeeze." While the credit default swap market auction policies reduce this risk, it is still possible that an auction will not be organized or will not be successful. In certain instances of issuer defaults or restructurings (for those credit default swaps for which restructuring is specified as a credit event), it has been unclear under the standard industry documentation for credit default swaps whether or not a "credit event" triggering the seller's payment obligation had occurred. The creation of the ISDA Credit Derivatives Determination Committee in April 2009 was intended to reduce this uncertainty and create uniformity across the market, although it is possible that the CDS Determination Committee will not be able to reach a resolution or do so on a timely basis. In either of these cases, the Client would not be able to realize the full value of the credit default swap upon a default by the reference entity.

As a seller of credit default swaps, the Client will incur leveraged exposure to the credit of the reference entity and become subject to many of the same risks it would incur if it were holding debt securities issued by the reference entity. However, the Client will not have any legal recourse against the reference entity and will not benefit from any collateral securing the reference entity's debt obligations. In addition, in the event the CDS Determination Committee does not establish a cash settlement auction and identify the relevant deliverable securities, the credit default swap buyer will have broad discretion to select which of the reference entity's debt obligations to deliver to the Client following a credit event and will likely choose the obligations with the lowest market value in order to maximize the payment obligations of the Client.

Given the recent sharp increases in volume of credit derivatives trading in the market, settlement of such contracts may also be delayed beyond the time frame originally anticipated

by counterparties. Such delays may adversely impact the Client's ability to otherwise productively deploy any capital that is committed with respect to such contracts. Finally, credit derivatives are OTC derivative transactions, and, to the extent entered into in the U.S. (and, in certain circumstances, outside the U.S.), will be subject to regulation under the Reform Act..

### **Credit Default Swaps on Loans and LCDX Transactions**

Clients may invest in all types of loan credit default swaps and all types of LCDX transactions, tradable index comprising 100 equally-weighted underlying single-name loan-only credit default swaps. Loan credit default swaps are similar to credit default swaps on bonds, except that the underlying protection is sold on syndicated secured loans of a reference entity rather than a broader category of bonds or loans. Buyers of protection pay a fixed coupon agreed at time of trade and receive compensation on the principal if the entity named on the contract defaults on its secured debt. The compensation will be par minus recovery either via the protection seller paying par in return for gaining possession of the loan or via cash settlement. Loan credit default swaps may be on single names or on baskets of loans, both trenched and entrenched. CommonWealth may also invest in LCDX, which is the buying or selling of protection on 100 names that comprise the LCDX portfolio (*i.e.*, the buying and selling of 100 single-name LCDS). Buying and selling the LCDX can be compared to buying and selling a loan portfolio. When the index is bought, the buyer is taking on the credit exposure to the loans and is exposed to defaults similar to when a loan portfolio is bought. If the index is sold, this exposure is passed on to someone else. The index has a fixed coupon, which is paid when the index is sold, or received if the index is bought. The credit events that generally trigger a payout from the buyer (protection seller) of the index are bankruptcy or failure to pay a scheduled payment on any debt (after a grace period), for any of the constituents of the index. Credit events can be settled by physical or cash settlement. Physical settlement entails delivering the loan and receiving par. The protection seller who took delivery of the loan holds the defaulted asset. Although this method is the traditional method of settlement, there are risks that the notional amounts of the outstanding loans are less than the LCDS outstanding and that the LCDX counterparty will be able to take receipt of the loans.

### **Total Return Swaps**

Clients from time to time may invest in total return swaps. As a buyer of total return swaps, the Client will be obligated to make certain periodic payments in exchange for the total return on a referenced asset, including coupons, interest and the gain or loss on such asset over the term of the swap. CommonWealth may be required to maintain collateral with the total return swap counterparty. If CommonWealth fails to fulfill its payment obligations or fails to post any required collateral under a total return swap, the total return swap counterparty may declare an event of default and, as a result, the Client may be required to pay swap breakage fees, suffer the loss of the amounts paid to the counterparty and forego the receipts from the counterparty of further total return swap payments.

### **Over-the-Counter Transactions**

The Reform Act, among other things, includes provisions that substantially increase the regulation of the OTC derivatives markets. Regulations implementing the Reform Act require that certain swaps (including foreign exchange forwards defined as swaps by U.S. regulators) which may be traded by a Client be submitted for clearing to regulated clearinghouses, and may

require these transactions to be executed in regulated markets. Further, regulations implementing the Reform Act may require that a substantial portion of OTC derivatives must be executed in regulated markets and submitted for clearing to regulated clearinghouses.

OTC trades submitted for clearing are subject to minimum initial and variation margin requirements set by the relevant clearinghouse, as well as possible SEC- or CFTC-mandated margin requirements. OTC derivatives dealers typically increase a Client's collateral requirements for cleared OTC trades beyond any regulatory and clearinghouse minimums. The regulators also have broad discretion to impose margin requirements on non-cleared OTC derivatives and new requirements apply to the holding of cleared swap customer collateral by OTC derivatives dealers. These requirements may increase the amount of collateral a Client is required to provide and the costs associated with providing it. OTC derivative dealers are required to post margin to the clearinghouses through which they clear their customers' trades instead of using such margin in their operations, as was widely permitted before the Reform Act. This has and will continue to increase the OTC derivative dealers' costs, and these increased costs are generally passed through to other market participants in the form of higher upfront and mark-to-market margin, less favorable trade pricing, and the imposition of new or increased fees, including clearing account maintenance fees. The higher costs could indirectly impact the costs of a Client's financial derivative instrument investing. The Reform Act may result in an increased regulatory burden and associated costs borne by executing brokers and other financial intermediaries with which the Client transacts and these burdens and costs may result in operational difficulties or increased costs to the Client and CommonWealth. The overall impact of the Reform Act on Clients is highly uncertain.

With respect to cleared OTC derivatives, a Client does not face a clearinghouse directly but rather through an OTC derivatives dealer that is registered with the CFTC or SEC to act as a clearing member. A Client is subject to the risk that these clearing members and the clearinghouse may default on their obligations to the Client, including the indirect risk of a default caused by the failure of another clearing member customer to meet its obligations to its clearing member. See *"Risk of Loss Due to the Bankruptcy or Failure of Custodians and Brokers."*

The SEC and CFTC will also require a substantial portion of derivative transactions that are currently executed on a bi-lateral basis in the OTC markets to be executed through a regulated securities, futures, or swap exchange or execution facility. Certain CFTC-regulated derivatives trades are subject to these rules. It is not yet clear when the parallel SEC requirements will go into effect. Such requirements may make it more difficult and costly for Clients to enter into highly tailored or customized transactions. They may also render certain strategies in which a Client might otherwise engage impossible or so costly that they will no longer be economical to implement. If a Client decides to become a direct member of one or more of these exchanges or execution facilities, the Client would be subject to all of the rules of the exchange or execution facility, which would bring additional risks and liabilities, and potential additional regulatory requirements.

