

**ITEM 1
COVER PAGE**

PART 2A OF FORM ADV: FIRM BROCHURE

MERCHANTS' GATE CAPITAL LP

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This brochure (this "Brochure") provides information about the qualifications and business practices of Merchants' Gate Capital LP ("Merchants' Gate", "we" or "us"). If you have any questions about the contents of this Brochure, please contact us at (212) 993-7040 or ir@mgatecap.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

A copy of this Brochure and additional information about Merchants' Gate are also available on the SEC's website at www.adviserinfo.sec.gov.

Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

ITEM 2

MATERIAL CHANGES

This Brochure is Merchants' Gate's initial Form ADV Part 2A submitted with its application for registration with the SEC; therefore, there are no material changes to report. If Merchants' Gate makes any material changes to this Brochure, this Brochure will be revised and include a summary of such changes under this Item 2.

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ITEM 4 ADVISORY BUSINESS

A. General Description of Advisory Firm.

Merchants' Gate, a Delaware limited partnership, was formed in 2007 and is located in New York City. The principal owner of Merchants' Gate is Jason Capello. Mr. Capello owns interests in Merchants' Gate directly (as a limited partner) and indirectly (as a member of Merchants' Gate Capital GP LLC, a Delaware limited liability company that is the general partner of Merchants' Gate). Merchants' Gate Capital General Partner LLC, a Delaware limited liability company affiliated with Merchants' Gate (the "General Partner"), serves as the general partner of the Onshore Fund and the Offshore Master Fund (each, as defined below). Mr. Capello is also the principal owner of the General Partner.

B. Description of Advisory Services.

1. *Advisory Services.*

Merchants' Gate serves as the investment adviser with discretionary trading authority with respect to (1) Merchants' Gate Onshore Fund LP, a Delaware limited partnership (the "Onshore Fund"), (2) Merchants' Gate Offshore Fund Ltd, a Cayman Islands exempted company (the "Offshore Fund"), and (3) Merchants' Gate Offshore Limited Partnership, a Cayman Islands exempted limited partnership (the "Offshore Master Fund") and, together with the Onshore Fund and the Offshore Fund, the "Funds"). The Funds are hedge funds that focus on making investments primarily in long/short equity. Subject to the terms described below, the Funds offer and sell their respective interests and shares in private transactions solely to accredited investors, qualified clients, qualified purchasers and certain knowledgeable employees of Merchants' Gate and its affiliates.

As used herein, the term "client" generally refers to each of the Onshore Fund, the Offshore Fund and the Offshore Master Fund. Merchants' Gate does not have any clients other than the Funds.

2. *Investment Strategies and Types of Investments.*

Merchants' Gate was founded with the objective of preserving capital and generating long-term growth for the Funds' investors. Merchants' Gate's primary investment objective is to generate absolute returns over a multi-year period through research-intensive long duration investments in equity and equity-related securities.

A more detailed description of the investment strategies pursued and types of investments made by Merchants' Gate is provided in Item 8 (Methods of Analysis, Investment Strategies and Risk of Loss).

C. Availability of Customized Services for Individual Clients.

Merchants' Gate's investment decisions and advice with respect to each Fund are subject to each Fund's investment objectives and guidelines, as set forth in each such Fund's confidential offering document and/or constituent documents, which may impose restrictions on investing in certain securities or types of securities.

D. Wrap Fee Programs.

Merchants' Gate does not participate in wrap fee programs.

E. Assets Under Management.

As of December 31, 2011, Merchants' Gate's total assets under management were approximately \$3,302,045,350. All such assets were managed on a discretionary basis.

This Brochure does not constitute an offer to sell or solicitation of an offer to buy any securities. The securities of the Funds are offered and sold on a private placement basis under exemptions promulgated under the Securities Act of 1933, as amended (the "Securities Act"), and other exemptions of similar import under U.S. state securities laws and the securities laws of other jurisdictions where any offering may be made. Any such offer or solicitation will be made only by means of a confidential offering memorandum and related subscription materials.

ITEM 5 FEES AND COMPENSATION

A. Advisory Fees and Compensation.

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

Merchants' Gate receives an asset-based fee ("Management Fees") from each of the Onshore Fund and the Offshore Fund. The Onshore Fund and Offshore Fund offer three classes of interests or shares to investors, Class A Interests, Class B Interests and Class C Interests and Class A Shares, Class B Shares and Class C Shares, respectively. The three classes of interests and shares are subject to different Management Fees. The Onshore Fund and the Offshore Fund will generally pay to Merchants' Gate a Management Fee, payable in advance at the beginning of each quarter, equal to (i) 0.50% (2.00% annualized) of (a) the value of each capital account balance relating to a Class A Interest or (b) the net asset value of each series of Class A Shares, as applicable, and (ii) 0.375% (1.5% annualized) of (x) the capital account balance relating to a Class B Interest or (y) the net asset value of each series of Class B Shares, as applicable, in either case, as of the beginning of such quarter. Holders of Class C Interests and Class C Shares do not bear any Management Fees. However, Class C Interests and Class C Shares are only available to investors who are principals or employees of Merchants' Gate.

