

**ITEM 1  
COVER PAGE**

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

**CLINTON GROUP, INC.**

March 2016

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*This brochure (this "Brochure") provides information about the qualifications and business practices of Clinton Group, Inc. (the "Investment Adviser"). If you have any questions about the contents of this Brochure, please contact the Investment Adviser at (212) 825-0400 or [info@clinton.com](mailto:info@clinton.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.*

*This Brochure also relates to Clinton Union League LLC (the "Relying Adviser"); however, to the extent the qualifications and business practices the Relying Adviser are substantially similar to those of the Investment Adviser, no specific mention of the Relying Adviser is made herein.*

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

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

## **ITEM 2**

### **MATERIAL CHANGES**

The Investment Adviser is required to identify and discuss any material changes made to its Brochure since the last annual update. There are no material changes since the Investment Adviser's prior annual amendment filed in March 2015. Clients and prospective clients should review the Brochure carefully.

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## **ITEM 4**

### **ADVISORY BUSINESS**

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

Clinton Group, Inc., a Delaware corporation, commenced operations in 1991 and became a registered investment adviser with the Securities and Exchange Commission in August 1991. George E. Hall is the Chief Executive Officer and the President of the Investment Adviser and Mr. Hall ultimately holds 100% of the equity interest in the Investment Adviser. Mr. Hall holds a similar position with respect to the Investment Adviser's affiliated general partner entities that control various funds that the Investment Adviser manages.

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

The Investment Adviser serves as investment manager primarily for a number of clients in the form of domestic and offshore private investment funds (the "Funds"), separately managed accounts (the "Managed Accounts") as well as pools of collateralized debt obligations ("CDOs"), collateralized bond obligations ("CBOs") and other structured products for which the Investment Adviser serves as collateral manager (such pools of CDOS, CBOS and other structured products, collectively, the "Structured Product Vehicles") (Collectively, the Structured Product Vehicles, Managed Accounts and Funds are referred to as the "Clients"). The Investment Adviser tailors its advisory services as described in the investment program of the relevant Client's governing and disclosure documents.

Please refer to Item 8 for a more detailed description of the Investment Adviser's investment strategies, as well as a summary of the securities and other instruments purchased by Clients under the management of the Investment Adviser.

*This Brochure generally includes information about the Investment Adviser and its relationships with its Clients and affiliates. While much of this Brochure applies to all such Clients and affiliates, certain information included herein applies to specific Clients or affiliates only.*

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

The Investment Adviser's investment decisions and advice with respect to each Client are subject to such Client's investment objectives and guidelines, as set forth in its offering documents. The particular investment objectives and restrictions of each Client will be determined on an individualized basis.

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

The Investment Adviser does not participate in wrap fee programs.

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

The Investment Adviser manages approximately \$6.74 billion in regulatory assets under management as of December 31, 2015 on a discretionary basis; approximately

\$6.13 billion attributable to the Funds and the Managed Accounts; and approximately \$610 million attributable to the Structured Product Vehicles.

## **ITEM 5**

### **FEES AND COMPENSATION**

#### **A. Advisory Fees and Compensation.**

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

#### **Management Fees**

The Investment Adviser's management fees generally are determined on the basis of assets under management, strategy, the type of assets to be managed and the intensity of the analysis required.

The Investment Adviser's annual management fee generally ranges between 0 and 200 basis points of a Client's assets under management. Management fee compensation is payable in arrears, monthly or quarterly, depending on the type of Client.

#### **Performance Compensation**

In addition to management fees, the Investment Adviser or its affiliates receives performance-based compensation from certain Clients, which generally takes the form of incentive allocations, incentive fees or carried interest distributions (depending on the structure of the client relationship) based on the performance of the Client's investments. However, some Clients have fee structures pursuant to which the Investment Adviser or its affiliates receive no performance-based compensation. Performance-based compensation generally ranges from 0% to 30% of the increase in such Fund's net asset value and is paid or allocated annually or quarterly in arrears. In some instances, performance-based compensation is paid or allocated based on a percentage of the investment performance in excess of a hurdle rate or benchmark, such as LIBOR, US Treasuries or a generally accepted fixed income index. Typically, any loss is carried forward from year-to-year so that no performance fee/allocation is charged unless losses have been recouped.

Some Funds have fee structures pursuant to which investors ordinarily receive fixed returns and the Investment Adviser and its affiliates receive all returns after deducting such fixed returns and incurring all expenses.

Some Funds allocate a percentage of realized gains in excess of a hurdle rate upon distribution to investors as carried interest distributions to the Investment Adviser or its affiliates.

The respective offering documents or other governing documents of the Clients will note the fee/allocation arrangements associated with the different share or interest classes being offered to investors. The Investment Adviser and its related person's management fees and performance based compensation are usually not negotiable, although the Investment Adviser has allowed certain select investors to participate at a reduced rate in some of the Funds. The Investment Adviser has the discretion to waive all or a portion of an investor's asset-based or performance-based compensation, and typically does so for investments attributable to the Investment Adviser, its related

persons, George Hall (individually and through independent corporate entities) and various employees of the Investment Adviser and their family members.

The Investment Adviser may direct a Fund to invest all or a portion of its assets in other Funds managed by the Investment Adviser. As a result, investors may bear multiple levels of investment management fees (which may include management fees, incentive fees and/or allocations).

### **Trading Bonuses**

Certain Funds will be required to pay (or reimburse the Investment Adviser for) bonuses for investment personnel ("Trading Bonuses") as determined in the Investment Adviser's discretion, based upon the net realized and unrealized appreciation in a Fund's aggregate net asset value adjusted for distributions, subscriptions, redemptions and/or withdrawals during the calendar year. Trading Bonuses are not expected to exceed 20% of such net realized and unrealized appreciation.

#### **B. Payment of Fees.**

Fees and compensation paid to the Investment Adviser or its affiliates by the Clients are generally deducted from the assets of such Clients. As discussed above, management fees are generally deducted on a monthly or quarterly basis and performance-based compensation is generally deducted on a quarterly or annual basis depending on the Client.

#### **C. Additional Fees and Expenses.**

Each Fund pays all of its ordinary and extraordinary direct and indirect operating expenses, which may include, without limitation, legal, bookkeeping, accounting, auditing, recordkeeping, administration, tax advice and preparation expenses (including preparation costs of financial statements, tax returns, reports to the shareholders and schedule K-1s (as applicable)); any entity-level taxes, computer, and clerical expenses (including expenses incurred in preparing reports for investors and regulatory authorities and expenses for specialized administrative services), printing and duplication expenses, client services and marketing expenses, travel expenses, presentation expenses, mailing expenses, the expenses of the organization of such Fund (including those incurred in connection with such Fund's entering into "side letter" agreements), and the offering of shares/interests, investment and trading-related expenses (these are expenses directly related to the investment program and include, for instance, brokerage commissions; ticket charges; expenses related to short sales; clearing and settlement charges; custodial fees; financing charges; interest expenses; initial and variation margin; broken deal expenses and other transactional charges, fees or costs; consulting, advisory, investment banking and any other professional fees or compensation relating to particular investments or contemplated investments; appraisal and valuation fees and expenses; investment-related travel and lodging expenses; research-related expenses, including, without limitation, news and quotation equipment and services, market data services, fees to third-party providers of research and/or portfolio risk management services; market information systems and computer software and information expenses; fees of pricing services; the costs and expenses of third-party risk management products and services (including, without limitation, the costs of risk management software or database packages); and expenses relating to activist activities such as the cost of tender offers, drafting "white



papers" and engaging in proxy fights); regulatory expenses (including those incurred in connection with such Fund's operations, holdings, investments and investment activities (e.g., filings with the SEC), and expenses incurred with respect to litigation and threatened litigation, if any, and expenses pertaining to legal inquiries, including regulatory "sweeps"); costs relating to communications with investors (including the maintenance of the website for the benefit of investors); fees and expenses borne directly by any of such Fund's subsidiaries; other governmental charges levied against such Fund; wind-up and liquidation expenses; accounting software expenses; insurance costs (including, without limitation, directors' and officers' insurance (as applicable), errors and omissions insurance and other similar policies for the benefit of such Fund; the management fees; fees relating to valuing assets; expenses relating to the maintenance of registered offices; corporate licensing expenses and other filing and registration fees; Cayman Islands registration fees (as applicable); stock exchange filing fees (as applicable), board of directors' fees (as applicable), and such other related expenses; partnership licensing expenses; any extraordinary expenses (including, without limitation, litigation expenses and any judgments or settlements paid in connection therewith); all other costs and expenses arising out of such Fund's indemnification obligations; and other similar expenses related to such Fund. If applicable, a Fund may also bear its *pro rata* portion of the expenses of any master fund or other vehicle through which it invests. As described in the relevant governing documents, certain Clients will be subject to a cap on transaction expenses and organizational expenses.

With respect to certain Funds, expenses incurred, directly or indirectly, by the Investment Adviser in connection with the exercise of its duties to such Fund, including, but not limited to, overhead and operational expenses and expenditures (which include, without limitation, expenses for personnel (such as employees' total compensation, including bonuses and fringe benefits)), rent, professional services fees, travel and entertainment, marketing and presentation expenses, insurance, fixtures and equipment expenditures, the preparation of tax forms and filings, investment-related expenses (such as market information, analytics and related computer costs), solicitation expenses and extraordinary expenses (including indemnification and litigation costs) ("Investment Adviser Expenses"), shall be accrued on a monthly basis and paid or reimbursed by Funds, as applicable, pursuant to the investment management agreements. With respect to such Funds, each Fund's ratable share of Investment Adviser Expenses incurred in connection with a specific strategy is generally equal to a fraction, the numerator of which is the value of the positions, both long and short, of such Fund attributable to such strategy and the denominator of which is the aggregate value of the positions, both long and short, of all Funds attributable to such strategy (which for this purpose excludes the Structured Product Vehicles managed by the Investment Adviser, which are allocated a fixed portion of these expenses). With respect to such Funds, each Fund's ratable share of the non-strategy specific Investment Adviser Expenses is generally equal to a fraction, the numerator of which is the net asset value of such Fund and the denominator of which is the aggregate net asset value of all such Funds (which for this purpose excludes the Structured Product Vehicles managed by the Investment Adviser, which are allocated a fixed portion of these expenses). Notwithstanding the foregoing, Investment Adviser Expenses may be allocated in any other manner deemed fair and equitable by the Investment Adviser.