OTC derivative dealers are now required to register with the CFTC and will ultimately be required to register with the SEC. Dealers are subject to new minimum capital and margin requirements, business conduct standards, disclosure requirements, reporting and recordkeeping requirements, transparency requirements, position limits, limitations on conflicts of interest, and other regulatory burdens. These requirements further increase the overall costs

for OTC derivative dealers, which costs may be passed along to market participants as market changes continue to be implemented. The overall impact of the Reform Act on Clients remains highly uncertain and it is unclear how the OTC derivatives markets will adapt to this new regulatory regime, along with additional, sometimes overlapping, regulatory requirements imposed by non-U.S. regulators.

### **Convertible Securities, Rights and Warrants**

Commonwealth may invest in hybrid securities that may be exchanged for, converted into or exercised to acquire a predetermined number of shares of an issuer's common stock at the option of the holder during specified time period (such as convertible preferred stocks, convertible debentures, stock purchase rights, and warrants). Convertible securities generally pay interest or dividends and provide for participation in the appreciation of the underlying common stock but at a lower level of risk because the yield is higher and the security is senior to common stock. Convertible debt securities that are acquired for their equity characteristics are not subject to minimum rating requirements.

The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's worth, at market value, if converted into the underlying common stock). The credit standing of the issuer and other factors may also affect the investment value of convertible security. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security is increasingly influenced by its conversion value. Convertible securities may also include warrants, often publicly traded, that give a holder the right to purchase at any time during a specified period a predetermined number of shares of common stock at a fixed price but that do not pay a fixed dividend. Their value depends primarily on the relationship of the exercise price to the current and anticipated price of the underlying securities.

### **Futures Trading**

The Clients trade futures contracts, which may include, stock index futures. Futures prices are highly volatile, with price movements being influenced by a multitude of factors such as changing supply and demand relationships, government trade, fiscal, monetary and exchange control programs and policies, national and international political and economic events and speculative frenzy and the emotions of the marketplace. In addition, governments from time to time intervene in certain markets, particularly currency and interest-rate markets.

The low margin deposits normally required in futures trading permit an extremely high degree of leverage; margin requirements for futures trading being in some cases as little as 2% of the face value of the contracts traded. Accordingly, a relatively small price movement in a futures contract may result in an immediate and substantial loss to the investor.

There can be no assurance that a liquid market will exist at a time when the Client seeks to close out a futures or Swap position, including options on futures or Swaps. Most United States commodity exchanges limit fluctuations in futures contract prices during a single day by regulations referred to as "daily limits." During a single trading day, no trades may be executed

at prices beyond the daily limit. Once the price of a futures contract has increased or decreased to the limit point, positions can be neither taken nor liquidated. Futures prices have occasionally moved to the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Client from promptly liquidating unfavorable positions and subject the Client to substantial losses. In addition, certain of these instruments are relatively new and are without a significant trading history. As a result, there is no assurance that an active secondary market will develop or continue to exist. Lack of a liquid market for any reason may prevent the Client from liquidating an unfavorable position and the Client would remain obligated to meet margin requirements until the position is closed.

The CFTC and the United States commodities exchanges impose limits referred to as “speculative position limits” on the maximum net long or net short speculative positions that any person may hold or control in any particular futures or options contracts traded on United States commodities exchanges and may impose such limits on certain Swaps that are required to be executed on regulated exchanges or execution facilities. For example, the CFTC currently imposes speculative position limits on a number of agricultural commodities (e.g., corn, oats, wheat, soybeans and cotton) and the United States commodities exchanges currently impose speculative position limits on many other commodities. The Reform Act significantly expands the CFTC’s authority to impose position limits with respect to futures contracts, options on futures contracts, swaps that are economically equivalent to futures or options on futures, swaps that are traded on a regulated exchange and certain swaps that perform a significant price discovery function. For example, in November 2013, the CFTC proposed a separate position limits regime for 28 physical commodity contracts, including certain metals, energy, and agricultural futures and options contracts and their economically equivalent swap contracts. The Reform Act also provides the SEC with authority to set position limits on security-based swaps, although no such limits have been proposed. All accounts owned or managed by Firm will be combined for speculative position limit purposes. Clients could be required to liquidate positions they hold in order to comply with such limits, or may not be able to fully implement trading instructions generated by its trading models, in order to comply with such limits. Any such liquidation or limited implementation could result in substantial costs to a Client.

## **Options Trading**

When purchasing or selling an option, the risks associated with the transaction will vary depending on the type of option (*i.e.*, put or call). When purchasing an option, it is necessary to calculate the extent to which the value of the underlying security must increase (in the case of a call) or decrease (in the case of a put) in order for CommonWealth’s position to become profitable, taking into account the premium and all transaction costs. The purchaser of options may offset or exercise the options or allow the options to expire. The exercise of an option results either in a cash settlement or in the purchaser acquiring or delivering the underlying interest. If the option is on a future, the purchaser will acquire a futures position with associated liabilities for margin. If the purchased option expires worthless, the Client will suffer a total loss of the amount invested in the option that will consist of the option premium plus transaction costs. Selling (“writing” or “granting”) an option generally entails considerably greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will be liable for additional margin to maintain the position if the market moves unfavorably. The seller will also be exposed to the risk of the purchaser exercising the option, and, upon such exercise, the seller will be obligated to either

settle the option in cash or to acquire or deliver the underlying interest, depending on the terms of the option. If the option is on a future, upon exercise by the purchaser of the option, the seller will acquire a position in a future with associated liabilities for margin. If the option is “covered” by the seller holding a corresponding position in the underlying interest or a future or another option, the risk may be reduced. If the option is not covered, the risk of loss can be unlimited. In the case of an option on a future, certain exchanges in some jurisdictions permit deferred payment of the option premium, exposing the purchaser to liability for margin payments not exceeding the amount of the premium. The purchaser is still subject to the risk of losing the premium and transaction costs. When the option is exercised or expires, the purchaser is responsible for any unpaid premium outstanding at that time.

### **Forward Contracts**

A Client may trade deliverable forward contracts in the inter-bank currency market. Such forward contracts are not currently traded on exchanges; rather, banks and dealers act as principals in these markets. As a result of the Reform Act, the CFTC now regulates non-deliverable forwards (including deliverable forwards where the parties do not take delivery) as Swaps. Changes in the forward markets may entail increased costs and result in burdensome reporting requirements. There is currently no limitation on the daily price movements of forward contracts. Principals in the forward markets have no obligation to continue to make markets in the forward contracts traded. The imposition of credit controls by governmental authorities or the implementation of regulations pursuant to the Reform Act might limit such forward trading to less than that which the Firm would otherwise recommend, to the possible detriment of a Client.

**THE FOREGOING SUMMARY OF CERTAIN RISK FACTORS DOES NOT PURPORT TO BE A COMPLETE EXPLANATION OF THE RISKS INVOLVED IN INVESTING WITH COMMONWEALTH AS RELATED TO THE GLOBAL MACRO STRATEGY. CLIENTS AND FUND INVESTORS SHOULD READ ALL OFFERING DOCUMENTS AND/OR AGREEMENTS RELATED TO INVESTING WITH COMMONWEALTH.**

### **Risks Related to the CWOC I Funds**

In addition to the above, the below disclosures are tailored to the specific structure of CWOC I Funds.