In addition, the Onshore Fund and the Offshore Master Fund are also subject to a performance-based profit allocation (the "Incentive Allocation"), which is allocable to the General Partner. Investors who are holders of Class C Interests and Class C Shares do not bear an Incentive Allocation in connection with their investments. Generally, at the end of each fiscal year of the Onshore Fund, an aggregate amount equal to (i) 20% of the excess of any net capital appreciation allocated to any capital account relating to a Class A Interest, and (ii) 17% of the excess of any net capital appreciation allocated to any capital account relating to a Class B Interest, in either case, over the Management Fees debited to such capital account for such fiscal year, will be reallocated to the capital account of the General Partner. Similarly, at the end of each fiscal year of the Offshore Fund, an aggregate amount equal to (i) 20% of the excess of any net capital appreciation allocated to each capital account corresponding to a series of Class A Shares, and (ii) 17% of the excess of any net capital appreciation allocated to each capital account corresponding to a series of Class B Shares (in each case, adjusted for any redemption of shares made during such fiscal year from the series of shares corresponding to such capital account and any accrual for the Incentive Allocation), in either case, over (a) the Management Fees debited to the series of shares corresponding to each capital account for such fiscal year and (b) any expenses attributable to such series of shares that are charged at the Offshore Fund level and are not otherwise reflected in the Offshore Master Fund's net asset value, will be reallocated to capital account of the General Partner by the Offshore Master Fund.

Our current fee structures for investors in the Funds are summarized below. Investors in any investment fund that we may advise in the future or in additional classes of interests of existing Funds may bear different fees than those described below.

| <u>Class Interests</u> | <u>Management Fee</u> | <u>Incentive Allocation</u> |
|------------------------|-----------------------|-----------------------------|
| Class A | 2.00% | 20.0% |
| Class B | 1.50% | 17.0% |
| Class C | N/A | N/A |

Merchants' Gate does not negotiate Management Fees and Incentive Allocation with investors in the Funds; however, Merchants' Gate and the General Partner or the board of directors of the Offshore Fund, as applicable, in their sole discretion, may elect to waive all or any portion of the Management Fee and Incentive Allocation with respect to any investor in any Fund.

B. Payment of Fees.

Fees and compensation paid to Merchants' Gate or the General Partner by the Funds are generally deducted from the assets of such clients. As discussed above, Management Fees are generally deducted on a quarterly basis and the Incentive Allocation is generally allocated on an annual basis.

C. Additional Fees and Expenses.

In addition to Management Fees and Incentive Allocations, investors in the Funds bear other fees and expenses of the Funds as described in the confidential offering memoranda and/or constituent documents of the Funds. Expenses borne by the Funds typically include expenses related to risk management provided by third-parties, third-party valuation services, legal expenses, internal and external accounting, audit and tax preparation expenses, organizational expenses, expenses relating to the offer and sale of the interests in the Funds, entity-level taxes, fees of the Funds' administrator, expenses related to the maintenance of the Funds' registered office, corporate licensing, extraordinary expenses and other investment-related expenses. Other investment-related expenses may include, but are not limited to, brokerage commissions and transaction costs, clearing and settlement charges, custodial fees, interest expense, consulting, investment banking and any other professional fees, investment-related travel and lodging expenses, compensation relating to particular investments or contemplated investments and research-related expenses, including, without limitation, quotation equipment and services. In addition, withdrawals of Class A Interests or Class A Shares made prior to the second-year anniversary of an investor's initial investment in the Onshore Fund or the Offshore Fund, as applicable, will be subject to a withdrawal fee equal to 5% of the withdrawal proceeds.

The investors in the Funds are also subject to brokerage and transaction costs. See Item 12 (Brokerage Practices).

D. Prepayment of Fees.

Generally, the Onshore Fund and the Offshore Fund pay Merchants' Gate the Management Fee quarterly in advance based on such Fund's value. The Management Fee is pro-rated for any partial period.

E. Additional Compensation and Conflicts of Interest.

Neither Merchants' Gate nor its supervised persons (i.e., its officers, directors or employees) accept compensation for the sale of securities or other investment products to the Funds.

ITEM 6
PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

As stated in Item 5 (Fees and Compensation) above, the General Partner receives a performance-based Incentive Allocation from the Onshore Fund and the Offshore Master Fund (through which the Offshore Fund invests), which, in each case, is based on the net capital appreciation, if any, in the net assets of such Fund. All funds managed by Merchants' Gate are subject to a performance-based fee, and therefore, Merchants' Gate does not have the conflict of interest that may result when a manager advises clients that are subject to a performance-based fee alongside clients that are not subject to a performance-based fee.

ITEM 7

TYPES OF CLIENTS

Merchants' Gate's only clients are the Funds (i.e., there are presently no direct advisory clients other than the Funds). Investors in the Funds may include funds of hedge funds, family offices, endowments, charitable foundations, pension plans, investment companies, sovereign entities, other institutional investors, trusts and high net worth individuals. Investors in the Funds must meet certain suitability requirements as set forth in each Fund's confidential offering memorandum. Generally, the minimum initial capital contribution that an investor may make to the Funds is \$5,000,000, although that amount may be waived by the General Partner in the case of the Onshore Fund and the board of directors of the Offshore Fund in the case of the Offshore Fund (but not below \$100,000).