Certain Funds, and certain classes of shares/interests of certain Funds, may contribute a smaller percentage (or no percentage at all) of their average month-end net asset value per annum to the payment of Investment Adviser Expenses and Trading Bonuses, in which case the Investment Adviser will bear such amounts.

Generally, a Fund's organizational and offering expenses are, for accounting purposes, amortized by such Fund for a 60-month period.

As mentioned above, certain Funds have a fee structure pursuant to which outside investors ordinarily receive fixed returns and the Investment Adviser and its affiliates receive all returns after deducting such fixed returns and incurring all expenses. In such instances, the Investment Adviser and its affiliates will bear all expenses attributable to those investors receiving fixed returns until the net asset value of the shares/interests attributable to the Investment Adviser and its affiliates is equal to zero and thereafter, expenses (and investment losses) will be borne by the outside investors receiving fixed coupon returns.

The Managed Accounts bear all expenses relating to the investment of the assets of such vehicles, including, without limitation, brokerage commissions, custodial fees, bank service fees, interest payable on borrowings, prime brokerage financing expenses, transfer taxes and other fees and expenses related to the purchase, sale or other disposition of such assets.

Each Structured Product Vehicle uses a portion of the gross proceeds received from the issuance and sale of notes to pay certain organizational and structuring fees and expenses of such Structured Product Vehicle, including without limitation, the legal fees of the Investment Adviser. In addition, Structured Product Vehicles pay for expenses and costs of legal advisors, consultants and other professionals retained by the Structured Product Vehicles or by the Investment Adviser on behalf of the Structured Product Vehicles in connection with the services provided by the Investment Adviser and for the reasonable travel expenses undertaken with the performance by the Investment Adviser of its duties. Certain Structured Product Vehicles also pay for the purchase and maintenance of systems to analyze CDOs and/or the preparation of reports.

For more information on brokerage transactions and costs, please see Item 12.

D. Prepayment of Fees.

Not applicable.

E. Additional Compensation and Conflicts of Interest.

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

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

The Investment Adviser and its affiliates receive performance-based compensation from certain Clients. However, as described above, performance-based compensation is not received from all Clients. The variation of performance-based compensation structures among the Investment Adviser's Clients may result in the Investment Adviser being biased when allocating investment opportunities or trades.

The Investment Adviser is committed to allocating investment opportunities on a fair and equitable basis and has established policies and procedures to address the conflicts of interest described above, as more fully described in Item 11(D).

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

The Investment Adviser generally provides investment advice to Funds, the Managed Accounts, and Structured Product Vehicles as described above. The Investment Adviser generally imposes a minimum investment requirement in order make an investment in the Funds, which may vary depending on the Fund.

## 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 advisory services that the Investment Adviser offers to Clients, and investment strategies pursued and investments made by the Investment Adviser on behalf of its Clients, should not be understood to limit in any way the Investment Adviser's investment activities. The Investment Adviser may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that the Investment Adviser considers appropriate, subject to each Client's investment objectives and guidelines. A more tailored description of the investment strategies and investments made on behalf of a particular Client is provided in each Client's offering documents. The investment strategies the Investment Adviser pursues are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any Client will be achieved.*

The Investment Adviser's investment strategy generally focuses on investing in portfolios comprised of securities designated in a particular Client's investment guidelines (generally on a leveraged basis) in a manner that seeks to achieve consistent returns with low volatility through a highly systematic relative value approach without interest rate forecasting or speculation.

The Investment Adviser typically pursues a diverse range of investment strategies ("Investment Strategies") on behalf of its Clients, including the following:

Long/Short Equity: The Investment Adviser's long/short equity strategy contemplates buying certain equity and equity-related Financial Instruments (as defined below) long and selling other equity and equity-related Financial Instruments short. The Investment Adviser will attempt to purchase Financial Instruments that it believes are undervalued and sell short Financial Instruments that it believes to be overvalued.

Quantitative: Under this strategy, the Investment Adviser makes investments based on its proprietary models. This trading strategy is intended to be market-neutral and attempts to exploit and profit from pricing aberrations in the Financial Instruments and markets traded by a Client.

Asset-Backed Securities (including Mortgage-Backed Securities): Asset-backed securities generally take the form of interests in pools of various types of assets. Interest and principal payments on such a pool of assets are passed through to investors in the pool. The Investment Adviser attempts to profit from pricing discrepancies between the perceived value of the collateralized assets and the price at which such instruments trade. The Investment Adviser's asset-backed securities strategies include, among others, investments in mortgage-backed securities, which are generally characterized as debt obligations that represent claims to the cash flows from pools of mortgage loans, commonly on residential or commercial property.

Activist Strategies: Through an activist strategy, the Investment Adviser may seek, through friendly or adversarial means, to bring about a change in the operations, governance, capitalization, or ownership of companies, which may be operating within or outside the United States, in which one or more Clients owns an interest. By convincing or forcing companies to make changes in these areas, the Investment Adviser hopes to benefit from a resulting increase in such companies' stock or bond prices.

The Investment Adviser also engages in arbitrage-focused strategies, including credit arbitrage and volatility arbitrage trading as well as private equity strategies and private-equity like investing

The Investment Adviser engages in currency trading for hedging purposes.

In connection with the Investment Adviser's trading strategy, Clients may trade, buy, sell, and otherwise acquire, hold, dispose of, and deal, on margin or otherwise, in (i) U.S. and non-U.S. equity and equity-related securities (publicly-traded and privately offered, listed and unlisted), including, but not limited to, convertible debt securities, "new issues" and indices, (ii) U.S. and non-U.S. bonds and other fixed income securities and debt obligations (both sovereign and corporate debt; rated and unrated; investment grade and non-investment grade), government sponsored enterprise backed securities, mortgage-backed securities, asset-backed securities, CBOs, CDOs, private-label fixed or adjustable rate mortgage pass-through securities, fixed or adjustable rate collateralized mortgage obligations and other real estate mortgage investment conduits ("REMICs"), stripped mortgage backed securities ("SMBS") (rated and unrated including, but not limited to, interest-only and principal-only SMBS and REMIC classes), money market obligations, distressed equity, and high yield securities, (iii) listed and over-the-counter commodities, financial futures (including, without limitation, single stock and index futures) and forward contracts (including, without limitation, contracts for future delivery with respect to securities, commodities, currencies and other financial instruments), repurchase and reverse repurchase agreements, swap contracts (including asset swaps), currencies, and warrants, as well as listed and over-the-counter-options and other derivative instruments (including credit derivatives) on all of the above securities and commodities, (iv) forward foreign currency contracts, options on foreign currencies, futures contracts on foreign currencies, and options on such futures contracts, and swaps, caps, collars and floors on foreign currencies and (v) such other instruments, rights, and interests as determined by the Investment Adviser (all such securities and financial instruments referred to in (i), (ii), (iii), (iv) and (v), "Financial Instruments"). The Investment Adviser uses an array of hedging strategies to seek to minimize exposures to interest rate and stock market risks. A Client may invest a portion of its assets in subsidiary entities formed to access tax treaty, limited liability or other benefits.

Risk associated with the investment strategies utilized by the Investment Adviser, as well as the actual investments themselves, are noted below. Some or all of these risks are applicable to Clients depending upon their investment mandates and restrictions.

#### B. Risks Relating to Investment Strategies.

*The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the Clients advised by the Investment Adviser. These risk factors include only those risks the Investment Adviser believes to be material, significant*

*or unusual and relate to particular significant investment strategies or methods of analysis employed by the Investment Adviser. For a complete explanation of all relevant investment strategies and their associated risks, investors in the Investment Adviser's Funds should also review each applicable Client's offering documents, which may contain explanations of additional strategies and corresponding risks not discussed below.*

**No Material Limitation on Strategies.** Clients will opportunistically implement whatever strategies or discretionary approaches the Investment Adviser believes from time to time may be suited to prevailing market conditions within such Client's investment mandate. The risks associated with such strategies may be different than those described herein. There can be no assurance that the Investment Adviser will be successful in applying any such strategy or discretionary approach and that losses will be avoided.

**Leverage.** The Investment Adviser may use substantial leverage in pursuing a Client's investment objective. In order to achieve the requested levels of leverage a Client may borrow funds directly, and may employ other forms of leverage, including, without limitation, by selling securities short and using options, commodity interests, repurchase agreements, forwards, swaps and other derivative instruments.

While leverage presents opportunities for increasing a Client's total return, it also has the effect of magnifying the volatility of changes in the value of the investments of such Client. Accordingly, any event which adversely affects the value of an investment by a Client would be magnified to the extent such Client is leveraged. The cumulative effect of the use of leverage by a Client in a market that moves adversely to such Client's investments could result in a substantial loss to such Client, which loss would be greater than if such Client were not leveraged or leveraged to a lesser extent.

