



Convexity Capital Management LP

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Form ADV Part 2A

Uniform Application for Investment Adviser Registration

This brochure provides information about the qualifications and business practices of Convexity Capital Management LP (“Convexity”). If you have any questions about the contents of this brochure, please contact compliance@convexitycapital.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Convexity is registered with the SEC. Registration with the SEC does not indicate that Convexity or its employees possess a certain level of skill or training.

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

Item 2 – Material Changes

There have been no material changes since the last filed Form ADV Part 2A dated March 22, 2016.

Item 3 - Table of Contents

Item 1 – Cover	i
Item 2 – Material Changes	ii
Item 3 - Table of Contents	iii
Item 4 – Advisory Business	1
Item 5 – Fees and Compensation	3
Item 6 – Performance-Based Fees and Side-By-Side Management	5
Item 7 – Types of Clients	6
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss	6
Item 9 – Disciplinary Information	28
Item 10 – Other Financial Industry Activities and Affiliations	28
Item 11 – Code of Ethics, Personal Trading, and Participation or Interest in Client Transactions.....	29
Item 12 – Brokerage Practices	31
Item 13 – Review of Accounts.....	32
Item 14 – Client Referrals and Other Compensation.....	33
Item 15 – Custody	33
Item 16 – Investment Discretion.....	33
Item 17 – Voting Client Securities.....	33
Item 18 – Financial Information	34

Item 4 – Advisory Business

Convexity, a Delaware limited partnership, was formed in March 2005 and commenced operations on October 1, 2005. Convexity is managed and controlled by its general partner, Convexity Capital Management LLC, a Delaware limited liability company (the “Investment Manager General Partner”). No limited partner of Convexity is entitled to receive 25% or more of Convexity’s capital in the event of Convexity’s dissolution.

Convexity provides discretionary investment management services to pooled investment vehicles and their subsidiaries as described herein. Such pooled investment vehicles and their subsidiaries are exempt from registration under the Investment Company Act of 1940, as amended (the “1940 Act”), and the securities representing interests in such entities are not registered under the Securities Act of 1933, as amended (the “Securities Act”).

Convexity serves as the investment manager for Convexity Capital Master Fund L.P. (the “Master Fund”), a Cayman Islands exempted limited partnership, and the following “feeder” vehicles which invest, and are currently expected to continue to invest, directly or indirectly, substantially all of their assets (except, from time to time, certain amounts of cash) in the Master Fund (each a “Feeder Vehicle”):

1. Convexity Capital Offshore L.P. (the “Offshore Fund”), an exempted limited partnership organized under the laws of the Cayman Islands.

2. Convexity Capital Onshore L.P. (the “U.S. Fund”), a limited partnership organized under the laws of Delaware.

Convexity also serves as the investment manager for any wholly-owned subsidiaries of the Master Fund, the Offshore Fund and the U.S. Fund. Currently, Convexity does not have any clients that are not part of the master fund-feeder fund structure. Convexity may in the future advise feeder vehicles, master funds, other pooled investment vehicles or managed accounts, in addition to those listed herein.

The Feeder Vehicles and their subsidiaries may be organized to address specific legal, business, tax, accounting and/or regulatory-related objectives that may arise in connection with transactions by the Master Fund. A Feeder Vehicle may invest other than through the Master Fund in instances in which Convexity deems that it would be appropriate for tax, regulatory or operational reasons to do so, or because Convexity determines that differences in the investments of the Feeder Vehicles would be desirable. The Master Fund and the Feeder Vehicles and their wholly-owned subsidiaries are each referred to as a “Fund.”

Investment advice and other services are provided directly to each Fund by Convexity in accordance with the Fund’s limited partnership agreement and/or a separate investment management agreement. Investment advice is provided directly to the Funds, subject in the case of the Master Fund, the Offshore Fund and the U.S. Fund to the discretion and control of the general partner of the Fund (the “Fund General Partner”). Investment advice is not provided individually to the investors in the Feeder Vehicles. Investment restrictions for a Fund, if any,

are generally established in the organizational or offering documents or the investment management agreement of the Fund.

The Funds' objective is to earn the benchmark returns specified by the limited partners of the Feeder Vehicles plus an additional return based on the success of long/short and other relative value strategies executed principally in the fixed-income and related markets, as more fully described in Item 8 below. The Feeder Vehicles and the Master Fund were launched on February 16, 2006. As of December 31, 2016, Convexity's net assets under management were approximately \$4,300,000,000, all of which were held by the Funds and managed on a discretionary basis. Convexity does not participate in any wrap fee programs.