ITEM 8

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

A. Methods of Analysis and Investment Strategies.

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

We believe there are a limited number of extraordinary investment opportunities available at any time and that even among those extraordinary investments there is a hierarchy of quality and risk-adjusted return potential. Controlling the quality of research can become more difficult in an analyst intensive model. As a result, rather than spread the investor's capital and Merchants' Gate's human resources across a large number of investments, we concentrate investing in a small number of investments, such that typically 12 to 15 positions will make up 80% of the exposure on the long side of the portfolio. While this concentration may result in more volatility in the short-term as compared to a larger equally-hedged portfolio, we believe that the quality of the research will compensate over the long term and deliver returns consistent with the success of its investments, not simply the returns of the related global indices.

We seek to optimize returns through an intense fundamental research discipline and rigorous financial analysis. Investments, although concentrated in a relatively small number of positions, may be made across a broad spectrum of industries and geographies, with a strong emphasis on companies in industries that are not susceptible to rapid and unpredictable change. We primarily look at industries on a global basis in four categories:

- Energy and other Classic Basic Industries
- Transports and Other Industrials
- Retail and Other Consumer
- Business Services

We believe that in general these industries provide a product or service whose price is dictated by the cost of marginal new supply and consistent demand over time. We focus on businesses that can create value over time through secular industry growth, market share gain, the generation of free cash flow that are protected by some form of barrier to entry which may be a low cost position, a first-mover advantage or an asset base that cannot be re-created easily.

In that regard, on the long side we search globally for businesses that are sustainable value creators with superior management whose products or services have some base level of demand over time. Similarly, we avoid unquantifiable liabilities, questionable management practices and

value-destroying businesses regardless of price or short-term potential. Alternatively, on the short side we search globally for inferior businesses with weak management teams, no barriers to entry and/or high cost positions, or overvalued companies heading into a cyclical or secular downturn.

We pursue a “bottom-up” strategy of analysis and portfolio construction, with both long and short positions selected one stock at a time. At the same time, we take into consideration industry-wide factors and certain broader market conditions in our assessment of the risk/reward profile with respect to determining position size.

Merchants’ Gate employs a team approach to stock picking. The team consists of analysts who are generalists and who perform fundamental research within the spaces that the senior members of the team have experience and expertise. These analysts build expertise over time but generally do not only focus on “their” sector or geographic region in order to foster optimal learning and perspective. In order to effectuate our approach, we endeavor to build a first class research capability in an environment that instills a passion for investing and promotes superior stock picking.

The research process and investment framework we employ generally includes a detailed analysis of both the industry as well as the specific company. Industry analysis includes an understanding of peak, trough and mid-cycle economics; thorough analysis of past cycles; quantifying the economics of new supply to the industry as well as the competitiveness of alternative products or services; and understanding secular rates of growth for the industry as well as market share movements over time. Company analysis includes discussions with decision-makers at the company, competitors and suppliers, as well as modeling the business using a multivariable model and range of scenarios.

As a result of our concentration and long-term holding period, we need to identify, research and execute a limited number of ideas. Merchants’ Gate’s approach to independent investment research is not simply to find great investment ideas for the portfolio today, but also to uncover attractive businesses that may, due to changes in industry structure, management or valuation, become investments for the Funds in the future. Once such ideas are identified, they are included in our “library,” where they are monitored and updated over time, enabling us to act decisively and quickly when valuation becomes compelling.

Risk is managed closely, with our intense fundamental research discipline being the first “line of defense.” We then regularly monitor our investment exposure, with a focus on industry and geographic exposure, exposure to a particular investment “theme,” exposure to commodity prices, economic exposure and absolute risk/return. We may also hedge currency risks on a case-by-case basis.

Merchants’ Gate’s “net exposure” is generally in a range of 20% to 80% with average exposure of 40% to 50%.¹ We may employ leverage but do not expect “gross exposure” to exceed 100%

¹ A Fund’s “net exposure” is defined as the value of its long positions less the value of its short positions divided by the Fund’s net assets. For example, if a Fund has net assets of \$100 and has long positions valued at \$120 and short positions valued at \$80, the Fund would have a net exposure of 40% ($[\$120 - \$80] / \$100$).

on the long side and 150% overall on a regular basis,² although from time to time it may be higher or lower. On the long side, position sizes are typically between 2% and 10% (based on market value). On the short side, position sizes are typically between 0.5% to 5% (based on market value) and generally have a cap of five days to cover assuming 20% trading volume.

Because the Funds invest primarily in publicly-traded equity securities, we believe the primary risk of loss is associated with securities selection. Merchants' Gate strives to minimize such risk through our research discipline, portfolio construction, and maintenance of liquidity and monitoring.

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

Merchants' Gate's investment program is speculative and may entail substantial risks. Since market risks are inherent in all securities investments to varying degrees, there can be no assurance that our investment objectives will be achieved. In fact, certain investment practices described above can, in some circumstances, potentially increase the adverse impact on the Funds' investment portfolios. The material risks presented by the strategies and financial assets pursued by Merchants' Gate are set forth below. Additional information is contained in the confidential offering memorandum related to each offered fund. This Brochure does not purport to contain a complete disclosure of all risks that may be relevant to prospective investors in the Funds. These risk factors include only those risks that Merchants' Gate believes to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by Merchants' Gate.

Concentration of Investments. Merchants' Gate concentrates a substantial portion of its portfolio in a small number of investments, typically 12 to 15 on the long side of the portfolio. Subject to Merchants' Gate's risk framework, in the normal course of making investments on behalf of the Funds, Merchants' Gate may select investments for the Funds that potentially could be concentrated, for example, in a limited number or type of financial instruments or in any one issuer, industry, sector, strategy, emerging market or geographic region. Market conditions may create opportunities within certain investment strategies, which cause Merchants' Gate to increase the concentration of certain investment strategies. Such concentration of risk may expose the Funds to losses disproportionate to those incurred by the market in general if the areas in which the Funds' investments are concentrated are disproportionately adversely affected by price movements.