The Investment Adviser, on behalf of the Clients, may enter into repurchase and reverse repurchase agreements. When the Investment Adviser, on behalf of the Clients, enters into a repurchase agreement, it "sells" Financial Instruments issued by the U.S. government, or agencies thereof, to a broker-dealer or financial institution, and agrees to repurchase such Financial Instruments for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. In a reverse repurchase transaction the Investment Adviser, on behalf of the Clients "buys" Financial Instruments issued by the U.S. government, or agencies thereof, from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such Financial Instruments at the price paid by the Fund, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by the Clients involves certain risks. For example, if the seller of Financial Instruments to the Clients under a reverse repurchase agreement defaults on its obligation to repurchase the underlying Financial Instruments, as a result of its bankruptcy or otherwise, the Clients will seek to dispose of such Financial Instruments, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, each Client's ability to dispose of the underlying Financial Instruments may be restricted. It is possible, in a bankruptcy or liquidation scenario, that the Clients may not be able to substantiate its interest in the underlying Financial Instruments. Finally, if a seller defaults on its obligation to repurchase Financial Instruments under a reverse repurchase agreement, the Fund may suffer a loss to the extent it is forced to liquidate its position in the market, and proceeds from the sale of the underlying Financial Instruments are less than the repurchase price agreed to by the defaulting seller.

The amount of borrowings a Client may have outstanding at any time may be large in relation to its capital. Consequently, the level of interest rates, generally, and the rates at which a Client can borrow, in particular, will affect the operating results of such Client. In general, a Client's use of margin borrowings results in certain additional risks to such Client. For example, should the securities pledged to brokers and other counterparties to secure a Client's margin accounts decline in value, such Client could be subject to a "margin call" pursuant to which such Client must either deposit additional funds with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden precipitous drop in the value of a Client's assets, such Client might not be able to liquidate assets quickly enough to pay off its margin debt or may be required to dispose of such securities at depressed prices.

A Client's use of leverage may be subject to regulatory restrictions.

**Global Investments.** The Investment Adviser may cause a Client to invest all or a portion of its portfolio in Financial Instruments of issuers located outside the United States. In addition to business uncertainties, such investments may be affected by political, social and economic uncertainty affecting a country or region. Many financial markets are not as developed or as efficient as those in the United States, and as a result, liquidity may be reduced and price volatility may be higher. The legal and regulatory environment may also be different, particularly as to bankruptcy and reorganization. Financial accounting standards and practices may differ, and there may be less publicly available information in respect of such non-U.S. issuers.

Furthermore, some of the Financial Instruments may be subject to brokerage taxes levied by governments, which has the effect of increasing the cost of such investment and reducing the realized gain or increasing the realized loss on such securities at the time of sale. Income received by a Client from sources within some countries may be reduced by withholding and other taxes imposed by such countries. Any such taxes paid by a Client will reduce their net income or return from such investments.

In addition, all or a portion of such investment may take place in emerging markets. Investing in emerging markets involves additional risks and special considerations not typically associated with investing in other more established economies or markets. Such risks may include (i) increased risk of nationalization or expropriation of assets or confiscatory taxation; (ii) greater social, economic and political uncertainty, including war; (iii) higher dependence on exports and the corresponding importance of international trade; (iv) greater volatility, less liquidity and smaller capitalization of markets; (v) greater volatility in currency exchange rates; (vi) greater risk of inflation; (vii) greater controls on foreign investment and limitations on realization of investments, repatriation of invested capital and on the ability to exchange local currencies for U.S. dollars; (viii) increased likelihood of governmental involvement in and control over the economy; (ix) governmental decisions to cease support of economic reform programs or to impose centrally planned economies; (x) differences in auditing and financial reporting standards which may result in the unavailability of material information about issuers; (xi) less extensive regulation of the markets; (xii) longer settlement periods for transactions and less reliable clearance and custody arrangements; (xiii) less developed corporate laws regarding fiduciary duties of officers and directors and the protection of investors; and (xiv) certain considerations regarding the maintenance of a Client's Financial Instruments with non-U.S. brokers and securities depositories.



**Market Neutral and Hedged Strategies.** Although the Investment Adviser may cause a Client may invest in positions that are intended to be market neutral, it may be unable to, or decide not to, hedge its positions, and, in such event, such Client might sustain a significant risk of loss as a result of changes in the price of unhedged positions. In addition, there is no guarantee that the returns of a Client will have a low correlation or be non-correlated with market indices and such Client could experience significant losses. This may be particularly true during periods of high market volatility resulting from global events such as political upheavals, terrorist attacks, war or government intervention in currency markets.

The Investment Adviser may also cause a Client to utilize Financial Instruments such as commodity interests, forward contracts and interest rate swaps, caps and floors both for investment purposes and to seek to hedge against fluctuations in the relative values of such Client's portfolio positions. Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the portfolio positions' value. Such hedge transactions also limit the opportunity for gain if the value of the portfolio positions should increase. Moreover, it may not be possible for Clients to enter into a hedging transaction at an acceptable price or at a price sufficient to protect such Client from the anticipated decline in value of the portfolio position.

**Systems Risks.** Each Client depends on the Investment Adviser to develop and implement appropriate systems for such Client's activities. With respect to some Clients, the Investment Adviser may rely extensively on computer programs and systems to trade, clear and settle transactions, to evaluate certain securities based on real-time trading information, to monitor their portfolios and net capital, and to generate risk management and other reports that are critical to the oversight of such Client's activities. In addition, with respect to a certain Client's operations, the Investment Adviser may interface with or depend on systems operated by third parties, including prime brokers and market counterparties and their sub-custodians and other service providers, and the Investment Adviser may not be in a position to verify the risks or reliability of such third-party systems. These programs or systems may be subject to certain defects, failures or interruptions, including, but not limited to, those caused by computer "worms," viruses and power failures. Any such defect or failure could have a material adverse effect on a Client. For example, such failures could cause settlement of trades to fail, lead to inaccurate accounting, recording or processing of trades, and cause inaccurate reports, which may affect the Investment Adviser's ability to monitor a Client's investment portfolios and their risks.

**Quantitative Strategies.** The success of the Investment Adviser's quantitative investment strategy is heavily dependent on the mathematical models used by the Investment Adviser in attempting to exploit short-term and long-term relationships among stock prices and volatility. The Investment Adviser may select models that are not well-suited to prevailing market conditions. Models that have been formulated on the basis of past market data may not be predictive of future price movements. Models may not be reliable if unusual events specific to particular corporations, or major events external to the operations of markets, cause extreme market moves that are inconsistent with the historic correlation and volatility structure of the market. Models also may have hidden biases or exposure to broad structural or sentiment shifts. Furthermore, the effectiveness of such models tends to deteriorate over time as more traders seek to exploit the same market inefficiencies through the use of similar models.

**Portfolio Turnover.** The use of certain Investment Strategies may generate increased portfolio turnover. A high turnover rate will result in increased brokerage commissions and may generate taxable capital gains.

**Spread and Arbitrage Trading.** A significant part of the Investment Adviser's investment operations on behalf of a Client may involve spread positions between two or more Financial Instrument positions. To the extent the price relationships between such positions remain constant, no gain or loss on the positions will occur. Such positions, however, do entail a substantial risk that the price differential could change unfavorably causing a loss to the spread position. The Investment Adviser's trading operations on behalf of a Client also may involve arbitraging between a Financial Instrument and its announced buy-out price (or other forms of "risk arbitrage"), or between or among two or more Financial Instruments (*e.g.*, by means of "statistical arbitrage," which depends heavily on the ability of market prices to return to a historical or predicted normal). This means, for example, that a Client may purchase (or sell) Financial Instruments (*i.e.*, on a current basis) and take offsetting positions in the same or related Financial Instruments. To the extent the price relationships between such positions remain constant, no gain or loss on the positions will occur. These offsetting positions entail substantial risk that the price differential could change unfavorably causing a loss to the position.

**Concentration of Investments.** Depending on a Client's investment mandate, it may not be subject to any concentration limits or diversification guidelines or limited in the leverage it may incur, the geographic regions it may invest in or the exposure it may have to certain currencies. The Investment Adviser may pursue particular Investment Strategies opportunistically as opposed to achieving diversification through concurrent investments through different Investment Strategies (although, the Investment Adviser may also choose to do so). At any one time, 100% of the assets of a Client may be invested pursuant to a sole Investment Strategy. Further, the Investment Adviser intends on utilizing other Investment Strategies than those described herein when it deems that the pursuit of such Investment Strategies would be beneficial to a Client. Such concentration may expose a Client to losses disproportionate to those incurred by the market in general if the areas in which a Client's investments are concentrated are disproportionately adversely affected by price movements.

**Short Sales.** A short sale involves the sale of a Financial Instrument a Client does not own in the expectation of purchasing the same Financial Instrument (or a Financial Instrument exchangeable therefor) at a later date at a lower price. To make delivery to the buyer, a Client often must borrow the Financial Instrument, and such Client is obligated to return the Financial Instrument to the lender, which is accomplished by a later purchase of the Financial Instrument by such Client. When a Client makes a short sale of a security on a U.S. exchange, it must leave the proceeds thereof with the broker and it must also deposit with the broker an amount of cash or U.S. Government or other securities sufficient under current margin regulations to collateralize its obligation to replace the borrowed securities that have been sold. If short sales are effected on a foreign exchange, such transactions will be governed by local law. A short sale involves the risk of unlimited loss since unlimited increase in the market price of the Financial Instrument can theoretically occur.

**Inside Information.** From time to time the Investment Adviser or its affiliates may be in possession of material, non-public information concerning the issuer of Financial Instruments in which a Client has invested, or in which it intends to invest. The possession of such information may limit the ability of such Client to buy or sell such

Financial Instruments. Accordingly, such Client may be required to refrain from buying or selling such Financial Instruments at times when the Investment Adviser might otherwise wish such Client to buy or sell such Financial Instruments.