#### **Limited Ability to Redeem**

There are restrictions on redemptions and interests in the Fund are not freely tradable. Hence, an investment in the Fund is a relatively illiquid investment. An investment in the Fund should only be considered by persons financially able to maintain their investments for a substantial period of time and who can afford a loss of all or a substantial part of their investments.

#### **Past Performance**

**Past performance of a Client managed/sponsored by the Firm is not necessarily indicative of future performance of such Client and/or other Clients.** The markets in which the Firm operates have been severely disrupted in recent years, so results observed in earlier periods may have little relevance to the results observable in the current environment.

### Risks Related to the CWOC II Funds

In addition to the above risks related to the global macro strategy, the below disclosures are tailored to the specific structure of CWOC II Funds (e.g., lock up etc.).

#### **Volatility**

The prices of some of the instruments traded by the Fund have been subject to periods of excessive volatility in the past, and such periods may continue. Price movements are influenced by many unpredictable factors, such as market sentiment, inflation rates, interest rate movements and general economic and political conditions.

While volatility can create profit opportunities for the Fund, it can also create the specific risk that historical or theoretical pricing relationships will be disrupted, causing what should otherwise be comparatively low risk positions to incur significant losses. On the other hand, the lack of volatility can also result in losses for certain of the Fund's positions that profit from price movements.

The Fund may establish positions using instruments that involve a high degree of leverage. In addition, the Fund may enter into borrowing arrangements for purposes of leveraging investments. The combination of these two factors (leverage and volatility) can subject the value of the Fund's investment portfolio to sharp fluctuations, both positive and negative in direction. The more leverage the Fund employs, the more volatile the Fund's performance will be. Relatively small price movements may produce a large profit or loss. CommonWealth, in its sole discretion, determines the degree of leverage to employ in the Fund's trading operations.

The Fund pursues a strategy that is substantially similar to the CWOC I Funds' strategy, but the Fund's strategy targets higher volatility, and, as a result, the Fund's volatility is expected to be higher, perhaps to a material extent, than the CWOC I Funds' volatility.

The profitability of the Fund depends to a significant degree on CommonWealth's ability to forecast price movements correctly. If CommonWealth fails to correctly predict price movements, substantial losses could result.

#### **No Performance History**

**The Fund is newly-formed and has no performance history.** CommonWealth's past investment performance is by no means necessarily representative of how the Fund will perform. The markets in which the CWOC II Funds and other accounts managed by CommonWealth operate have been severely disrupted in recent years, so results observed in earlier periods may have little relevance to the results observable in the current environment. **Past performance is not necessarily indicative of future results.** The Fund's performance can be expected to be volatile from time to time.

#### **Limited Ability to Redeem**

There are restrictions on redemptions and interests in the Fund are not freely tradable. In particular, in the absence of a Performance Event (as discussed below), redemptions of interests may only be made as of the end of each calendar quarter on or after the expiration of the

applicable lock-up period. Hence, an investment in the Fund is a relatively illiquid investment. An investment in the Fund should only be considered by persons financially able to maintain their investments for a substantial period of time and who can afford a loss of all or a substantial part of their investments.

### **Performance Event Redemptions**

A Performance Event is based upon the decrease in NAV of a hypothetical series of shares established upon the commencement of the Fund's operations (as discussed in greater detail in the applicable offering memorandum). Although the Fund permits Performance Event redemptions within the first 12 months of its operation (i.e., until October 31, 2015), if such redemptions are significant following a Performance Event, there is a higher risk that Commonwealth may suspend redemptions and investors may be deprived of the opportunity to redeem from the Fund despite the Fund declining in value, perhaps significantly, beyond the threshold established for Performance Events.

### **Performance-Based Fees**

Absent a Performance Event, investors may redeem all or part of a series of shares only as of the end of each calendar quarter on or after the expiration of the applicable lock-up period. However, the performance-based fee, if any, will be made as of each fiscal year-end. Accordingly, each investor's series, unless a subscription was made on January 1, may be subject to an initial performance-based fee being charged on profits when the investors cannot redeem its series. In the event that losses are allocated to a series in a subsequent period, Commonwealth is not required, and does not intend, to refund the performance-based fee credited in prior periods in respect of such series. However, any such losses must be recovered before any subsequent performance-based fee may be made in respect of such series.

### **Risk Management and Investment Process**

Commonwealth generally vets each idea with its investment team and will on occasion source industry specific experts outside the team to gain more information and other perspectives on potential opportunities.

Commonwealth's investment process is predicated on a top-down approach, analyzing key fundamental macro drivers including, but not limited to:

- Economic Activity
- Global Risk Premiums
- Monetary Policy
- Capital Account
- Current Account Balance
- Trade Weighted
- Currency Reserves
- Output Gap
- Political Landscape
- Flow of Funds
- GDP Growth & Inflation



This analysis informs CommonWealth's views on the global economy and leads to investment themes. CommonWealth then determines the most efficient trading mechanisms to express these views and analyzes the impact of trading themes on the entire portfolio. CommonWealth can use any financial instrument to express these views including but not limited to equities, fixed income, currencies and derivatives. The size and structure of the investment is carefully considered. The risk/reward of CommonWealth's investments and portfolio themes are constantly monitored as they are constantly competing for capital against potential new ideas, themes, and vehicles.

***This section on risk factors is a summary of certain risks that may be applicable to an investment in a Client with respect to which the Global Macro Strategy is utilized. SMA and/or Fund investors should refer to each Client's offering documents and/or agreements related to investing with CommonWealth for additional information regarding risks.***

### ***Residential Mortgage Strategy***

As discussed in Item 4, in addition to the global macroeconomic strategy described above, CommonWealth also employs the Residential Mortgage Strategy for certain of its SMA Clients. The objective of the Residential Mortgage Strategy is to generate uncorrelated outsized returns by opportunistically investing in a diversified portfolio of first lien residential mortgage loans primarily acquired directly from Banks. CommonWealth purchases Re-performing Loans whose terms have been formally modified by the Bank holding such loans. The Re-Performing Loans are held in REMICS or Grantor Trusts. While the Residential Mortgage Strategy's primary investment focus is on Re-Performing Loans, CommonWealth has broad and flexible trading authority to expand the strategy to other residential mortgage loans or mortgage-backed securities.

In connection with the Residential Mortgage Strategy, CommonWealth has hired Palisades as a non-discretionary sub-advisor. Palisades is responsible for performing due diligence on the Re-Performing Loans and advises CommonWealth on selecting, purchasing, and selling the Re-Performing Loans based on CommonWealth's investment guidelines. CommonWealth, however, retains ultimate investment authority relating to the Residential Mortgage Strategy. The success of the Residential Mortgage Strategy is dependent on the performance of Palisades and other service providers that CommonWealth deems necessary for the success of the strategy and the ability of CommonWealth to analyze and successfully implement the strategy on the basis of Palisades' recommendations.

***This section on risk factors is a summary of certain risks that may be applicable to an investment in a Client with respect to which the Residential Mortgage strategy is utilized. Investors should refer to each Client's offering documents and/or agreements related to investing with CommonWealth for additional information regarding risks.***

## **Risks Related to the Residential Mortgage Strategy**

### **Real Estate Related Investments**

Investments in real estate related-assets such as the Re-Performing Loans are susceptible to various risks, including, without limitation, declines in property values; increases in property taxes; operating expenses; interest rates or competition; overbuilding; zoning changes; risks related to general and local economic conditions; eminent domain; changes in neighborhood values; losses from casualty or condemnation; environmental liabilities whereby an owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances released on, about, under or in its property; the ongoing need for capital improvements (particularly in older properties); adverse changes in governmental rules and fiscal policies; civil unrest; natural disasters (which may result in uninsured losses); acts of war; and other factors that are beyond the control of the Firm.