Availability of Investment Strategies. The success of the investment activities of the Funds further depends on Merchants' Gate's ability to identify overvalued and undervalued investment opportunities and to exploit price discrepancies in the financial markets, as well as to assess the import of news and events that may affect the financial markets. Identification and exploitation of the investment strategies to be pursued by Merchants' Gate involves a high degree of uncertainty. No assurance can be given that Merchants' Gate will be able to locate suitable

² A Fund's "gross exposure" is defined as the value of its long positions plus the value of its short positions divided by its net assets. For example, if a Fund has net assets of \$100 and has long positions valued at \$120 and short positions valued at \$80, the Fund would have a gross exposure of 200% $(\$120 + \$80) / \$100$.

investment opportunities in which to deploy all of the Funds' assets or to exploit discrepancies in the securities and derivatives markets.

Long-Biased Investment Program. Merchants' Gate's investment strategy is intended to have a long bias. Therefore, any decline in the overall market may result in a decline in the value of the Funds' assets.

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

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

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

Derivatives. Merchants' Gate may utilize both exchange-traded and over-the-counter derivatives, including, but not limited to, futures, forwards, swaps, options and contracts for differences, as part of its investment strategies and for hedging purposes. Regulatory restraints may restrict the instruments that Merchants' Gate may trade. Derivative instruments are highly volatile, involve certain special risks and expose investors to a high risk of loss. The low initial margin deposits normally required to establish a position in such instruments permit a high degree of leverage. As a result, depending on the type of instrument, a relatively small movement in the price of a contract may result in a profit or a loss which is high in proportion to the amount of funds actually placed as initial margin and may result in unquantifiable further losses exceeding any margin deposited. In addition, daily limits on price fluctuations and speculative position limits on exchanges may prevent prompt liquidation of positions resulting in potentially greater losses. Further, when used for hedging purposes there may be an imperfect correlation between these instruments and the investments or market sectors being hedged. Transactions in over-the-counter contracts may involve additional risk as there is no exchange

market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of a position or to assess the exposure to risk. Contractual asymmetries and inefficiencies can also increase risk, such as break clauses, whereby a counterparty can terminate a transaction on the basis of a certain reduction in net asset value of the Funds, incorrect collateral calls or delays in collateral recovery. Merchants' Gate may also sell covered and uncovered options on securities. To the extent that such options are uncovered, Merchants' Gate could incur an unlimited loss.

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

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

Illiquid Securities. From time to time, Merchants' Gate may invest in structured products, derivatives and other types of unregistered securities, which are generally not publicly-traded. Merchants' Gate may not be able to readily dispose of such non-publicly-traded financial instruments and, in some cases, may be contractually prohibited from disposing of such financial instruments for a specified period of time. Accordingly, Merchants' Gate may be forced to sell its more liquid positions at a disadvantageous time, resulting in a greater percentage of the portfolio consisting of illiquid securities. In addition, the market prices, if any, for such illiquid financial instruments tend to be volatile, and Merchants' Gate may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of illiquid securities also often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Furthermore, valuing such financial instruments may be difficult and lead to uncertain marks. It also should be noted that, even those markets which Merchants' Gate expects to be liquid can experience periods, possibly extended periods, of illiquidity.

Use of Options. Merchants' Gate may buy or sell (write) both call options and put options (either exchange-traded, over-the-counter or issued in private transactions), and when it writes options it may do so on a "covered" or an "uncovered" basis. Merchants' Gate's options

transactions may be part of a hedging tactic (i.e., offsetting the risk involved in another securities position) or a form of leverage, in which Merchants' Gate has the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be large, depending on the circumstances. In general, the principal risks involved in options trading can be described as follows, without taking into account other positions or transactions Merchants' Gate may enter into.

When Merchants' Gate buys an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the security in the case of a put, could result in a total loss of Merchants' Gate's investment in the option (including commissions). When Merchants' Gate sells (writes) an option, the risk can be substantially greater than when it buys an option. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. The risk is theoretically unlimited unless the option is "covered." If it is covered, an increase in the market price of the security above the exercise price would cause Merchants' Gate to lose the opportunity for gain on the underlying security – assuming it bought the security for less than the exercise price. If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction costs) would provide profit that would reduce or offset any loss Merchants' Gate might suffer as a result of owning the security.

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

Other Derivative Instruments. Merchants' Gate may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of the Funds and legally permissible. Special risks may apply to instruments that are invested in by Merchants' Gate in the future that cannot be determined at this time or until such instruments are developed or invested in by Merchants' Gate. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

Commodity-Related Instruments. The production and marketing of commodities may be affected by actions and changes in governments. In addition, commodity-related instruments may be cyclical in nature. During periods of economic or financial instability, commodity-related instruments may be subject to broad price fluctuations, reflecting volatility of energy and basic material prices and possible instability of supply of various commodities. Commodity-related instruments may also experience greater price fluctuations than the relevant commodity. In

periods of rising commodity prices, such instruments may rise at a faster rate; and conversely, in times of falling commodity prices, such instruments may suffer a greater price decline.