**Activist Strategies.** The Investment Adviser may direct a Client to invest in debt and equity securities of companies that the Investment Adviser believes are undervalued by the marketplace and are likely to appreciate, including as a result of a change in ownership, corporate direction or management, or as a result of operational improvements. In making such investments, a Client may act alone or together with one or more other investors or Clients acting as a group. In order to implement any actions deemed necessary to maximize value, the Investment Adviser, or other members of the investing group, may work with the management team of the target company to design an alternate strategic plan and assist them in its execution and may secure the appointment of persons selected by the Investment Adviser or other members of the group to the company's management team or board of directors. The Investment Adviser, either alone or as part of a group, may also initiate investor actions (including those that may be opposed by company management). Such investor actions may include, among other things, re-orienting management's operational focus, initiating the sale of the company (or one or more of its divisions) to a third party, or an acquisition by a Client or other members of the investing group. Such an acquisition may be accomplished either by a Client (or the members of the investing group) acting alone, or acting in conjunction with management through a leveraged buyout. In order to accomplish the foregoing, the Investment Adviser may cause a Client, either alone or together with other members of a group, to acquire a "control" position in the company's securities.

This activist investment strategy may require, among other things: (i) that the Investment Adviser properly identify portfolio companies whose securities prices can be improved through corporate and/or strategic action; (ii) that the Client acquire sufficient securities of such portfolio companies at a sufficiently attractive price; (iii) that the Client avoid triggering anti-takeover and regulatory obstacles while aggregating its position; (iv) that management of portfolio companies and other security holders respond positively to the Investment Adviser's proposals; and (v) that the market price of a portfolio company's securities increases in response to any actions taken by portfolio companies. There can be no assurance that any of the foregoing will succeed.

Corporate governance strategies may prove ineffective for a variety of reasons, including: (i) opposition of the management or investors of the subject company, which may result in litigation and may erode, rather than increase, the value of the shares; (ii) intervention of a governmental agency; (iii) efforts by the subject company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) market conditions resulting in material changes in securities prices; (v) the presence of corporate governance mechanisms such as staggered boards, poison pills and classes of stock with increased voting rights; and (vi) the necessity for compliance with applicable securities laws. In addition, opponents of a proposed corporate governance change may seek to involve regulatory agencies in investigating the transaction or Client and such regulatory agencies may independently investigate the participants in a transaction, including the Client, as to compliance with securities or other law. Furthermore, successful execution of a corporate governance strategy may depend on the active cooperation of investors and others with an interest in the subject company. Some investors may have interests which diverge significantly from those of the Client, and some of those parties may be indifferent to

the proposed changes. Moreover, securities that the Investment Adviser believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the timeframe the Investment Adviser anticipates, even if a corporate governance strategy is successfully implemented. Even if the prices for a portfolio company's securities have increased, no guarantee can be made that there will be sufficient liquidity in the markets to allow the Client to dispose of all or any of their securities therein or to realize any increase in the price of such securities.

**Private Equity Investment.** The Investment Adviser may direct a Client to invest in private equity of companies at an early stage of development, which involves a high degree of business and financial risk. Early-stage companies with little or no operating history may require substantial additional capital to support expansion or to achieve or maintain a competitive position, may produce substantial variations in operating results from period to period or may operate at a loss. Such companies may face intense competition, including competition from companies with greater financial resources, more extensive development, better marketing and service capabilities and a larger number of qualified management and technical personnel. Such risks may adversely affect the performance of such investments and result in substantial losses.

Although the Investment Adviser may seek protective provisions, including, possibly, board representation, in connection with certain of its private equity investments, to the extent a Client takes minority positions in companies in which it invests, the Investment Adviser may not be in a position to exercise control over the management of such companies, and, accordingly, may have a limited ability to protect its position in such companies.

Furthermore, in connection with the disposition of certain investments, a Client may be required to make representations about the business and financial affairs of the underlying company, and to indemnify the purchasers of such company if those representations ultimately prove to be inaccurate. The Investment Adviser may establish reserves as appropriate to provide for such contingent liabilities.

Investments in private equity of highly-leveraged companies involve a high degree of risk. Some of a Client's investments in companies may involve leverage, which in turn will increase the exposure of such companies to adverse economic factors such as downturns in the economy or deterioration in the conditions of such companies or their respective industries. In the event any such company cannot generate adequate cash flow to meet debt service, a Client may suffer a partial or total loss of capital invested in the company, which, depending on the size of a Client's investments, could adversely affect the return on the capital of a Client.

A Client may be called upon to provide follow-up funding for its portfolio companies or may have the opportunity to increase its investment in portfolio companies. There can be no assurance that a Client will wish to make such follow-on investments or have available capital to do so, and the inability to make such follow-on investments may have a substantial negative impact on a portfolio company in need of capital or may diminish a Client's ability to influence the portfolio company's future development.

**Small and Medium Capitalization Companies.** While the Investment Adviser believes Financial Instruments of companies with small and medium capitalizations often provide significant potential for appreciation, the Financial Instruments of certain

companies, particularly smaller capitalization companies, involve higher risks than is typically associated with equity investments in larger, more established issuers. Historically, stocks of small and medium capitalization companies and recently organized companies have been more volatile in price than those of the larger market capitalization companies. Among the reasons for greater price volatility of the stocks of these small and medium sized companies and unseasoned companies are less than certain growth prospects of small and medium sized firms and the lower degree of liquidity in the markets for such stocks. Further, small and medium sized companies and unseasoned companies may have limited product lines, markets or financial resources, and they may depend upon a limited or less experienced management group. The Financial Instruments of smaller capitalization companies may be traded only on the over-the-counter markets or on a regional securities exchange and may not be traded daily or in the volume typical of trading on a national securities exchange.

**Proxy Contests and Unfriendly Transactions.** The Investment Adviser may direct a Client to purchase securities of a company which is the subject of a proxy contest in the expectation that new management will be able to improve the company's performance or effect a sale or liquidation of its assets so that the price of the company's securities will increase. If the incumbent management of the company is not defeated or if new management is unable to improve the company's performance or sell or liquidate the company, the market price of the company's securities will typically fall, which may cause a Client to suffer a loss.

In addition, where an acquisition or restructuring transaction or proxy fight is opposed by the subject company's management, the transaction often becomes the subject of litigation. Such litigation involves substantial uncertainties and may impose substantial cost and expense on the company participating in the transaction.

**Control Position.** The Investment Adviser may direct a Client, either acting alone or as part of a group, may acquire a "control" position in an issuer's securities. This may subject such Client to additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability in which the limited liability generally characteristic of business operations may be ignored.

#### C. Risks Associated With Particular Types of Securities.

**Equity Securities.** The Investment Adviser may direct a Client to invest in equity securities and equity derivatives. The value of these securities generally will vary with the performance of the issuer and movements in the equity markets. As a result, a Client may suffer losses if it invests in equity instruments of issuers whose performance diverges from the Investment Adviser's expectations or if equity markets generally move in a single direction and a Client has not hedged against such a general move. A Client 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.

**Investment in Fixed-Income Securities.** The Investment Adviser may direct a Client to invest in fixed-income securities. The value of fixed-income securities changes in response to fluctuations in interest rates. Except to the extent that values are independently affected by currency exchange rate fluctuations, when interest rates decline, the value of

fixed-income securities generally can be expected to rise. Conversely, when interest rates rise, the value of fixed-income securities generally can be expected to decline.

**Investments in Undervalued Equity and Equity-Related Securities.** The Investment Adviser may cause a Client to invest in undervalued equity and equity-related securities. The identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued securities offer the opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from a Client's investments may not adequately compensate for the business and financial risks assumed. A Client may take certain speculative investments in securities which the Investment Adviser believes to be undervalued; however, there are no assurances that the securities purchased will in fact be undervalued. In addition, a Client may be required to hold such securities for a substantial period of time before realizing their anticipated value. During this period, a portion of a Client's assets may be committed to the securities purchased, thus possibly preventing such Client from investing in other opportunities. In addition, a Client may finance such purchases with borrowed funds and thus will have to pay interest on such funds during such waiting period. If the Investment Adviser takes long positions in stocks that decline and short positions in stocks that increase in value, then the losses of a Client may exceed those of other portfolios that hold long positions only.

**Derivative Instruments.** The Investment Adviser may direct a Client to use various derivative instruments, including futures, options, forward contracts, swaps and other derivatives which may be volatile and speculative. Certain positions may be subject to wide and sudden fluctuations in market-value, with a resulting fluctuation in the amount of profits and losses. Use of derivative instruments presents various risks, including the following:

(i) *Tracking* – When used for hedging purposes, an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment sought to be hedged may prevent a Client from achieving the intended hedging effect or expose such Client to the risk of loss.

(ii) *Liquidity* – Derivative instruments, especially when traded in large amounts, may not be liquid in all circumstances, so that in volatile markets a Client may not be able to close out a position without incurring a loss.

(iii) *Leverage* – Trading in derivative instruments can result in large amounts of leverage. Thus, the leverage offered by trading in derivative instruments may magnify the gains and losses experienced by a Client and could cause its net asset value to be subject to wider fluctuations than would be the case if a Client did not use the leverage feature in derivative instruments. See "Leverage."

(iv) *Regulatory and Tax* – The regulatory and tax environment globally for derivative instruments in which a Client may participate is evolving, and changes in the regulation or taxation of such

investments may materially adversely affect the value of such investments and the ability of a Client to pursue its investment strategies.

**Newly-Issued Securities.** The purchase of newly issued securities involves greater risk than securities trading in general. A "new issue" is any initial public offering of an equity security. While most people assume that newly issued securities will continue to trade at a premium until they are liquidated, there is no guarantee that this will occur. The prices of newly issued securities may not increase as expected and, in fact, may decline more rapidly.

**Commodities and Futures Trading.** Substantially all trading in commodities and futures has as its basis a contract to purchase or sell a specified quantity of a particular asset for delivery at a specified time, although certain Financial Instruments, such as market index futures contracts, may be settled only in cash based on the value of the underlying composite index. Futures trading involves trading in contracts for future delivery of standardized, rather than specific, lots of particular assets.