This brochure does not constitute an offer to sell or a solicitation of an offer to buy securities. Interests in each Fund are offered and sold only on a private placement basis or to non-United States persons under exemptions promulgated under the Securities Act and other exemptions of similar import under U.S. state laws and the laws of other jurisdictions where any offering may be made. Any offer or solicitation in respect of equity interests in the Offshore Fund will be made only by means of a confidential offering memorandum and related offering materials to qualified prospective investors. As of December 31, 2016, interests in the U.S. Fund are held only by certain individuals who work (or formerly worked) at Convexity and their related persons.

Item 5 – Fees and Compensation

The precise amount of, and the method of calculation and payment of, any fees paid by a Fund to Convexity for advisory services are established by Convexity and are set forth in the Fund's confidential offering documents, organizational documents and/or other documentation, as applicable (the "Fund Documents"). The relevant Fund Documents are received by each investor prior to investment in the applicable Feeder Vehicle. The descriptions below of these fees are brief summaries and are qualified in their entirety by such documentation. The fees described below are non-negotiable; however, Convexity in its discretion may elect to reduce, waive or calculate differently such fees with respect to any investor in a Fund, subject in the case of the Offshore Fund to a "most favored nation" provision in respect of fees set out in the Offshore Fund's Fund Documents. The fee structures described below may be modified from time to time.

Convexity receives from the Offshore Fund a combination of an asset-based management fee and an incentive fee (each described below) as compensation for investment advisory and other services provided to the Offshore Fund. As of the date of this brochure, Convexity does not receive advisory fees for services provided to the U.S. Fund, whose investors are Convexity personnel and related persons, or from the other Funds comprising the master fund-feeder fund structure.

Management Fee:

Convexity is paid a quarterly asset-based fee of 0.3125% (1.25% annually) from the Offshore Fund's assets (the "Management Fee"). The Management Fee paid by the Offshore Fund is indirectly borne by investors in the Offshore Fund. The Management Fee is paid in advance on the second day of each Measuring Quarter. The term "Measuring Quarter", as used herein, means the period beginning as of immediately after 4:00 p.m. EST on the last day of each calendar quarter (*i.e.*, each March 31, June 30, September 30 and December 31) and ending as of 4:00 p.m. EST on the last day of the next calendar quarter. Notwithstanding the foregoing, the last Measuring Quarter of the Offshore Fund will end as of 4:00 p.m. EST on the date the Offshore Fund is dissolved in accordance with its limited partnership agreement.

Incentive Fee:

Convexity is paid a performance-based fee of 20% of the net returns generated above the returns of the benchmarks applicable to outstanding interests ("Interests") in the Offshore Fund (the "Incentive Fee"). The Incentive Fee expense is allocated among the capital accounts of the investors in the Offshore Fund as described in its Fund Documents. The Incentive Fee accrues annually (as of the end of the Measuring Quarter that closes on the last day of the relevant fiscal year) or, in respect of withdrawals, at the time of withdrawal, all subject to the high water mark and clawback arrangement described below. Because of the Offshore Fund's clawback arrangement, the Incentive Fee is generally not paid to Convexity at the time of such initial accruals, but is held back in clawback accounts and paid at the end of the following fiscal year, subject to prior reallocation under the clawback arrangement described below. The Incentive Fee would also be paid to Convexity upon dissolution of the Offshore Fund or termination of the Offshore Fund's investment management agreement with Convexity.

Incentive Fee Clawback Arrangement:

The Offshore Fund's clawback provision (together with its loss recovery or "high-water" mechanic) is intended to reduce the risk that an Interest will bear Incentive Fees of more than 20% of the cumulative net returns generated above the returns of the benchmark applicable to that Interest over the period when the Interest is outstanding. One hundred percent (100%) of the Incentive Fees in respect of each Interest for a year (or a relevant portion thereof) is retained, generally for one year, in a separate clawback account for each Interest (subject to special rules for withdrawals, dissolution of the Offshore Fund or termination of the Offshore Fund's investment management agreement with Convexity). If "relative value performance" is negative in respect of the Interest during the holdback period (that is, if the total amount allocated to the Interest (disregarding the applicable Incentive Fee) is less than the benchmark return applicable to such Interest), the clawback account will be debited to the investor's credit at the 20% Incentive Fee rate. Effectively, this operates like a negative incentive fee to the extent of the clawback account balance. Any Incentive Fees retained in clawback accounts and not returned to investors at the end of the year will be distributed to Convexity.