### **Developments in the Residential Mortgage Market**

The residential mortgage market in the United States and elsewhere continues to experience disruptions and instability that may adversely affect the performance and market value of certain Re-Performing Loans. In recent years, delinquencies and losses with respect to residential mortgage loans generally have increased and may continue to increase. In addition, the value of mortgaged properties in many states have declined or remained stable, after extended periods of appreciation. A continued decline or an extended flattening of those values may result in additional increases in delinquencies and losses on residential mortgage loans generally. In addition, a number of originators and servicers of mortgage loans have experienced serious financial difficulties and, in some cases, have entered bankruptcy proceedings. These difficulties have resulted in part from declining markets for their mortgage loans as well as from claims for repurchases of mortgage loans previously sold under provisions that require repurchase in the event of early payment defaults or for breaches of representations regarding loan quality.

### **Government Intervention in the Mortgage Markets**

Numerous laws, regulations and rules related to the servicing of mortgage loans, including foreclosure actions, have been adopted or proposed recently by U.S. federal, state and local governmental authorities in the past several years. Among other things, these laws, regulations and rules may result in delays in the foreclosure process, reduced payments by borrowers or increased reimbursable servicing expenses, which are likely to result in delays and reductions in the distributions to be made to the SMA. The SMA will bear the risk that future regulatory developments will result in losses on their investments, whether due to delayed or reduced distributions or reduced market value.

### **Government Intervention in the Mortgage Markets**

The Federal Reserve already has intervened in the credit markets and it is reasonable to expect that it will continue to do so. For example, in 2008 the Federal Reserve amended Regulation Z (Truth in Lending) under the Home Ownership and Equity Protection Act of 1994 (“**HOEPA**”) to impose many significant new requirements in connection with residential mortgages. In addition, federal, state, or local governments may intervene to prevent widespread foreclosures

on residential property. Furthermore, legislation has been adopted or introduced at the federal level, as well as in various states, to address perceived problems in the mortgage market. For example, the maximum size of mortgages that can be purchased by Fannie Mae or Freddie Mac with the full faith and credit of the U.S. government has been changed by legislation six times since 2008. The Reform Act requires new regulations affecting risk retention by mortgage originators and mandates certain suitability requirements for borrowers. This previously enacted legislation still requires regulations to be issued for full implementation and it is uncertain how such regulations may affect the SMA. In addition, the federal banking agencies, as well as state banking and mortgage banking regulators, have issued supervisory guidance on certain mortgage practices. Government intervention is subject to all the uncertainties not only of prevailing economic conditions but also of the political process.

### **Risks of the Declining Value of Mortgages**

If housing prices decline, borrowers have fewer incentives to continue to make payments on their mortgages, even under the modified terms of the Re-Performing Loans. In this case, the rate of return on the Re-Performing Loans or on foreclosure and resale will be less than the Firm expects.

### **Foreclosures; Risks of Property Ownership**

A REMIC/Grantor Trust holding Re-Performing Loans may be required, perhaps to a degree substantially greater than anticipated by the Firm, to foreclose on Re-Performing Loans. The foreclosure process, although designed to be expedited in many jurisdictions, can involve all the uncertainty and potential delays of any legal process as well as the related expense. Moreover, once property has been acquired (whether through foreclosure or consent), the REMIC/Grantor Trust holding the foreclosed property will be subject to all the risks and expense of a property owner. Even if successful in a foreclosure/consent and resale transaction, the Firm anticipates it may require considerable time for a resale to occur. During that period the SMA will be at risk of destruction, damage, poor construction, neighborhood deterioration, increases in property taxes, pollution control issues, etc.

If a REMIC/Grantor Trust in which an SMA holds an interest is forced by market conditions to assume ownership of a significant number of residential properties for a longer holding period than expected or for a higher holding cost than expected, the results could be materially adverse to the SMA.

### **Resale Prices**

The Re-Performing Loans will be secured by the underlying residential properties, and the Firm, with the assistance of Palisades, in determining whether to acquire a pool of Re-Performing Loans, makes certain assumptions regarding the resale value of foreclosed homes. If such assumptions are, in fact, materially overstated for a material percentage of the Re-Performing Loans, the effect on the SMA's performance may be materially adverse.

### **Mortgage Servicer Liability**

Legal risks can arise as a result of the procedures followed in connection with the servicing of mortgages which may be subject to various federal and state laws (including, without limitation,

predatory lending laws), public policies and principles of equity regulating interest rates and other charges, require certain disclosures, require licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer credit information and debt collection practices and may limit the servicer's ability to collect all or part of the principal of or interest on a residential mortgage, entitle the borrower to a refund of amounts previously paid by it or subject the servicer to damages and sanctions. Specifically, provisions of federal predatory lending laws, such as the federal Truth-in-Lending Act (as supplemented by HOEPA) and Regulation Z, and various state predatory lending laws provide that a purchaser or assignee of specified types of residential mortgages may be held liable for violations by the originator of such mortgages. Under such assignee liability provisions, a borrower is generally given the right to assert against a purchaser of its mortgage any affirmative claims and defenses to payment such borrower could assert against the originator of the loan or, where applicable, the home improvement contractor that arranged the loan. Liability under such assignee liability provisions could, therefore, result in a disruption of cash flows allocated to the SMA. In most but not all cases, the amount recoverable against a purchaser or assignee under such assignee liability provisions is limited to amounts previously paid and still owed by the borrower. Moreover, sellers of residential mortgages typically represent that the loans have been originated in accordance with all applicable laws and in the event such representation is breached, the seller typically must repurchase the offending loan. Notwithstanding these protections, a buyer of mortgages may be exposed to an unquantifiable amount of potential assignee liability because, first, the amount of potential assignee liability under certain predatory lending laws is unclear and has yet to be litigated, and, second, in the event a predatory lending law does not prohibit class action lawsuits, it is possible that an assignee of mortgages could be liable in damages for more than the original principal amount of the offending loans held by it and must then seek contribution from other parties, who may no longer exist or have adequate funds available.

Applicable state laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices apply to the origination, servicing and collection of mortgages. Various federal, state and local laws have been enacted that are designed to discourage predatory lending practices. HOEPA prohibits inclusion of certain provisions in mortgages that have mortgage rates or origination costs in excess of prescribed levels, and requires that borrowers be given certain disclosures prior to the origination of mortgages. Some states have enacted, or may enact, similar laws or regulations, which in some cases impose restrictions and requirements greater than those in HOEPA. Various federal, state legislative proposals have been discussed which, if enacted, may adversely affect the Firm's or Palisades' operations or increase its risk of loss in respect of the Re-Performing Loans. Future legislative, regulatory or administrative changes or court decisions may also have an adverse effect on the investment in Re-Performing Loans.