(i) *Volatility:* Futures prices are highly volatile. Price movements for the futures contracts which a Client may trade are influenced by, among other things, changing supply and demand relationships, government, trade, fiscal, and domestic and international political and economic events, and changes in interest rates. Governments from time to time intervene, directly and by regulation, in certain markets, often with the intent to influence prices directly.

(ii) *Position Limits:* The U.S. Commodities Futures Trading Commission ("CFTC") has jurisdiction to establish, or cause exchanges to establish, position limits with respect to all commodities traded on exchanges located in the U.S. and may do so, and any exchange may impose limits on positions on that exchange. No such limits presently exist in the forward contract market or on certain non-U.S. exchanges. Insofar as such limits do exist, all commodity accounts (including a Client's accounts) owned, held, controlled or managed by the Investment Adviser and its affiliates may be combined (that is, aggregated) for position limit purposes.

(iii) *Price Limits:* U.S. commodity exchanges may limit fluctuations in futures contracts prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." In addition, even if futures prices have not moved the daily limit, the Investment Adviser may not be able to execute futures trades at favorable prices if little trading in such contracts is taking place (a "thin" market).

(iv) *Margin:* Futures are typically traded on "margin." The "margin" is the amount of escrow or performance bond deposit that a Client will have to make and maintain with its futures commission merchants (futures brokers) to secure its future obligation to close out open positions. The initial margin requirements may be satisfied by the deposit of cash (or, in some U.S. markets, certain U.S. Government obligations). The open positions must be "marked to market" daily, requiring additional margin deposits if the position reflects a loss that reduces a Client's equity below the level required

to be maintained and permitting release of a portion of the deposit if the position reflects a gain that results in excess margin equity. The level of margin that must be maintained for a given position is sometimes subject to increase, requiring additional cash outlays. In the futures markets, margin deposits are typically low relative to the value of the futures contracts purchased or sold. Such low margin deposits are indicative of the fact that any futures contract trading typically is accompanied by a high degree of leverage. Because margin requirements normally range upward from as little as 2% or less of the total value of the contract, a comparatively small commitment of cash or its equivalent may permit trading in futures contracts of substantially great value. As a result, price fluctuations may result in a contract profit or loss that is disproportionate to the amount of funds deposited as margin. Such a profit or loss may materialize suddenly, since the prices of futures frequently fluctuate rapidly and over wide ranges, reflecting both supply and demand changes and changes in market sentiment.

(v) *Size of Client's Positions:* Depending upon the size of a Client's positions, it may be difficult or impossible for the Investment Adviser to take or liquidate a position in a particular commodity, method or strategy at the then market price due to the size of the accounts which may be managed by the Investment Adviser.

**Trading in Options and Swap Agreements.** A Client may trade in options, including instruments that have option-like features (*e.g.*, convertible debt) and swap agreements; in addition, a Client may enter into swaps or other derivative transactions to synthetically expose such Client to the profits and losses of such Client on a leveraged basis. The prices of all derivative instruments, including options, are highly volatile. Payments made pursuant to swap agreements also may be highly volatile. Price movements of options contracts and payments pursuant to swap agreements are 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. The value of options and swap agreements also depends upon the price of the debt securities or commodities underlying them. In addition, a Client is subject to the risk of the failure of any of the exchanges on which it trades or of their clearinghouses.

Options may be cash settled, settled by physical delivery or by entering into a closing purchase transaction. In entering into a closing purchase transaction a Client may be subject to the risk of loss to the extent that the premium paid for entering into such closing purchase transaction exceeds the premium received when the option was written.

Swaps and certain options and other custom instruments are subject to the risk of non-performance by the swap counterparty, including the risks relating to the financial soundness and creditworthiness of the swap counterparty. The Investment Adviser does not have any fixed credit-rating requirements for the counterparties with which Clients may engage in swaps.

**Over-the-Counter-Trading.** Financial Instruments that may be purchased or sold by a Client may include instruments not traded on an exchange, including, but not limited to, swap transactions, and forward foreign currency transactions. Over-the-counter



options, unlike exchanged-traded options, are two-party contracts with price and other terms negotiated by the buyer and seller. The risk of nonperformance by the obligor on such an instrument may be greater and the ease with which a Client can dispose of or enter into closing transactions with respect to such an instrument may be less than in the case of an exchange-traded instrument. In addition, significant disparities may exist between "bid" and "ask" prices for Financial Instruments that are not traded on an exchange. Financial Instruments not traded on exchanges are also not subject to the same type of government regulation as exchange traded instruments, and many of the protections afforded to participants in a regulated environment may not be available in connection with such transactions.

To the extent that a Client engages in these transactions, such Client must rely on the creditworthiness of its counterparty. In certain instances, counterparty or credit risk is affected by the lack of a central clearinghouse for foreign exchange trades. To reduce their credit risk exposure, a Client may trade in the forward foreign currency market through money center banks and leading brokerage firms.

**Swap Execution Facilities.** Certain derivatives transactions have become subject to mandatory trading on regulated trading venues such as swap execution facilities ("SEFs"), which will require a Client to subject itself to regulation by these venues and by either the SEC and the CFTC, depending upon the product. The CFTC imposed its first SEF mandate in February of 2014 affecting certain interest rate and credit default swaps. It is expected that the CFTC and the SEC will introduce mandatory trade execution requirements for other derivatives in the future. It is not clear whether these trading venues will benefit or impede liquidity, or how they will fare in times of market stress. Trading on these trading venues may increase the pricing discrepancy between assets and their hedges as products may not be able to be executed simultaneously, therefore increasing basis risk. It may also become relatively expensive for a Client to obtain tailored derivative products to hedge particular risks in its portfolio due to higher collateral requirements on bilateral transactions as a result of the movement of standardized products to SEFs and clearing houses. SEFs may use certain information obtained from a Client and other participants for the SEF's own marketing purposes. While SEFs are prohibited from using for commercial purposes proprietary data or personal information that it obtains from or on behalf of any participant for regulatory purposes, the scope of what information is obtained "for regulatory purposes" is unclear. It is possible that SEFs could disseminate information about a Client, which could detrimentally impact the Investment Adviser's ability to achieve its investment objectives. In addition, the rules surrounding SEFs are new and have not been tested. It is unclear whether the technological, regulatory, operational, and trading changes associated with the implementation of SEFs will be beneficial to a Client or may add to uncertainty to the markets in which such Client trades generally.

**Central Clearing.** In order to mitigate counterparty risk and systemic risk in general, various regulatory and legislative initiatives are underway to require certain over-the-counter derivatives to be cleared through a clearinghouse. In the United States, clearing requirements were part of the Dodd-Frank Act. The CFTC imposed its first clearing mandate on December 13, 2012 affecting certain interest rate and credit default swaps. It is expected that the CFTC and the SEC will introduce clearing requirements for other derivatives in the future. While such clearing requirements may be beneficial for a Client in many respects (for instance, they may reduce the counterparty risk to the dealers to which a Client would be exposed under non-cleared derivatives), a Client could be exposed to new risks such as the

risk that the majority of such derivatives may be required to be standardized and/or cleared through a clearinghouse, as a result of which the Client may not be able to hedge its risks or express an investment view as well as it would using customizable derivatives available in the over-the-counter markets. Also, each clearinghouse only covers a limited range of products and a Client may have to spread its derivative portfolio across multiple clearinghouses, which in turn reduces the benefits of netting that derivatives users rely on to mitigate counterparty risk.

Another risk is that a Client will likely be subject to more onerous and more frequent (daily or even intraday) margin calls from both the clearinghouse and the dealer through which the Investment Adviser causes a Client to access the clearinghouse, which may force the Client to use temporary credit facilities of the dealer on behalf of the Client to meet margin calls related to cleared trades and increase the costs of cleared trades to the Client. Clearinghouses also limit collateral that they will accept to cash, U.S. treasuries and, in some cases, other highly rated sovereign and private debt instruments, which may require the Investment Adviser to cause a Client to borrow eligible securities from a dealer to meet margin calls and raise the costs of cleared trades to the Client. In addition, clearinghouses generally do not allow a Client to portfolio-margin its positions, which may cause an increase in the costs to the Client. Further, clearinghouses are encouraged to model risks and implement margin requirements in typical market environments. Many of the risk models, however, are subject to change at any time and, therefore, a Client may be subject to an unexpected increase in collateral obligations by clearinghouses during a volatile market environment, which could have a detrimental effect on the Client.

Derivatives clearing may also lead to concentration of counterparty risk, namely in the clearinghouse or any counterparty the Investment Adviser causes a Client to utilize as a clearing agent or broker, subjecting the Client to the risk that the assets of the clearing entity are insufficient to satisfy all of the clearing entity's payment obligations, leading to a payment default. The failure of a clearinghouse could have a significant impact on the financial system. Even if a clearinghouse does not fail, large losses could force significant capital calls on member firms during a financial crisis, which could lead member firms to default and thus worsen the crisis. Because these potential clearinghouses are still in the approval stage and are still being analyzed for bankruptcy risk, it is difficult to speculate what the actual risks would be to a Client related to the default of a clearinghouse. There is no one international standard for clearinghouses; existing clearinghouses both domestically and internationally have different waterfalls that apply upon the insolvency of a clearinghouse or a clearinghouse member and it is possible that a Client could be in a worse position if a clearinghouse were to fail than a traditional derivative counterparty. Also, a clearinghouse will likely require that a Client relinquish control of its transactions if the clearinghouse were to become insolvent, and, therefore, the Investment Adviser would not be able to cause a Client to terminate and close out of a defaulting clearinghouse's positions, but would become subject to regulators' control over those positions. In such a circumstance, the Investment Adviser may not be able to take actions that it deems appropriate to lessen the impact of such clearinghouse default.