High Water Mark for Incentive Fee:

The Offshore Fund's high water mark uses a loss recovery account mechanic that applies on an Interest-by-Interest basis if all amounts in the clawback accounts (if any) for the Interest have been returned to the investor's capital account, as described above. No Incentive Fee will be earned with respect to an Interest until the loss recovery account's balance has been reduced to zero. A positive balance in a loss recovery account will be adjusted for withdrawals of capital in accordance with the Funds' withdrawal provisions.

Fund Expenses:

A Fund bears its own operating and other expenses including (as applicable), but not limited to, investment and trading-related expenses (e.g., brokerage and futures commission merchant commissions, expenses relating to short sales, clearing and settlement charges (including, without limitation, give-ups), the fees and other costs and expenses related to trading on (or pursuant to the rule of) exchanges, swap execution facilities and other venues, custodial fees, interest expenses, and consulting and other professional fees relating to particular investments), entity-level taxes, legal expenses, accounting expenses (including without limitation, the cost of accounting software packages), auditing and tax preparation expenses, costs of printing and mailing reports and notices, corporate licensing, regulatory expenses (including, without limitation, filing fees), organizational expenses, expenses incurred with the offering and sale of limited partnership interests, management fees, incentive fees, administration fees (including for the Fund administrator's risk services), expenses related to the maintenance of the Fund's registered office, extraordinary expenses, and other similar expenses related to the Fund. Administrative expenses incurred by each Feeder Vehicle in the ordinary course of its operations (that is, the ordinary-course charges for each of Fund administration, the Fund's registered office, custody (excluding, for clarity, tri-party collateral account custody), legal services (excluding, for clarity, organizational expenses and fees for non-ordinary course matters), audit services and tax preparation services) are capped at 18 basis points per year — that is, 18 basis points for the four full Measuring Quarters that end during a calendar year. For purposes of

calculating such expenses for a Feeder Vehicle, the Feeder Vehicle's allocable share of corresponding expenses of the Master Fund and other investment vehicles through which the Feeder Vehicle invests are taken into account.

Termination of Investment Management Agreement:

Upon termination of the investment management agreement with the Offshore Fund, any management fee that has been prepaid to Convexity would be returned on a prorated basis. Separately, for the Offshore Fund, any Incentive Fee in respect of the period ending with termination would be calculated and paid by the Offshore Fund to Convexity.

Brokerage:

When a dealer is used in connection with an investment by the Funds, the Funds will incur markups, markdowns, commissions and/or spreads. For additional information regarding brokerage practices, please see Item 12 below.

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

As summarized in Item 5 above, Convexity receives a performance-based fee from the Offshore Fund of 20% of net returns generated above applicable benchmarks. Convexity does not receive a performance fee from the U.S. Fund, whose investors work at Convexity or are related to such persons. Presently, potential conflicts between the Feeder Vehicles arising from such differences in fees are largely mitigated to the extent that the Feeder Vehicles continue to invest substantially all of their assets (except, from time to time, certain amounts of cash), directly or indirectly, in the Master Fund. In the future, each Feeder Vehicle may invest other than through the Master Fund (directly or indirectly) in instances in which Convexity deems that it would be appropriate for tax, regulatory or operational reasons or because Convexity determines that differences in the investments of the Offshore Fund and the U.S. Fund are desirable. It is also possible that in the future Convexity will have clients (including, without limitation, managed accounts and other pooled investment vehicles) other than the Funds. In such a case, to the extent that the investment allocation requirements of an account or a pooled investment vehicle are not set forth in the organizing or governing documents of such account or pooled investment vehicle and/or that such requirements allow Convexity discretion in making allocation decisions, Convexity will allocate transactions among its clients on a fair and equitable basis over time, taking into account such factors as it determines in its sole discretion to be relevant, which may include the clients' different investment strategies, the clients' different structures, the relative amounts of capital available for new investments, relative exposure to short-term market trends, and the investment programs and portfolio positions of the various clients for which an investment is appropriate. Such considerations may result in allocations of certain investments between the Funds on the one hand, and other clients on the other hand, or among Convexity's clients generally, other than on a *pari passu* basis. Additionally, in cases where one or both Feeder Vehicles invests other than (directly or indirectly) in the Master Fund, the above considerations may also result in allocations of certain investments between the two Feeder Vehicles other than on a *pari passu* basis. In each case, such allocations could result in differences in performance.