### **Whole Loans**

The Firm will primarily engage in buying and selling "whole loans" — i.e., mortgages sold in their entirety — for the SMA. As a purchaser of whole loans, the SMA will obtain most or all of the contractual rights and responsibilities of the original lender, although enforcing any contractual rights may be difficult and costly. There can be no assurance that the SMA will be able to effectively analyze the true value of whole loans in order to make profitable investments and, once investments are made, there can be no assurance that the mortgage credit markets will provide enough liquidity in order to realize any profits.

## **Insolvency and Misconduct of the Seller**

When the Firm acquires a Re-Performing Loan, the SMA is not only subject to the credit risk of the borrower but also to the risk of insolvency, bankruptcy or misconduct of the party from which the Firm purchased the loan. In the event of the insolvency of the party selling a loan, the Firm may be treated as a general creditor of such seller to the extent the Firm has the right to require the seller to repurchase the Re-Performing Loans.

## **Modifications to Loans and Underlying Documents**

The Re-Performing Loans have been formally modified in the past, which may have been a result of the borrower's being unable to meet his or her existing obligations. The final maturity of the Re-Performing Loan may have been extended or missed payments may have been capitalized or deferred until the maturity of the loan. Undocumented modifications may be more likely to be found unenforceable than modifications reflected in the related mortgage note and, therefore, present a greater risk of loss and may result in unpaid amounts of interest and/or principal at maturity.

## **Risks Associated with Lender Liability; Equitable Subordination**

In recent years, a number of judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively termed "lender liability." Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. The Firm or the SMA may become subject to allegations of lender liability. The Firm cannot provide assurance that these claims will not arise or that it or the SMA will not be subject to significant liability if a claim of this type did arise.

In addition, 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 to the detriment of other creditors of such borrower, (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 to the detriment of other creditors of such borrower, a court may elect to subordinate the claim of the offending lender to the claims of the disadvantaged creditor or creditors, a remedy called "equitable subordination."

## **Leverage**

The SMA utilizes leverage as part of its investment strategy and process. Losses incurred on leveraged positions in the SMA increase in direct proportion to the degree of leverage employed. The SMA also incurs interest expense on the borrowings used to leverage its positions.

To the extent the Re-Performing Loans of the SMA will be leveraged through the borrowing of money or otherwise, the interest expense and other costs incurred in relation thereto may not be recovered. If gains earned by the SMA fail to cover such costs, the value of the SMA may

decrease faster than if there had been no leverage employed with respect to the Re-Performing Loans.

### **Pre-Payment and Reinvestment Risk**

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

### **Limited Ability to Hedge**

The Residential Mortgage Strategy involves risks which cannot be economically hedged. The purchase and resale and/or foreclosure on Re-Performing Loans involves operational, interest rate, real estate and bankruptcy risks. The success of the investments will depend on the Firm's ability to identify, in most cases, Re-Performing Loans which can be profitably acquired. Re-Performing Loans which the Firm incorrectly identifies as desirable investment opportunities are likely to produce losses.

### **Competition**

The SMA will face competition for attractive acquisition opportunities in Re-Performing Loans from other real estate investors, many of which have far greater financial resources than the SMA. As a result, the SMA may be unable to acquire the Re-Performing Loans it otherwise would and/or the purchase price may be significantly increased.

### **Reliance on Third-Party Service Providers**

The Firm will rely on Palisades and third-party mortgage servicers as well as other service providers familiar with the mortgage market to implement the Residential Mortgage Strategy. There are numerous different functions for which the Firm will be dependent on such third parties. The market judgment of these third parties in identifying, acquiring, servicing and selling the Re-Performing Loans will be fundamental to the success of the Residential Mortgage Strategy.

The indifference, incompetence, negligence and/or misconduct of any of such third parties could materially adversely affect the prospects for the Residential Mortgage Strategy, as well as possibly cause liability for the SMA.

### **Local Knowledge and Resources Required**

The Residential Mortgage Strategy requires detailed knowledge of local real estate, economic data and trends. Inadequate knowledge may contribute to results that are materially worse than those forecast. Many market participants will have, and have ongoing access to, significantly greater local marketing than the Firm can reasonably hope to acquire.

### **Dependence on Palisades**

The success of the Residential Mortgage Strategy is dependent upon Palisades effectively recommending pools of Re-Performing Loans to the Firm and assisting the Firm in the bidding process for such Re-Performing Loans. Were the services of Palisades prove to be ineffective or were the services of Palisades no longer available, the SMA could be materially adversely affected. Moreover, Palisades is dependent on only a few key individuals. Were the services of the key personnel at Palisades no longer available Palisades could be materially adversely affected, which could materially adversely affect the SMA.

### **Conflicts of Interest**

Palisades had a conflict of interest in recommending several pools purchased by the SMAs with respect to which such strategy is utilized. Please see Item 10 for more details.

**THE FOREGOING SUMMARY OF CERTAIN RISK FACTORS DOES NOT PURPORT TO BE A COMPLETE EXPLANATION OF THE RISKS INVOLVED IN INVESTING WITH COMMONWEALTH AS RELATED TO THE RESIDENTIAL MORTGAGE STRATEGY. CLIENTS AND FUND INVESTORS SHOULD READ ALL OFFERING DOCUMENTS AND/OR AGREEMENTS RELATED TO INVESTING WITH COMMONWEALTH.**

## **Item 9: Disciplinary Information**

CommonWealth is not aware of any legal or disciplinary events that are material to a Client's or prospective Client's evaluation of its advisory business or the integrity of its management.



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

Neither CommonWealth nor any of its management persons is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

CommonWealth is registered with the CFTC as a Commodity Pool Operator and Commodity Trading Advisor.

Neither the Firm nor any of its related persons has relationships or any arrangements with its related persons that involve financial industry activities or other financial industry affiliations that are material to the Firm's advisory business.

In connection with the Residential Mortgage Strategy only and the SMAs with respect to which such strategy is utilized, Palisades had a conflict of interest in recommending several pools purchased by such SMAs. Specifically, such pools were auctioned by a subsidiary of Banc of California, Inc. formerly doing business as First PacTrust Bancorp, Inc. ("BANC") which held an irrevocable option to purchase all of the currently issued and outstanding membership interests in Palisades, which BANC exercised on September 16, 2013. Because of such option, Palisades had an incentive to recommend transactions with BANC that provide BANC with an economic benefit. Such conflict was disclosed to the applicable SMA and the SMA has been afforded the opportunity to ask any questions and obtain any additional information necessary related to such conflict of interest prior to the acquisition of such pools. Palisades may have conflicts of interest in recommending other pools to be acquired by an SMA in the future. In such event, the conflicts will be disclosed in advance to the applicable SMA and the SMA will be afforded the opportunity to ask any questions and obtain any additional information necessary related to such conflict of interest prior to the acquisition to the pools.

## **Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

CommonWealth adopted a Code of Ethics (the “Code”) to ensure that it fulfills its role as a fiduciary to its Clients. The Code obligates CommonWealth and its related persons to put the interests of Clients before their own interests and to act honestly and fairly in all respects in their dealings with Clients. CommonWealth’s personnel are also required to comply with applicable provisions of federal securities laws and make prompt reports of any actual or suspected violations of such laws by CommonWealth or its employees.