Loans of Portfolio Securities. Merchants' Gate may lend its portfolio securities. In the event of the bankruptcy of the other party to a securities loan, Merchants' Gate could experience delays in recovering the securities it lent. To the extent that the value of the securities Merchants' Gate lent has increased, Merchants' Gate could experience a loss if such securities are not recovered.

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

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

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

Emerging markets generally are not as efficient and liquid as those in developed countries. Furthermore, the quality and reliability of official data published by the government or securities exchanges in emerging markets may not accurately reflect the actual circumstances being reported.

The issuers of some non-U.S. securities, such as banks and other financial institutions, may be subject to less stringent regulations in emerging markets than would be the case for issuers in developed countries and therefore potentially carry greater risk. Custodial expenses for a

portfolio of emerging markets securities generally are higher than for a portfolio of securities of issuers based in developed countries.

While Merchants' Gate takes these factors into consideration in making investment decisions, no assurance can be given that we will be able to fully avoid these risks.

Undervalued/Overvalued Securities. One of the key objectives of Merchants' Gate is to identify and invest in undervalued and overvalued securities. While purchases of undervalued securities and short sales of overvalued securities offer opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the investments made by Merchants' Gate may not adequately compensate for the business and financial risks assumed. In addition, Merchants' Gate may finance any such purchases with borrowed funds and thus will have to pay interest on such funds during such waiting period.

Small and Medium Capitalization Companies. While Merchants' Gate believes securities in companies with small and medium capitalizations often provide significant potential for appreciation, the securities of certain companies, particularly smaller-capitalization companies, involve higher risks in some respects than do investments in securities of larger companies. For example, prices of small-capitalization and even medium-capitalization securities are often more volatile than prices of large-capitalization securities and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) is higher than for larger, "blue-chip" companies. In addition, due to thin trading in the securities of some small-capitalization companies, an investment in those companies may be illiquid.

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

Leverage. Leverage is a component to Merchants' Gate's investment strategies, and certain such strategies cannot be successful without the use of a substantial amount of leverage. The use of leverage will, in many instances, enable Merchants' Gate to achieve a higher rate of return than would be otherwise possible. Accordingly, Merchants' Gate may employ leverage in order to obtain investment returns. Generally, with respect to its overall portfolio, Merchants' Gate generally seeks to balance the amount of leverage to be employed and the estimated long-term volatility of the portfolio. Merchants' Gate's perception of any strategy's volatility is expected to change from time to time and the market for leverage is expected to be dynamic. Accordingly, the amount, kinds and pricing of leverage utilized with respect to such strategy will also change. An inability of Merchants' Gate to obtain a desired amount of leverage, however, may limit Merchants' Gate's overall investment exposure and/or inhibit inverse correlation, thereby reducing the performance of Merchants' Gate's investments. Leverage may take the form of, without limitation, any of the financial instruments described herein, including derivative instruments which are inherently leveraged and trading in products with embedded leverage such as options, short sales, swaps and forwards.

The instruments and borrowings utilized by Merchants' Gate to leverage investments may be collateralized by Merchants' Gate's portfolio. Accordingly, Merchants' Gate may pledge its financial instruments in order to borrow additional funds or otherwise obtain leverage for investment or other purposes. The amount of borrowings which Merchants' Gate may have outstanding at any time may be substantial in relation to its capital.

The use of leverage allows Merchants' Gate to borrow in order to make additional investments, thereby increasing its exposure to assets, such that its total assets are greater than its capital. The use of leverage magnifies the volatility of changes in the value of Merchants' Gate's investments. Accordingly, any event which adversely affects the value of an investment would be magnified to the extent the investment is leveraged. The cumulative effect of the use of leverage by Merchants' Gate in a market that moves adversely to its investments could result in substantial losses, which would be greater than if Merchants' Gate did not utilize leverage.

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

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

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

The financing used by Merchants' Gate to leverage its portfolio is currently extended by securities brokers and dealers in the marketplace in which Merchants' Gate invests. While

Merchants' Gate attempts to negotiate the terms of these financing arrangements with such brokers and dealers, its ability to do so is limited. Merchants' Gate is therefore subject to changes in the value that the broker-dealer ascribes to a given security or position, the amount of margin required to support such security or position, the borrowing rate to finance such security or position and/or such broker-dealer's willingness to continue to provide any such credit to Merchants' Gate. Because Merchants' Gate currently has no alternative credit facility which could be used to finance its portfolio in the absence of financing from broker-dealers, to the extent it used substantial leverage, it could be forced to liquidate its portfolio on short notice to meet its financing obligations. In such circumstances, the forced liquidation of all or a portion of Merchants' Gate's portfolio at distressed prices could result in significant losses to Merchants' Gate's investments.

Systemic Risk. Credit risk may also arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This is sometimes referred to as a "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which Merchants' Gate interacts on a daily basis.

Counterparty and Custodial Risk. To the extent that Merchants' Gate invests in swaps, "synthetic" or derivatives instruments, repurchase agreements, certain types of option or other customized financial instruments, Merchants' Gate takes the risk of non-performance by the other party to the contract. This risk may include credit risk of the counterparty and the risk of settlement default. This risk may differ materially from those entailed in exchange-traded transactions. Merchants' Gate's use of derivatives and other techniques (such as short sales) involves certain additional risks, including: (i) dependence on the ability to predict movements in the price of the derivative instrument and (ii) imperfect correlations between movements in the assets on which the derivative is based and movements in the reference asset.