Applicable regulations may also require the Investment Adviser to make public information regarding a Client's swaps volume, position size and/or trades, which could detrimentally impact such Client's ability to achieve its investment objectives.

**Securities Futures Contracts.** Securities futures contracts include both futures contracts on single stocks and futures contracts on narrow-based securities indices. They are treated as both futures and securities and, therefore, are subject to the joint jurisdiction of the SEC and the CFTC. Securities futures contracts are subject to the same risks as other securities, as well as to the greater volatility and risks of futures trading. Since they are new products, securities futures contracts have relatively low liquidity and no trading history.

**Forward Trading.** Forward contracts and options thereon, unlike commodity interest contracts, are not traded on exchanges and are not standardized; rather banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals that deal in the forward markets are not required to continue to make markets in the commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell.

**Repurchase Agreements and Reverse Repurchase Agreements.** The Investment Adviser may direct a Client to enter into repurchase and reverse repurchase agreements. Repurchase agreements entail the purchase of a Financial Instrument from a bank or broker-dealer that agrees to repurchase the Financial Instrument at a Client's cost plus interest within a specified time. If the party agreeing to repurchase should default, as a result of bankruptcy or otherwise, a Client may seek to sell the securities which it holds, which action could involve costs or delays in addition to a loss on the Financial Instruments if their value should fall below their repurchase price. Except in the case of securities that are fully guaranteed as to principal and interest by the U.S. Government, if the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, the Investment Adviser's ability to dispose of the underlying Financial Instruments may be restricted. Similarly, the entering into of reverse repurchase agreements involves certain risks. A reverse repurchase agreement involves the sale of a Financial Instrument by a Client and its agreement to repurchase the Financial Instrument at a specified time and price. Under a reverse repurchase agreement, a Client continues to receive any principal and interest payments on the underlying Financial Instrument during the term of the agreement.

**Bank Loans.** The Investment Adviser's investment program on behalf of a Client may include investments in significant amounts of bank loans and participations. These obligations are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of the Fund to directly enforce its rights with respect to participations. In analyzing each bank loan or participation, the Investment Adviser compares the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by a Client.

**Bankruptcy Claims.** The Investment Adviser may direct a Client to invest in bankruptcy claims which are amounts owed to creditors of companies in financial difficulty.

Bankruptcy claims are illiquid and generally do not pay interest and there can be no guarantee that the debtor will ever be able to satisfy the obligation on the bankruptcy claim. The markets in bankruptcy claims are not generally regulated by U.S. federal securities laws or the SEC. Because bankruptcy claims are frequently unsecured, holders of such claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding. In addition, under certain circumstances, payments and distributions may be reclaimed if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

**Asset-Backed Securities and Mortgage-Backed Securities.** The investment characteristics of asset-backed securities ("ABS") and mortgage-backed securities ("MBS") differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that the principal may be prepaid at any time because the underlying loans or other assets generally may be prepaid at any time. The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to default and foreclosures) occur on loans underlying MBS and ABS will be affected by a variety of factors including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. Generally, mortgage obligors tend to prepay their mortgage loans when prevailing mortgage rates fall below the interest rates on their mortgage loans. Particular investments may experience outright losses, as in the case of an interest only security in an environment of faster actual or anticipated prepayments. Also, particular investment may underperform relative to hedges that a portfolio manager may have constructed for these investments, resulting in a loss.

Mortgage loans on commercial properties underlying MBS often are structured so that a substantial portion of the loan principal is not amortized over the loan term but is payable at maturity and repayment of the loan principal thus often depends upon the future availability of real estate financing from the existing or an alternative lender and/or upon the current value and salability of the real estate. Therefore, the unavailability of real estate financing may lead to default. Most commercial mortgage loans underlying MBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related MBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of MBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed in lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property.

Through the use of trusts and special purpose corporations, various types of assets are securitized in pass-through structures. Through CDOs, a Client may invest in these and other types of ABS that may be developed in the future. ABS present certain risks that are not presented by MBS. Primarily, these securities do not have the benefit of the same security interest in the related collateral. There is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor. The collateral supporting ABS is of shorter maturity than mortgage loans and is less likely to experience substantial prepayments. As with MBS, ABS are often backed by a pool of assets representing the obligations of a number of different parties and use credit enhancement techniques such as letters of credit, guarantees or preference rights. The value

of an ABS is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement. CDOs trade infrequently, which may make it difficult to sell them quickly without incurring significant losses. Because CDO securities are illiquid, they can be difficult to value and the valuations are often based on models or an indicative price from a dealer, rather than on prices at which the security was actually sold; as a result a CDO security may experience large movements in prices that may not reflect the actual sales prices of the security. If holders of CDO securities attempt to liquidate large portfolios of such securities over a short period of time, difficulties in the market for such securities may be exacerbated, resulting in further decreased liquidity and pricing.

Recently, the residential mortgage market in the United States has experienced a variety of difficulties and changed economic conditions that may adversely affect the performance and market value of MBS and CDOs backed by MBS. Delinquencies and losses with respect to residential mortgage loans generally have increased in recent months, and may continue to increase, particularly in the subprime sector. In addition, in recent months housing prices and appraisal values in many states have declined or stopped appreciating. A continued decline or an extended flattening of those values may result in additional increases in delinquencies and losses on MBS generally.

Another factor that may result in higher delinquency rates is the increase in monthly payments on adjustable rate mortgage loans. Borrowers with adjustable rate mortgage loans are being exposed to increased monthly payments when the related mortgage interest rate adjusts upward from the initial fixed rate or a low introductory rate. Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. A decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. Furthermore, borrowers who intend to sell their homes on or before the expiration of the fixed rate periods on their mortgage loans may find that they cannot sell their properties for an amount equal to or greater than the unpaid principal balance of their loans. These events, alone or in combination, may contribute to higher delinquency rates and, as a result, adversely affect the performance and market value of MBS and CDOs backed by MBS.

In addition, numerous residential mortgage loan originators that originate subprime mortgage loans have recently experienced serious financial difficulties and, in some cases, bankruptcy. Those difficulties have resulted in part from declining markets for 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 material breaches of representations and warranties made on the mortgage loans, such as fraud claims. These difficulties may adversely affect the performance and market value of MBS originated, serviced or subserviced by these companies. As a result, the performance and market value of CDOs backed by MBS also may be adversely affected.

**Trading in Currencies.** A Client investing in currencies is exposed in the interbank market to risks associated with any government or market action that might suspend or restrict trading or otherwise render illiquid, in whole or in part, the Client's position. A Client may trade currencies and Financial Instruments only in interbank and forward contract markets which the Investment Adviser believes to be well-established and of

recognized standing, and the Investment Adviser effects such trades only with banks, brokers, dealers, financial institutions and other market participants which the Investment Adviser believes to be creditworthy.

**Forward Contracts and Currency Transactions.** The Investment Adviser may direct a Client to deal in forward foreign exchange contracts between currencies of the different countries and multi-national currency units and options on currencies and on currency futures contracts for hedging or speculation. With respect to forward currency contracts, this is accomplished through contractual agreements generally to purchase or sell one specified currency for another currency at a specified future date and price determined at the inception of the contract.

A Client may enter into forward contracts or over-the-counter options which are not traded on exchanges and are generally not regulated. When a Client enters into such contracts, they rely on the counterparty to make or take delivery of the underlying currency at the maturity of the contract. There is no limitation on the daily price moves of forward contracts or over-the-counter options, and a dealer is not required to continue to make markets in such contracts. Additionally, banks and other dealers with whom a Client may maintain accounts may require such Client to deposit margin with respect to such trading. A Client's counterparties are not required to continue to make markets in such contracts. There have been periods during which over-the-counter option and forward contract dealers have refused to quote prices for these contracts or have quoted prices with an unusually wide spreads (the difference between the price at which the counterparty is prepared to buy and at which it is prepared to sell). A counterparty may refuse to quote prices for these contracts at any time. A Client, in trading over-the-counter option and forward contracts, will be subject to the risk of credit failure or the inability or refusal of a dealer to perform with respect to its contracts. Failure by the counterparty to do so would result in the loss of any expected benefit of the transaction. Arrangements to trade forward contracts may be made with only one or a few counterparties, and liquidity problems therefore might be greater than if such arrangements were made with numerous counterparties. The imposition of credit controls by governmental authorities might limit forward trading to less than that which would otherwise be optimal, to the possible detriment of a Client.

The use of this strategy involves additional special risks, including (i) a dependence on the Investment Adviser's ability to predict movements in the prices of securities being hedged and movements in interest rates and currency markets, (ii) imperfect correlation between the hedging instruments and the securities or currencies being hedged, (iii) the possible absence of a liquid secondary market for any particular instrument at any particular time, (iv) possible impediments to effective portfolio management or the ability to meet short-term obligations because of the percentage of a Client's assets segregated to cover their obligations, and (v) the possible need to defer closing out hedged positions to avoid adverse tax consequences.

**Foreign Currency Swaps.** The Investment Adviser may direct a Client to invest in foreign currency swaps. Foreign currency swaps involve the exchange by a Client with a counterparty of the right to receive a notional amount of one currency (e.g., the currency in which a portfolio security is denominated) for the right to receive dollars or another currency in the same notional amount. The amounts of dollar payments to be received by a Client and the foreign currency payments to be received by the counterparty generally are fixed at the time the swap is entered into. If there is a default by the

counterparty, a Client will have contractual remedies pursuant to the swap. However, the value of a Client's right to foreign currency payments under the portfolio security will be subject to fluctuations in the applicable exchange rate to the extent that a replacement swap arrangement is unavailable or a Client is unable to recover damages from the defaulting counterparty.