The Code explains each person’s duty to maintain the confidentiality of CommonWealth’s proprietary information as well as a policy against insider trading and restrictions with respect to giving or receiving of business-related gifts and entertainment or making political contributions to local, state and federal candidates for public office. Specifically, the giving and receiving of business-related gifts and entertainment over a de minimis cost or value must be reported or pre-approved (depending on the amount) by the CCO as applicable. In regard to political contributions, such contributions are generally prohibited with respect to candidates for local or state-level office and contributions to candidates for federal office require pre-approval by the CCO. CommonWealth requires that all principals and employees attend an annual Code of Ethics training session.

The Code also contains CommonWealth’s personal trading policy. CommonWealth adopted a policy that limits the ability of its employees to trade in securities for their personal accounts. The Code requires all personnel to report their personal trading activity to the CCO. The policy applies to accounts of certain family members (including the spouse and minor children of a principal or employee, and immediate family members of a principal or employee who live in the same household). Under the Code, principals and employees must obtain approval prior to executing transactions in personal trading account, including transactions in private placements or initial public offerings, with certain limited exceptions for extremely liquid securities, such as Treasuries and open-end mutual funds. CommonWealth prohibits employees from executing any transaction that would have an adverse economic impact on Clients. In addition, CommonWealth maintains a restricted list containing the names of securities which “access persons” are generally prohibited from trading.

All transactions made by employees are closely monitored on an ongoing basis by the CCO to ensure pre-clearance has been sought and obtained when required, and to ensure the personal trading patterns of employees fall within the guidelines set forth in the Code. CommonWealth’s principals and employees may invest directly in one or more of the Funds managed by CommonWealth provided that they are qualified to do so.

Investors and prospective investors may obtain a copy of the Code upon request by contacting CommonWealth at (310) 806-4180 or [lk@cwoc.com](mailto:lk@cwoc.com).

The Firm, its principals, employees and affiliates may trade securities and/or commodity interests for their own accounts. The records of such trading will not be made available to investors. It is possible that principals, officers or employees of the Firm may buy or sell

securities, commodity interests or other instruments that the Firm has recommended to Clients and may engage in transactions for their own accounts in a manner that is inconsistent with the Firm's recommendations to a Client. Personal trading transactions by employees may raise potential conflicts of interest when such persons trade in a security, commodity interest or other instrument that is owned by, or considered for purchase or sale for, a Client. The Firm has adopted policies and procedures designed to detect and prevent such conflicts of interest and, when they do arise, to ensure that it effects transactions for Clients in a manner that is consistent with its fiduciary duty to its Clients and in accordance with applicable law. In accordance with the Firm's Code of Ethics, employees of the Firm are required to report all personal trading transactions via a monthly (or as generated, *e.g.*, quarterly) duplicate statement sent directly from the corresponding brokerage firm and/or otherwise.

### **The Firm as Principal**

The Firm does not generally act as principal, either buying securities for itself or its affiliates from a Client or selling securities it or its affiliates own to a Client. However, in the event that the Firm decides to engage in any such principal transaction with respect to a Client in the future, it will comply with the requirements of Section 206(3) of the Advisers Act and Section 25235(c) of the California Corporate Code by: (i) disclosing to the Client in writing the material terms of the transaction; and (ii) obtaining the written consent of the Client for such transaction (which for the avoidance of doubt will be provided by an Independent Investor Representative where applicable per a Client's offering documents). The Firm will include in such disclosure: (1) its capacity as principal; (2) the cost to the Firm of the security, in the case of a sale to the Client, or the price of the security in a resale, in the case of a purchase from the Client; and (3) the best price at which the transaction could be effected by or for the Client elsewhere if such price is more advantageous to the Client than the purchase or sale with the Firm. The Fund does not anticipate engaging in such transactions when the Firm may make a trading profit.

### **Cross Trades between Clients of the Firm**

Certain Clients will engage in cross trades from time to time. In the event that it is determined that effecting a cross trade is appropriate, prior approval by the Firm's Chief Compliance Officer must be obtained. Cross trades may only be affected when the applicable Clients have consented to the trade, the trade is done as a fair price and the trade is done for the benefit of both Clients involved in the cross trade. Funds' investors, by subscribing to interests, consent to cross trades effected at a fair price and done for the benefit of the Funds (as applicable). In the event that an inadvertent cross trade occurs, the Firm's Chief Operating Officer and CCO will determine to what extent material harm, if any, was caused to the applicable funds/accounts or the market and then proceed accordingly, which may include consulting outside counsel.

### **Co-investment with Affiliates**

A Client may "co-invest" with the Firm and/or principals of the Firm and other advisory clients in respect of certain investment opportunities. Any such co-investments will be on the same terms as made available to the Client, and no additional fees will be incurred by virtue of such investments. On occasions, the Client may acquire debt or equity interests in projects financed by other entities managed by affiliates of the Firm. In addition, the Client may loan to or invest in entities in which other Clients of the Firm are investors or lenders, either in similar investment

positions or in different positions in the capital structure with different risk and return parameters. In such event, disputes may arise between the two entities regarding the terms of the investments and the enforcement of the entities' respective rights therein. Furthermore, the Firm is not precluded from causing the Client to invest in the securities issued by companies represented in the investment portfolios of other partnerships managed by the Firm or its principals, affiliates or advisory clients. Any such purchases (or sales) will not be on a "principal-to-principal" basis and will only be offered where the Firm is satisfied that the Client's interests are not unfairly prejudiced.

CommonWealth retains the right to offer certain investors or certain existing or prospective clients the opportunity to participate in "co-investments" or other investment opportunities, which may be in the form of separately managed accounts or investment vehicles which will be managed with an investment approach that is substantially similar to, overlapping with, or entirely different from a Client. CommonWealth has no obligation to offer co-investment opportunities to any particular investor and prospective investors should not invest in a Client with the expectation they will be afforded the opportunity to participate in co-investments.

### **Board Membership and Control Positions**

Subject to the limitations contained in CommonWealth's compliance manual, employees of CommonWealth may serve on boards of directors or executive committees or in other management capacities at companies in which a Client invests, either directly or indirectly. Serving in such a capacity may expose such employee, and by association CommonWealth and the Client, to certain limitations on the ability to trade the securities of the issuer company and certain conflicts of interest. An employee may become aware, from time to time, of material non-public information about the company in which the Client invests, and the employee's knowledge is likely to be attributed to CommonWealth and the Client, and therefore, the Client's ability to trade the securities of such company may become substantially restricted. The Client's ability to buy and sell such securities may be limited to such times as company insiders are permitted to do so. Such limitations may cause the Client to forgo sales that it would otherwise make, thereby exposing the Client to losses, or to forgo purchases, thereby exposing the Client to lost opportunities.

Furthermore, the exercise of control or influence over the management and policies of a company through the service of an officer or employee of CommonWealth as an officer or director of such company could expose the assets of the Client to claims by the portfolio company, its security holders and creditors, or could impose additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability. If these liabilities were to occur, the Client directly, and the investors indirectly, could suffer losses in their investments.