In addition, there are risks involved in dealing with the custodians or brokers who settle trades. Securities and other assets deposited with custodians or brokers may not be identified as being assets of Merchants' Gate and hence Merchants' Gate may be exposed to a credit risk with respect to such parties. There is a risk that any of such parties could become insolvent. Although Merchants' Gate regularly monitors the financial condition of the counterparties it uses, if one or more of Merchants' Gate's counterparties were to become insolvent or the subject of liquidation proceedings in the United States (either under the Securities Investor Protection Act or the Bankruptcy Code), there exists the risk that the recovery of Merchants' Gate's securities and other assets from such prime broker or broker-dealer will be delayed or be of a value less than the value of the securities or assets originally entrusted to such prime broker or broker-dealer. Furthermore, in the event that any of Merchants' Gate's prime brokers rehypothecate Merchants' Gate's securities held with such prime broker, Merchants' Gate might be a general unsecured creditor with respect to any claims related to such securities if such prime broker was the subject of any liquidation or bankruptcy related proceeding.

In addition, Merchants' Gate may use counterparties located in various jurisdictions outside the United States. Such local counterparties are subject to various laws and regulations in various jurisdictions that are designed to protect their customers in the event of their insolvency.

However, the practical effect of these laws and their application to Merchants' Gate's investments are subject to substantial limitations and uncertainties. Investors should assume that the insolvency of any counterparty would result in a loss to Merchants' Gate's investments, which could be material.

Merchants' Gate is not subject to any formal requirements regarding the credit ratings of such counterparties and, as recent developments have shown, such credit ratings may not be accurate measures of a counterparty's creditworthiness.

Market Liquidity and Leverage. Merchants' Gate may be adversely affected by a decrease in market liquidity for the instruments in which it invests which may impair Merchants' Gate's ability to adjust its positions. The size of Merchants' Gate's positions may magnify the effect of a decrease in market liquidity for such instruments. Changes in overall market leverage, deleveraging as a consequence of a decision by the prime brokers and custodians, or other counterparties with which Merchants' Gate enters into repurchase/reverse repurchase agreements or derivative transactions, to reduce the level of leverage available, or the liquidation by other market participants of the same or similar positions, may also adversely affect Merchants' Gate's portfolio.

Hedging Transactions. The success of Merchants' Gate's hedging strategy is subject to Merchants' Gate's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. Since the characteristics of many securities change as markets change or time passes, the success of Merchants' Gate's hedging strategy is also subject to Merchants' Gate's ability to continually recalculate, readjust, and execute hedges in an efficient and timely manner. While Merchants' Gate may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance than if it had not engaged in any such hedging transactions. For a variety of reasons, Merchants' Gate may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of Merchants' Gate's portfolio holdings.

Liquidity and Market Characteristics. In some circumstances, investments may be relatively illiquid making it difficult to acquire or dispose of them at the prices quoted on the various exchanges or by various dealers. At times it may be difficult to obtain price quotes at all. Accordingly, Merchants' Gate's ability to respond to market movements may be impaired and Merchants' Gate may experience adverse price movements upon liquidation of its investments. Settlement of transactions may be subject to delay and administrative uncertainties.

Transaction Costs. From time to time, Merchants' Gate's investment approach may involve a high level of trading and turnover of Merchants' Gate's investments which may generate substantial transaction costs.

ITEM 9
DISCIPLINARY INFORMATION

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

ITEM 10
OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

A. Broker-Dealer Registration Status.

Neither Merchants' Gate nor any of its management persons is registered or has an application pending to register with the SEC as a broker-dealer or a representative of a broker-dealer.

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

Merchants' Gate and its management persons are not registered as, and do not have any application to register as, futures commission merchants, commodity pool operators, commodity trading advisors or associated persons of the foregoing entities.

C. Material Relationships or Arrangements with Industry Participants.

Merchants' Gate serves as the investment manager of each Fund. Merchants' Gate has material business relationships with the General Partner, which serves as the general partner of the Onshore Fund and the Offshore Master Fund. The General Partner may be allocated performance-based fees by the Onshore Fund and the Offshore Master Fund. See Item 5 (Fees and Compensation).

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

Merchants' Gate does not recommend or select other investment advisers for its clients.

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

A. Code of Ethics.

Merchants' Gate's has implemented and maintains a formal Code of Ethics (the "Code") that incorporates principles that all employees are obligated to uphold. These principles are designed not only to help Merchants' Gate fulfill its fiduciary obligations, but also to instill in employees Merchants' Gate's commitment to honesty, integrity and professionalism. The Code incorporates the following general principles, among others, that all employees are expected to uphold:

- employees must at all times place the interests of clients first;
- employees must conduct all personal securities transactions in a manner consistent with the Code and seek to avoid both conflicts of interest and the appearance of any conflicts of interest; and
- employees may not take inappropriate advantage of their positions.

The Code includes, among other things, provisions relating to personal securities trading, outside business activities, the acceptance of significant gifts, reporting of certain gifts and business entertainment items, and political and charitable contributions. All Merchants' Gate employees must acknowledge annually that they understand and agree to the terms of the Code.

Our Code is distributed to each employee at the time of hire. We also supplement the Code with training upon hire and periodically thereafter. Affiliated persons must provide Merchants' Gate with securities holdings reports upon commencement of employment and thereafter provide quarterly transactions reports and certifications of compliance with the Code on an annual basis.