**Currency Options.** Like the writing of other kinds of options, the writing of an option on a currency constitutes only a partial hedge, up to the amount of the premium received; a Client could also be required, with respect to any option it has written, to purchase or sell currencies at disadvantageous exchange rates, thereby incurring losses. The purchase of an option on a currency may constitute an effective hedge against fluctuation in exchange rate, although in the event of rate movements adverse to a Client's position, such Client could forfeit the entire amount of the premium plus related transaction costs.

**Illiquid Investments.** The Financial Instruments and other assets in which the Investment Adviser is authorized to invest may include assets that are subject to legal or contractual restrictions on their resale or for which there is a relatively inactive trading market. The sale of such assets 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 for which there is an active over-the-counter market. Therefore, a Client's investments in illiquid securities may reduce the returns of such Client because it may be unable to sell the illiquid securities at an advantageous time or price.

**Volatility Risk.** The Investment Adviser may direct a Client to be involved in the purchase and sale of relatively volatile Financial Instruments such as derivatives, which are frequently valued based on implied volatilities of such derivatives compared to the historical volatility of underlying Financial Instruments. Fluctuations or prolonged changes in the volatility of such instruments, therefore, can adversely affect the value of investments held by a Client. In addition, many non-U.S. financial markets are not as developed or as efficient as those in the U.S., and as a result, price volatility may be higher for such Client's investments.

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

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

A. Criminal or Civil Proceedings.

None to report.

B. Administrative Proceedings Before Regulatory Authorities.

None to report.

C. Self-Regulatory Organization (SRO) Proceedings.

None to report.



## ITEM 10

### OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

#### A. Broker-Dealer Registration Status.

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

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

The Investment Adviser is registered as a commodity trading advisor and a commodity pool operator under the U.S. Commodity Exchange Act, as amended, subject to regulation by the CFTC, and is a member in those capacities of the U.S. National Futures Association.

#### C. Material Relationships or Arrangements with Industry Participants.

On a leveraged basis or otherwise, the Investment Adviser may direct a Fund to invest all or a portion of its assets in other Investment Adviser-managed Funds and other Investment Adviser-managed Funds (including Funds in which such Fund may invest) may invest all or a portion of their assets in such Fund. Consequently, depending on the manner in which the Fund and other Investment Adviser-managed Funds are invested in one another, a loss in one or more Investment Adviser-managed Funds could be exacerbated by virtue of such "pyramiding". Furthermore, as discussed above, investors may bear multiple investment management fees (which may include management fees, incentive fees and/or allocations and Trading Bonuses or their equivalent) and an increased portion of any applicable Investment Adviser Expenses. Because such investments may entitle the Investment Adviser to receive multiple investment management fees from investors and allocate certain of its expenses to the Fund, and because the Investment Adviser and/or its affiliates may also be investors in such Investment Adviser-managed Funds, an inherent conflict exists each time the Investment Adviser allocates, and redeems or withdraws, assets of such Fund among the Investment Adviser-managed Funds and assets of the Investment Adviser-managed Funds to or from such Fund. The Investment Adviser will seek to exercise its discretion over these matters, however, in a manner that is fair and equitable to all of its Clients.

The Investment Adviser may advise Clients to purchase certain notes of the Structured Product Vehicles for which the Investment Adviser or an affiliate serves as investment or collateral manager. In such instances, the Investment Adviser will have potentially conflicting loyalties and responsibilities with respect to each participating Client. Additionally, the Investment Adviser and its affiliates hold certain interests issued by the Structured Product Vehicles, including those subordinate to the interests held by Clients, and which are entitled to receive all distributions after the interest payments to the other outstanding interests are made. As a result, the Investment Adviser may have an incentive to pursue an investment strategy that entails more risk than it otherwise would.

Additionally, the Investment Adviser is an affiliate of ROI Acquisition Corp. II ("ROI II"), a publicly traded blank check company organized to effect a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or engaging in any other similar business combination with one or more businesses or assets (any such transaction, a

"Business Combination"). George E. Hall sits on ROI II's board of directors and is employed as its Chief Investment Officer. Certain other employees of the Investment Adviser also serve as officers and directors of ROI II. This may create a conflict of interest between the Clients and ROI II as certain investment opportunities may be limited and not available to both ROI II and the Clients. Further, the Investment Adviser has granted ROI II a "right of first refusal" with respect to any agreement to acquire 50% or more of the outstanding voting securities of any company or business in the consumer or financial services sectors whose fair market value is at least equal to \$100 million. Pursuant to this right of first refusal, ROI II may waive the right of first refusal for any such potential transaction opportunity upon the majority vote of the independent directors of ROI II. The "right of first refusal" will expire upon the earlier of (i) ROI II's initial consummation of a Business Combination and (ii) September 16, 2015.

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

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

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

**A. Code of Ethics.**

The Investment Adviser has adopted a Code of Ethics (the "Code") pursuant to Rule 204A-1 under the Advisers Act that is applicable to all officers and employees of the Investment Adviser. The Code requires all officers and employees to exercise their authority and responsibility for the benefit of Clients and identify and mitigate conflicts of interest with Clients. The portion of the Code that governs personal securities transactions is applicable to all "access persons" and members of their households. As defined in the Advisers Act, the term "access person" generally includes any firm employee who has access to non-public information regarding a Clients' purchases or sales of securities, is involved in making securities recommendations to Clients or who has access to such recommendations that are non-public.

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

- prohibit officers, employees and access persons from taking personal advantage of opportunities belonging to Clients;
- prohibit trading on the basis of material non-public information;
- place limits on personal trading by access persons and impose pre-clearance and reporting obligations with respect to such trading;
- impose limits on the giving or receiving of gifts and entertainment; and
- restrict officers' and employees' outside business activities.

Access persons must report personal securities holdings upon becoming an access person and annually thereafter. Access persons must also report their personal securities transactions on a quarterly basis. In addition, access persons are required to have brokers send duplicate confirmations or account statements to the Investment Adviser's Chief Compliance Officer ("CCO").

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

**B. Securities in Which the Investment Adviser or a Related Person Has a Material Financial Interest.**

From time to time, the Investment Adviser may, subject to applicable investment restrictions and guidelines, cause one or more Clients to buy securities directly from, or sell securities directly to, one or more other Clients. Such transactions, known as "Cross Trades" are effected at the fair market value of such securities, as determined by the Investment Adviser in its reasonable discretion, which may or may not entail pricing such securities by an unaffiliated third party. Such transactions are effected in a manner that is in compliance with Rule 206(3)-2 under the Advisers Act. When effecting Cross Trades

between Clients, the Investment Adviser will have potentially conflicting loyalties and responsibilities with respect to each participating Client.

To the extent that Cross Trades may be viewed as principal transactions due to the ownership interest in a Client by the Investment Adviser or its personnel, the Investment Adviser will comply with the requirements of Section 206(3) of the Advisers Act.

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

It is the policy of the Investment Adviser to permit access persons to invest in the same securities as Clients, subject to, among other things, pre-clearance procedures that are intended to minimize any potential impact on, or benefit to, such access persons from Client transactions and to ensure that an employee's personal trading and knowledge of Client transactions does not impermissibly disadvantage any Client's account. Each access person who wishes to purchase securities in private placements or initial public offerings of securities or to effect a securities transaction in an access person account, with limited exceptions, must first obtain written pre-clearance of the transaction from the CCO. The Investment Adviser and its affiliates will only effect principal transactions with written pre-authorization from the Client(s) for each such trade in compliance with the requirements of Section 206(3) of the Advisers Act.

D. Conflicts of Interest Created by Contemporaneous Trading.

It is the policy of the Investment Adviser to allocate investment opportunities among Clients fairly and equitably, to the extent possible, over a period of time. However, upon purchasing, selling or exchanging any Financial Instrument for a particular Client or group of Clients, the Investment Adviser shall have no obligation to purchase, sell or exchange that Financial Instrument for other Clients if the Investment Adviser believes in good faith at the time the investment decision is made that such transaction would be unsuitable, impractical or undesirable for such other Clients.

Where an investment opportunity presents itself that a portfolio manager believes is both advantageous and limited in availability (and hence not fungible with other opportunities), whenever possible, the opportunity will be made available to all Clients for which the opportunity would present a legitimate investment decision, in the discretion of the portfolio manager for the Client. Allocations of such investment opportunities will be based upon the fair and equitable treatment of all Clients, taking into consideration the following factors, without limitation: investment requirements; risk management requirements; potentially adverse tax consequences; regulatory restrictions; adherence to any limits as defined in the applicable Client's investment guidelines; capital availability of each Client for investments of the type under consideration; and liquidity/availability of the investment opportunity.

## ITEM 12 BROKERAGE PRACTICES

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

The Investment Adviser generally has discretionary authority to manage Client accounts, including the authority to determine which securities are to be bought and sold, the amounts appropriate for each Client and the selection of broker-dealers to effect securities transactions. To the extent applicable, the limitations on the Investment Adviser's ability to determine, without obtaining Client consent, the securities to be bought or sold, the amount to be bought or sold and the broker to be used may be specified by the particular Client and/or may result from each Fund's internal requirement that all trades be reviewed and approved by the responsible portfolio managers and risk managers.

In selecting brokers or dealers to effect portfolio securities transactions, the Investment Adviser will comply with its fiduciary duty to seek "best execution" on behalf of Clients. The Investment Adviser considers various factors in selecting brokers through which orders for Clients are executed. In determining which brokers provide best execution, the Investment Adviser looks primarily to security prices quoted by the broker. Additionally, the following other factors, without limitation, may influence the selection of a broker for a particular trade: the execution, clearance and settlement capabilities of the brokers under consideration; the nature of the market for the security being traded; the size and timing of the transaction in relation to activity existing and expected in the market for the security; difficulty of execution; the broker-dealer's expertise in the specific security or sector; the extent to which the broker-dealer makes a market in the security involved or has access to such markets; the availability of accurate information regarding the market for the security; the broker-dealer's skill in positioning the securities involved; the broker-dealer's promptness of execution; the financial stability of the brokers under consideration; the adequacy of the broker-dealer's trading infrastructure, technology and capital; the broker-dealer's reputation for diligence, fairness and integrity; the quality of service rendered by the broker-dealer in other transactions for the Investment Adviser; the broker-dealer's ability and willingness to correct errors; the broker-dealer's ability to accommodate any special execution or order handling requirements that may surround the particular transaction; confidentiality considerations; the quality and usefulness of research services and investment ideas presented by the broker-dealer; and the provision of capital introduction services by the broker-dealer. The Investment Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost or spread.