## **Item 12: Brokerage Practices**

In selecting a broker or dealer for any transaction or series of transactions, the Firm's policy is to seek the best execution of orders at the most favorable price in light of the overall quality of brokerage and research services provided. The determination of what is expected to result in best execution at the most favorable price involves a number of largely judgmental factors, including, for example, net price, reputation, financial strength and stability, efficiency of execution, block trading and block positioning capabilities, error correction capabilities, availability and costs of securities to borrow (with respect to short sales), willingness to execute related or unrelated difficult transactions in the future, research services provided to the Firm, and other matters ordinarily involved in the receipt of brokerage services generally. In selecting a broker or dealer for any transaction or series of transactions, the Firm does not necessarily solicit competitive bids and is under no duty to obtain the lowest commission or best net price for the Client on any particular transaction. The Firm conducts a quarterly review of best execution.

The Firm may effect securities transactions which cause the Client to pay an amount of commission (as that term may be interpreted from time to time by relevant regulatory authorities) in excess of the amount of commission another broker would have charged; provided, however, that the Firm determines in good faith that such amount of commission is reasonable in relation to the value of brokerage and research services provided by such broker, viewed in terms of either the specific transaction or the Firm's overall responsibilities to the accounts for which the Firm exercises investment discretion. The receipt and use of such services will not reduce the Firm's customary and normal research activities.

### **Soft Dollar Policy**

Section 28(e) of the Exchange Act provides a safe harbor that allows an investment adviser to pay more than the lowest available commission in order to obtain brokerage and research services (commonly referred to as a "soft dollar" arrangement). Commonwealth does not utilize third-party soft dollar arrangements such as commission sharing accounts or similar brokerage commission conduits whereby Commonwealth generates "commission credits" through trading that are used to pay for third party research or related products and services. Commonwealth also does not expressly agree to provide a certain level of execution to a broker or dealer in exchange for research products or services.

However, Commonwealth may utilize proprietary research provided by brokers or dealers (which may include information on the economy, industries, political developments, credit analysis, performance analysis, individual companies and statistical information), as well as access to corporate officers of public companies and other access opportunities that provide value to Commonwealth's investment management activities which Commonwealth would have otherwise had to produce or pay for itself. In such circumstances, Commonwealth operates within the safe harbor provided by Section 28(e) of the Exchange Act and subject to prevailing guidance provided by the SEC regarding Section 28(e). As a result, Commonwealth may effect securities transactions which cause a Client to pay an amount of commission (as that term may be interpreted from time to time by relevant regulatory authorities) in excess of the amount of commission another broker would have charged. However, Commonwealth believes it is important to its investment decision-making processes to have access to such research and that this research ultimately benefits the Client accounts. Subject to best execution,

CommonWealth may effect securities transactions with a specific broker or a dealer in recognition of such services.

Further, consistent with Section 28(e), research products or services obtained with "soft dollars" generated by Clients may be used by CommonWealth to service one or more Client accounts, including Client accounts that may not have paid for the soft dollar benefits. CommonWealth does not seek to allocate soft dollar benefits to Client accounts in proportion to the soft dollar credits the Clients generate.

### **Trade Error Policy**

CommonWealth has a trade error policy in place designed to detect and correct in a timely manner any trade errors that may occur and to minimize related losses. Trade errors are documented and reported to CommonWealth's supervisory personnel, and reviewed to assess whether an error was a result of a weakness in internal procedures and controls. If it is determined that a weakness in internal controls caused or contributed to the error, mitigating controls are established to rectify the identified control weakness.

It is CommonWealth's policy generally not to reimburse Clients for any errors or mistakes with respect to CommonWealth's placing or executing trades for the Client, as such errors are considered by CommonWealth to be a cost of doing business. However, CommonWealth will be obligated to reimburse the Client for any trade error resulting from CommonWealth's fraud, gross negligence or willful misconduct. CommonWealth, subject to its fiduciary obligations, will determine whether or not any trade error is required to be reimbursed in accordance with this policy. Any positive trade errors will be for the benefit of the Client and not retained by CommonWealth.

### **Capital Introduction**

Some of the Firm's executing and prime brokers, from time to time, refer potential clients to the Firm or arrange for meetings with potential clients who are also often clients of the broker. Although this may create a potential conflict of interest, capital introduction is not a consideration when selecting or retaining prime brokers or executing trades. While the meetings may be arranged by the brokers, there is no guarantee that the clients will invest with the Firm. Other than the standard commission rates paid by the Firm's funds and accounts, and customary prime brokerage fees, the brokers do not receive any compensation, directly or indirectly, for the meeting or the subsequent investments, if any.

### **Aggregation and Allocation of Orders**

The Firm may aggregate sale and purchase orders of securities held by a Client with similar orders being made simultaneously for any other Client if, such aggregation is consistent with the Firm's duty to obtain best execution and with the investment guidelines and restrictions of the Clients. The Clients are treated on a fair and equitable basis and no Client will be favored over any other Client. Generally, each fund or account that participates in an aggregated order will participate at the average price for all of the transactions in that security on a given business day, with transaction costs shared *pro rata* based on each participant's participation in the transaction. The Firm receives no additional compensation or remuneration for such aggregation.

Aggregated orders will be allocated among the participants in accordance with the Firm's allocation policy. Aggregated orders filled in their entirety will be allocated *pro rata* among the participants to the extent there are no Client-imposed restrictions or different investment guidelines and/or risk parameters. Partially filled orders, will generally be allocated *pro rata* in proportion to the size of the orders placed for each participant to the extent practicable. Notwithstanding the forgoing, an aggregated order may be filled on a basis different from that specified in the allocation policy if all participants receive fair and equitable treatment. Reasons for allocating on a basis different from than specified in the allocation policy include, but are not limited to a) a participant's investment guidelines and restrictions, b) available cash, c) liquidity requirements, d) other tax or legal reasons, e) to avoid odd-lots or f) in cases when a pro-rata allocation would result in a de-minimis allocation to one or more Clients.

### **Item 13: Review of Accounts**

CommonWealth's Chief Investment Officer (the "CIO") and other investment professionals review Client portfolios on a daily basis and monitor based on various risk metrics, exposures and hedges on a daily basis. In addition, each portfolio investment is reviewed at least weekly. In addition, the Firm's risk committee which oversees the risk management process meets as necessary when internal exposure limits are reached or may be reached by a proposed trade.

The Fund and the Firm will use reasonable efforts to deliver the following written reports: (a) monthly statements of an investor's account statements and Fund performance in such form as determined by the Firm from time to time; and (b) such other reports as the Firm determines appropriate.

As soon as reasonably practicable following the Fund's fiscal year-end (typically within 120 days of such date), the Fund or the Firm will send to all investors and any other relevant regulatory authority the audited accounts of the Fund prepared in accordance with GAAP, including a description of the Fund's investments and income and capital statements as of the fiscal year-end.

SMAs receive ongoing written reports consistent with the applicable governing documents.



## **Item 14: Client Referrals and Other Compensation**

CommonWealth does not receive an economic benefit from a third party for providing investment advice or other advisory services to Clients.

At this time, CommonWealth does not directly or indirectly compensate any third party for Client or investor referrals. If CommonWealth determines to enter into such an arrangement in the future, this Item will be amended as appropriate.