Affiliated persons may not serve on the boards of for-profit enterprises without Merchants' Gate prior approval.

Clients and prospective clients may obtain a copy of the Code by addressing a request for such Code to Merchants' Gate Chief Compliance Officer, 712 Fifth Avenue, 44th Floor, New York, NY 10019.

B. Securities in which Merchants' Gate or a Related Person has a Material Financial Interest.

Neither Merchants' Gate nor any of its related persons recommends to clients, or buys or sells for client accounts, securities in which Merchants' Gate or any of its related persons has a material financial interest.

C. Investing in Securities that Merchants' Gate or a Related Person Recommends to Clients.

The Code generally prohibits employees from investing in single-name publicly-traded stocks and bonds, as well as exchange traded funds ("Covered Securities"). We believe that this

prohibition effectively addresses the material potential conflict of interest with our clients that may arise as a result of personal trading activities. In addition, employees must generally pre-clear sales of Covered Securities from their personal accounts. We also limit the ability of employees to participate in private placements.

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

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

ITEM 12 BROKERAGE PRACTICES

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

The securities transactions of the Funds can be expected to generate a substantial amount of brokerage commissions and other compensation, including clearing fees and charges, all of which will be paid by the Funds. Merchants' Gate has complete discretion in deciding what brokers and dealers the Funds will use and in negotiating the rates of compensation the Funds will pay. Merchants' Gate selects brokers and dealers on the basis of best execution and in consideration of relevant factors, including, but not limited to, price quotes; the size of the transaction and ability to find liquidity; the broker-dealer's promptness of execution; confidentiality considerations; the nature of the market for the financial instrument; the timing of the transaction; difficulty of execution; the broker-dealer's expertise in the specific financial instrument or sector in which the Fund seeks to trade; the extent to which the broker-dealer makes a market in the financial instrument involved or has access to such markets; the broker-dealer's skill in positioning the financial instruments involved; the broker-dealer's financial stability; reputation for diligence, fairness and integrity; quality of service rendered by the broker-dealer in other transactions for Merchants' Gate; the quality and usefulness of research services and investment ideas presented by the broker-dealer or third parties; the broker-dealer's willingness to correct errors; the broker-dealer's ability to accommodate any special execution or order handling requirements that may surround the particular transaction; and other factors deemed appropriate by Merchants' Gate. We need not solicit competitive bids and do not have an obligation to seek the lowest available commission cost or spread.

Accordingly, if Merchants' Gate concludes that the commissions charged by a broker, or the spreads applied by a dealer, are reasonable in relation to the quality of services rendered by such broker or dealer (including, without limitation, the value of the brokerage and research products or services provided by such broker or dealer), the Onshore Fund or the Offshore Master Fund (through which the Offshore Fund invests) may pay commissions to, or be subject to spreads applied by, such broker-dealer that are greater than those another broker-dealer might charge or apply.

Merchants' Gate maintains policies and procedures to review the quality of executions.

1. *Research and Other Soft Dollar Benefits.*

Brokerage- and research-related goods and services provided by brokers and dealers through which portfolio transactions for the Funds are executed, settled and cleared may include, but are not limited to, research reports on particular industries and companies, economic surveys and analyses, recommendations as to specific securities, certain research services, and other goods and services providing lawful and appropriate assistance to us in regards to our investment decision-making responsibilities on behalf of the Funds and related accounts (collectively "soft dollar items"). Soft dollar items may be provided directly by brokers and dealers, by third parties at the direction of brokers and dealers or purchased on behalf of the Funds with credits or

rebates provided by brokers and dealers. Soft dollar items may arise from over-the-counter principal transactions, as well as exchange-traded agency transactions.

From time to time, Merchants' Gate may pay a broker-dealer commissions (or markups or markdowns with respect to certain types of riskless principal transaction) for effecting transactions in excess of that which another broker-dealer might have charged for effecting the transaction in recognition of the value of the brokerage and research services provided by the broker-dealer. The use of commissions or "soft dollars" if any, generated by the Funds through agency and certain riskless principal transactions to pay for brokerage- and research-related products or services, if any, will fall within the safe harbor created by Section 28(e) of the Securities Exchange Act of 1934, as amended. Under Section 28(e), brokerage- and research-related products or services obtained with soft dollars generated by the Funds may be used by Merchants' Gate to service accounts other than the Funds. Soft dollars generated in respect of futures, currency and derivatives transactions and principal transactions (that are not riskless principal transactions) do not generally fall within the safe harbor created by Section 28(e) and will be utilized only with respect to brokerage- and research-related products and services for the benefit of the account generating such soft dollars.

When Merchants' Gate uses client brokerage commissions (or markups or markdowns) to obtain research or other products or services, Merchants' Gate may receive a benefit because it does not have to produce or pay for such products or services (unless the cost of such products or services is to be otherwise paid for by the Funds). Merchants' Gate may have an incentive to select or recommend a broker or dealer based on our interest in receiving research or other soft dollar items, rather than on our clients' interest in receiving most favorable execution.