Accordingly, if the Investment Adviser 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 services provided by such broker or dealer), commissions or spreads charged may be in an amount greater than the amount another broker-dealer might charge or apply.

On occasion, the Investment Adviser may experience errors with respect to trades executed on behalf of its Clients. Trade errors can result from a variety of situations, including, for example, when the wrong security is purchased or sold, the correct security is purchased or sold but for the wrong account, or the wrong quantity is purchased or sold (e.g.,

1,000 shares instead of 10,000 shares are traded). Trade errors may result in losses or gains. The Investment Adviser will endeavor to detect trade errors prior to settlement and correct and/or mitigate them in an expeditious manner.

To the extent that an error is caused by a counterparty or execution agent, such as a broker-dealer, the Investment Adviser will strive to recover any costs associated with correcting such error from the counterparty or execution agent. Typically, to the extent that the Investment Adviser determines that it is responsible for a trade error, the Investment Adviser will bear any costs associated with correcting such error. Any gains resulting from a trade error will remain in the impacted Client account(s). Certain Funds have a different trade error policy from the one outlined above, as set forth in such Funds' offering documents.

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

From time to time, a Client may pay broker commissions (or markups or markdowns with respect to certain types of riskless principal transaction) for effecting transactions in excess of that which another broker might have charged for effecting the transaction in recognition of the value of the brokerage and research services provided by the broker. To the extent the Investment Adviser receives such services with soft dollars, it may reduce the Investment Adviser's obligations to pay for such products and services with its own assets and therefore the Investment Adviser may have an incentive to select a broker based on the Investment Adviser's receipt of such products and services. The Investment Adviser will effect such transactions, and receive such brokerage and research services, only to the extent that they fall within the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934, as amended. Consistent with Section 28(e), research services obtained with "soft dollars" generated by a Client may be used by the Investment Adviser to service one or more other Clients, including Clients that may not have paid for the soft dollar benefits. The Investment Adviser does not seek to allocate soft dollar benefits to Client accounts in proportion to the soft dollar credits the client accounts generate. Nonetheless, the Investment Adviser believes that such investment information provides Clients with benefits by supplementing the research otherwise available to such Clients.

Soft dollar credits 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 research-related services for the benefit of a Client.

Where a service obtained with soft dollars provides both research and non-research assistance to the Investment Adviser (*e.g.*, a "mixed use" item), the Investment Adviser will make a reasonable allocation of the cost which may be paid for with soft dollars.

On a periodic basis, the Investment Adviser considers the amount and nature of research and research services provided by brokers, as well as the extent to which such services are relied upon, and attempts to allocate a portion of the brokerage business of a Client on the basis of that consideration. Brokers sometimes suggest a level of business they would like to receive in return for the various services they provide. Actual brokerage business received by any broker may be less than the suggested allocation, but can exceed the suggested level, because total brokerage is allocated on the basis of all of the considerations described above. In no case will the Investment Adviser make binding commitments as to

the level of brokerage commissions it will allocate to a broker, nor will it commit to pay cash if any informal targets are not met. A broker is not excluded from receiving business because it has not been identified as providing research services.

In the past year, the Investment Adviser has not utilized soft dollars.

## **2. Brokerage for Client Referrals.**

Neither the Investment Adviser nor any related person receives Client referrals from any broker-dealer or third party. However, as discussed above, subject to best execution, the Investment Adviser may consider, among other things, capital introduction and marketing assistance with respect to investors in the Clients in selecting or recommending broker-dealers for the Clients. As a result of this, the Investment Adviser may have an incentive to select or recommend a broker-dealer based on its interest in receiving investor referrals, rather than on the Client's interest in receiving most favorable execution.

## **3. Directed Brokerage.**

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

### **B. Order Aggregation.**

Where appropriate, on occasion, the Investment Adviser may, but is not obligated, to aggregate or bunch Client orders to achieve more efficient execution. Individual and bunched order transactions generally are allocated at the time of the transaction. The Investment Adviser generally provides average prices when allocating bunched trades to participating Client accounts.

## **ITEM 13**

### **REVIEW OF ACCOUNTS**

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

Client accounts are reviewed continuously by the portfolio managers. Trades executed for an account are reviewed and approved by the portfolio managers on an ongoing basis, or in some instances where the trades fall within specific guidelines, by the portfolio manager's designee after consultation with analysts. In addition, the Investment Adviser utilizes certain computer systems and software to continuously monitor the positions and market risk of the accounts.

The Investment Adviser has a Valuation Committee comprised of senior management and portfolio managers, which meets once a month to review valuation issues in general and fair valuation of securities specifically.

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

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

#### **C. Content and Frequency of Account Reports to Clients.**

Audited financial reports are sent to each Client quarterly or annually, as applicable. Regular reports regarding the investments of each Fund are provided on a monthly basis to the investors of each Fund.



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

**A. Economic Benefits for Providing Services to Clients.**

At times, when the Investment Adviser conducts certain private equity-type transactions on behalf of a Client, the Investment Adviser might receive fees in connection with those transactions from non-Clients. For example, the Investment Adviser might receive director's, advisory or other ancillary fees. In certain cases, such fees will be retained by the Investment Adviser and will not reduce management fees.

In certain cases, the Investment Adviser's principals or employees serve as directors or officers of companies in which Clients invest. During a principal's or employee's tenure as a director or an officer of a company, he or she may possess material non-public information regarding the company or may be subject to trading restrictions in accordance with internal policies of the company. In these instances, the Investment Adviser may not be able to purchase or sell securities of the subject company, which may adversely affect its Clients.

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

Neither the Investment Adviser nor any related person directly or indirectly compensates any person who is not a supervised person, including placement agents, for Client referrals, however, the Investment Adviser may choose to do so in the future. However, the Investment Adviser has entered into placement agreements with certain placement agents (the "Placement Agreements"), pursuant to which the placement agents have agreed to introduce potential investors to the Funds. Pursuant to the terms of the Placement Agreements, the Investment Adviser will pay the placement agents either a fixed monthly fee or a percentage of the management fee and performance based compensation, depending on the particular placement agent.

## **ITEM 15 CUSTODY**

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

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

The Investment Adviser is not deemed to have custody of the funds and securities of the Managed Accounts.

## **ITEM 16**

### **INVESTMENT DISCRETION**

The Investment Adviser serves as the investment manager or in a similar relationship with discretionary trading authority with respect to each Fund and Managed Account.

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

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

The Investment Adviser has the discretion to make investment decisions over the assets of the Structured Product Vehicles pursuant to its collateral management agreement with such vehicles.

## **ITEM 17**

### **VOTING CLIENT SECURITIES**

#### **A. Policies and Procedures Relating to Voting Client Securities.**

The Investment Adviser has adopted written proxy voting guidelines in accordance with Rule 206(4)-6 of the Advisers Act. Pursuant to the Adviser's Act, the Investment Adviser acts in a fiduciary capacity with respect to each of its Clients and, therefore, when exercising voting authority, the Investment Adviser must act in the best interest of such Clients. The Investment Adviser's primary objective is to vote in the manner that it believes will maximize the value of its Clients' investments. The Investment Adviser's judgment concerning the manner in which the best economic interest of its Clients may be achieved may change over time based on additional information, further analysis, and changes in the economic environment. Generally, Clients may not direct the Investment Adviser's vote in a particular solicitation.

The Investment Adviser receives proxy materials from Broadridge, which provides proxy processing services to the Investment Adviser. The Investment Adviser provides Broadridge security positions on a daily basis, and Broadridge assists the Investment Adviser with managing meeting notifications, voting, tracking and reporting and management of institutional proxies. In rare cases, the Investment Adviser will receive paper proxies which are then voted outside of Broadridge's proxy services. In these cases, the Investment Adviser seeks to vote in accordance with the best interests of its Clients.

Currently, Broadridge is under a standing order to abstain from voting on certain proxies with respect to positions managed by the Statistical Arbitrage Group of the Investment Adviser because of (i) the uncertain impact that such proposals may have on the valuation of the company's stock, (ii) the high cost associated with obtaining more information and (iii) the Investment Adviser's current belief that it is highly unlikely that it will retain such positions for any extended period. For positions held by the Statistical Arbitrage Group, the Investment Adviser may also follow the general guidelines put forward by Institutional Shareholder Services ("ISS"). In all cases, blocking ballots will not be voted on.

Where the Investment Adviser identifies a potential conflict of interest related to voting proxies on behalf of its Clients, the Investment Adviser will initially determine whether such potential conflict is material. Where the Investment Adviser determines there is a potential for a material conflict of interest regarding a proxy, the Investment Adviser will take one or some of the following steps: (i) inform the Client of the material conflict and the Investment Adviser's voting decision; (ii) discuss the proxy vote with the Client; (iii) fully disclose the material facts regarding the conflict and seek the Client's consent to vote the proxy as intended; and/or (iv) seek the recommendations of an independent third party. The Investment Adviser will document the steps it took to ensure the proxy vote or abstention was in the best interest of the Client and not the product of any material conflict.

Clients or their underlying investors may obtain a copy of the Investment Adviser's proxy policy, and a record of proxies voted with respect to their respective Client account upon request.

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

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