CommonWealth retains a general business consultant which also recommends advisors to several of such business consultant's clients. CommonWealth does not pay any compensation to the consultant for recommending CommonWealth to its clients and the agreement between said consultant and CommonWealth explicitly prohibits the consultant from soliciting any offer to buy or sell Funds' securities.

### **Capital Introduction**

Some of the Firm's executing and prime brokers, from time to time, refer potential clients to the Firm or arrange for meetings with potential clients who are also often clients of the broker. Although this may create a potential conflict of interest, capital introduction is not a consideration when selecting or retaining prime brokers or executing trades. While the meetings may be arranged by the brokers, there is no guarantee that the clients will invest in the Fund or otherwise with the Firm. Other than the standard commission rates paid by the Firm's funds and accounts, and customary prime brokerage fees, the brokers do not receive any compensation, directly or indirectly, for the meeting or the subsequent investments, if any.

### **Side Letters**

To the extent permitted by the applicable governing documents, CommonWealth may, in its sole and absolute discretion, agree to waive or modify the application of any provision of a Fund's offering terms with respect to any investor, by side letter or otherwise, without obtaining the consent of any other investor; *provided*, that CommonWealth will not grant "preferential liquidity" (as interpreted from time to time by the SEC) to any investor. However, if CommonWealth believes that no harm to the Fund or continuing investors would result, CommonWealth may waive redemption notice requirements without the consent of any other investor. By way of example and without limitation, such side letters may provide for the following modified terms: (i) various notification requirements (*e.g.*, upon substantial redemptions by other investors or legal or regulatory actions); (ii) limitations on the Fund's ability to distribute securities in kind upon a redemption request; (iii) covenants for the provision of audited financial statements within certain periods of time; (iv) special redemption rights for key men changes and capital reductions; (v) covenants requiring the provision of portfolio holdings; (vi) reduced fees or fee rebates; (vii) minor investment restrictions that do not materially affect the Fund; (viii) the provision of periodic pricing information; (ix) subject to the above provision regarding "preferential liquidity," the waiver or modification of redemption and/or transfer restrictions (such as redemption fees, lock-up provisions or affiliated transfers), mandatory redemption terms or notice requirements; or (x) provisions necessary to

accommodate a particular investor's legal, tax, sovereign or regulatory status, accounting considerations, contractual obligations, or internal guidelines or policies.

## **Item 15: Custody**

While CommonWealth may be deemed to have custody of Client funds and securities, CommonWealth does not maintain physical custody of Clients' assets. All Client assets and securities are held at accounts maintained in their name with qualified custodians within the meaning of the applicable rules under the Advisers Act. Investors and clients should carefully review any statement or reports provided by a Fund's administrator as well as a Fund's audited financial statements.

Investors in the Funds receive audited annual account statements of the Funds, prepared by an independent public accountant in accordance with generally accepted accounting principles, typically within 120 days of the Funds' fiscal year end, as well as monthly account statements directly from the Funds' independent administrator.

## **Item 16: Investment Discretion**

CommonWealth has discretionary investment authority to manage securities accounts on behalf of several of the Firm's Clients. This discretionary authority is provided in the applicable Client's governing documents, including (as applicable) its Limited Partnership Agreement, investment management agreement and Offering Memorandum or in the case of an SMA or sub-advisory relationship, the applicable investment management agreement. CommonWealth will buy and sell securities and other instruments for Clients on a discretionary basis in a manner consistent with each Client's stated investment objectives and restrictions. Various securities and/or tax laws as well as internal compliance policies may impose additional restrictions on the instruments that may be traded.

For the avoidance of doubt, with the exception of the Non-Discretionary Client, CommonWealth executes all transactions on a discretionary basis for its Clients.

## Item 17: Voting Client Securities

CommonWealth has adopted the following proxy voting policy as required by the Advisers Act.

### 1. General Policy

CommonWealth's general policy is to not vote on proxy proposals, amendments, consents or resolutions relating to Client securities, including interests in private investment funds, if any, (collectively, "proxies"). In general, CommonWealth believes that the impact on the value of the securities in which proxies would be voted does not outweigh the anticipated costs and benefits associated with the respective proxy.

While CommonWealth will generally not vote on proxies, each proxy will be assessed by investment personnel for its material impact on either the value of the underlying security or its potential impact on the underlying investment thesis of the respective security. For those proxies that present a material impact on the value of the underlying security or may pose to alter or affect the underlying investment thesis of the respective security, CommonWealth may choose to exercise its voting authority and when it does, will do so in a manner that serves the best interests of the Clients managed by CommonWealth, as determined by CommonWealth in its discretion, taking into account relevant factors.

In all cases where a proxy is voted, the reason for the decision as to why the proxy was voted, along with a record of the vote, will be retained by the CCO.

CommonWealth will not abstain from voting or affirmatively decide not to vote a proxy if the Client is a plan asset fund subject to the requirements of the Employee Retirement Income Security Act of 1974, as amended.

### 2. Conflicts of Interest

The COO and CCO will monitor the potential for conflicts of interest on the part of CommonWealth with respect to proxy voting as a result of personal relationships, significant Client relationships, potential conflicts of interest among Clients or special circumstances that may arise during the conduct of CommonWealth's business. If a conflict of interest is identified, CommonWealth will not make related proxy voting decisions until it has been determined that the conflict of interest is not material or a method for resolving the conflict of interest has been agreed upon and implemented.

The COO and CCO will determine whether a conflict of interest is material. Materiality determinations will be based on an assessment of the particular facts and circumstances. The CCO will maintain a written record of all materiality determinations.

If it is determined that a conflict of interest is not material, CommonWealth may vote the proxy, notwithstanding the existence of the conflict.

If it is determined that a conflict of interest is material, one or more methods may be used to resolve the conflict, including:

- Abstain/not vote;
- disclosing the conflict to the Client and obtaining its consent before voting;
- engaging a third party to recommend a vote with respect to the proxy; or
- such other method as is deemed appropriate under the circumstances given the nature of the conflict.

The CCO will maintain a written record of the method used to resolve a material conflict of interest.

### **3. Procedures for Proxies**

As mentioned above, while CommonWealth will generally not vote on proxies, each proxy will be assessed by investment personnel for its material impact on either the value of the underlying security or its potential impact on the underlying investment thesis of the respective security. For those proxies with respect to which CommonWealth chooses to exercise its voting authority the COO or CCO will execute and submit the proxy to the company and will update the Client's proxy voting record. The COO or CCO is responsible for the actual voting of all proxies in a timely manner. The CCO and COO are responsible for monitoring the effectiveness of the policies.

### **4. Record of Proxy Voting**

The COO and CCO will maintain or have available written or electronic copies of each proxy statement received and of each executed proxy. The COO or CCO will also maintain records relating to each proxy including the voting decision with regard to each proxy and any documents created by an investment personnel or CommonWealth (or others) that were material to making the voting decision.

CommonWealth's proxy voting policy and procedures are available for review. In addition, our proxy voting record is available to investors. Please contact us at (310) 806-4180 or [gs@cwoc.com](mailto:gs@cwoc.com) if you have any questions or if you would like to review either of these documents.

## **Item 18: Financial Information**

This Item is not applicable.