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

2. Brokerage for Client Referrals.

Neither Merchants' Gate nor any related person receives client referrals from any broker or dealer or third party. However, from time to time, prime brokers may assist the Funds in raising additional funds from investors, and representatives of Merchants' Gate may speak at conferences and programs sponsored by such brokers for investors interested in investing in hedge funds. Through such "capital introduction" events, prospective investors in the Funds would have the opportunity to meet with Merchants' Gate. Currently, we do not compensate any broker for organizing such events or for any investments ultimately made by prospective

investors attending such events, nor do we anticipate doing so in the future. As discussed above, subject to best execution, Merchants' Gate may consider, among other things, capital introduction and marketing assistance with respect to investors in the Funds in selecting or recommending brokers or dealers for the Funds. While such events and other services provided by a prime broker may influence us in deciding whether to use such broker in connection with brokerage, financing and other activities of the Funds, Merchants' Gate will not commit to allocate a particular amount of brokerage to a broker in any such situation.

3. *Directed Brokerage.*

Merchants' Gate does not recommend, request, require or permit a client to direct Merchants' Gate to execute transactions through a specified broker or dealer.

B. Order Aggregation.

If Merchants' Gate determines that the purchase or sale of a security is appropriate with regard to multiple clients, Merchants' Gate may, but is not obligated to, purchase or sell such a security on behalf of such clients with an aggregated order, for the purpose of reducing transaction costs, to the extent permitted by applicable law. If any order is not filled at the same price, they may be allocated on an average price basis or in another method deemed fair and equitable by Merchants' Gate. Such considerations may result in allocations among the clients on other than a *pari passu* basis.

ITEM 13

REVIEW OF ACCOUNTS

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

Prior to being made, all investments are carefully reviewed and approved by investment professionals of Merchants' Gate, including Merchants' Gate's Portfolio Manager. Merchants' Gate does not conduct formal periodic reviews of client accounts. We believe that such formal reviews are not necessary in light of the direct regular management of the accounts of the Funds, including the portfolios contained therein, by Merchants' Gate's Portfolio Manager and other investment professionals.

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

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

C. Content and Frequency of Account Reports to Clients.

Investors in a Fund currently receive the following written and/or electronic reports: (1) monthly performance estimates and exposure reports; (2) monthly statements of net asset value; (3) quarterly investor letters; and (4) an annual report including audited financial statements with a report thereon by the independent auditors. Investors in the Onshore Fund currently receive annual Schedules K-1 and, upon request, a tax estimate on an annual basis. Merchants' Gate may also provide certain investors with more detailed information upon request.

ITEM 14
CLIENT REFERRALS AND OTHER COMPENSATION

A. Economic Benefits for Providing Services to Clients.

Merchants' Gate does not receive economic benefits from non-clients for providing investment advice and other advisory services.

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

Neither Merchants' Gate nor any related person directly or indirectly compensates any person who is not a supervised person, including third-party solicitors, for client referrals. Any such arrangements in the future will be entered into consistent with applicable regulatory requirements, including the disclosure to the prospective client of the arrangement at the time of the solicitation. However, Merchants' Gate may receive client referrals from brokers providing services to our Funds. See Item 12 (Brokerage Practices) above.

ITEM 15

CUSTODY

All client assets are held in custody by unaffiliated broker-dealers or banks that serve as qualified custodians; however, Merchants' Gate may be deemed to have custody of client funds and securities because it or its affiliate has the authority to obtain client funds or securities, for example by deducting advisory fees from a client's account or otherwise withdrawing funds from a client's account. Account statements related to the Funds are sent by qualified custodians to Merchants' Gate. However, the investors of the Funds will not receive statements from the qualified custodians.

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

ITEM 16
INVESTMENT DISCRETION

Merchants' Gate has been granted discretionary authority to manage the securities accounts of the Offshore Fund and the Offshore Master Fund pursuant to an investment management agreement and the Onshore Fund pursuant to such Fund's amended and restated limited partnership agreement. Merchants' Gate's investment decisions and advice with respect to the Funds are subject to each respective Fund's constituent documents. Any limitations on Merchants' Gate's discretionary authority are described in each Fund's confidential offering memorandum.

ITEM 17
VOTING CLIENT SECURITIES

Merchants' Gate has the authority to cast all proxy votes. Merchants' Gate has adopted a written proxy voting policy, as required by the Advisers Act. The policy provides that we will act in the best interests of our client funds, as determined by us in good faith, in determining whether and how to vote on any proxy voting matter. We will classify all requests for stockholder voting authority and related proxy materials as routine (e.g., uncontested director elections, reappointment of independent audit firms, and capital structure changes that do not disadvantage our client funds) or non-routine. In the case of any routine matter, we will generally vote in accordance with the recommendations of the issuer's management unless, in our opinion, such recommendations are not in the best interests of our client funds. Merchants' Gate's Portfolio Manager and Chief Compliance Officer will consult with each other concerning the best method to resolve any actual or apparent conflict between the interests of Merchants' Gate and its clients in a manner that affords priority to the interests of Merchants' Gate's clients taken as a whole. In order to facilitate the proxy voting process, Merchants' Gate may elect in the future to retain a third party proxy voting service to vote proxies in a timely manner for our client funds.

Investors may obtain a copy of the policy and information on how Merchants' Gate voted client securities by addressing a request for such policy or information to Merchants' Gate's Chief Compliance Officer, 712 Fifth Avenue, 44th Floor, New York, NY 10019.

ITEM 18
FINANCIAL INFORMATION

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

ITEM 19
REQUIREMENTS FOR STATE-REGISTERED ADVISERS

Not applicable.