Item 7 – Types of Clients

The Funds and their subsidiaries are private investment funds and are, currently, Convexity's only clients. Investment advice is provided directly to the Funds (subject, in the case of the Master Fund, the Offshore Fund and the U.S. Fund, to the direction and control of the Fund General Partner). Investment advice is not provided individually to investors in the Feeder Vehicles. In the future, Convexity may provide investment advice to separately managed accounts for institutional and other investors, as well as to other pooled investment vehicles.

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

The following discussion is a summary of the investment and trading strategies Convexity employs for the Funds and certain of the material risks associated with implementing those strategies. This summary is not intended to describe every aspect of the strategies employed or every potential risk. A strategy could be subject to additional risks because of the types of investments made when implementing the strategy or because market conditions change over time. This summary is qualified in its entirety by the information contained from time to time in the offering materials (if any) of the Funds.

Investing and trading in securities involves a risk of loss that investors should be prepared to bear, including the potential loss of their entire investment.

Convexity seeks to earn the benchmark returns specified by each Feeder Vehicle's investors plus an additional return based on the success of long/short and other relative value strategies executed principally in the fixed income and related markets. Each investor in a Feeder Vehicle chooses one or more benchmarks from the list made available by such Feeder Vehicle at the time of investment (the "Benchmarks"). All investments in a Fund for which a particular Benchmark has been specified are assigned to the same class of Interests in the Fund.

Benchmark Returns. The Funds invest in securities, commodities, and other financial instruments and products with the goal of generating a return approximating the weighted average return of the Benchmarks specified by the Feeder Vehicles' various investors. For this purpose, the Funds may invest in securities, commodities, or financial instruments of any kind that Convexity believes may be appropriate, which may (but will not necessarily) include securities, commodities and other financial instruments that are in one or more Benchmarks. The Funds may use any combination of equity and debt securities, futures contracts, options, swap agreements, and other derivatives, commodities, cash equivalents and financial products, whether or not included in any Benchmark, in an effort to achieve a return comparable to that of one or more Benchmarks. There can be no assurance that the returns achieved during any period will at least equal the weighted average return of the specified Benchmarks. Each investor in a Feeder Vehicle will be allocated quarterly the actual return of its Benchmark(s), determined by reference to published index levels or as otherwise specified in the Fund Documents of such Feeder Vehicle, regardless of whether the Fund has earned the weighted average of the Benchmarks' returns. Any returns from the Fund's Benchmark investment activities in excess of, or less than, the investment returns needed to allocate to each investor in a Feeder Vehicle the return on its specified Benchmark (*i.e.*, positive or negative tracking error) will be shared among all investors. While the Funds intend to trade securities, commodities, and other financial

instruments and products with the goal of generating a return (apart from the returns of its relative value trading activities, described below) approximating the weighted average of the Benchmark returns that will be allocated to investors, there is no assurance that the Funds will be able to do so. Any or all Benchmark returns may be negative.

Each investor in a Feeder Vehicle selects the Benchmark(s) applicable to its investment in such Feeder Vehicle. It is assumed that each investor is knowledgeable about and comfortable with the market risk, issuer credit risk and other risks of the Benchmark(s) it chooses, and the Funds will not attempt to limit, hedge or otherwise manage these risks.

The securities, commodities and other assets held in connection with the Funds' efforts to earn the Benchmark returns can be and are used as collateral to support the Funds' trading for the relative value trading program (described below).

Relative Value Trading Program. The Funds, through the relative value trading program, will attempt to achieve a return over and above the weighted average return of the Benchmarks specified by the Feeder Vehicles' investors by buying or selling any positions, or entering into any financial transactions, that Convexity considers appropriate for the purpose. The Funds expect that their relative value trading generally will be designed to profit from perceived inefficiencies in the financial markets — principally in the markets for fixed income securities and related products (including, without limitation, the foreign exchange markets, the equity markets and the credit markets).

In their relative value trading, the Funds will be inclined towards positions which, along with other favorable features, have, on a gross or net basis, long optionality – that is, more-bounded downside risk and less-bounded upside potential. Such asymmetry is sought not only for interest rate trades, but also for relative value trades in respect of currencies, credit, equities, commodities, and indices in respect thereof. One example of such a position could be a portfolio of purchased options on interest rates. Another example would be a portfolio of options purchased and options sold, which together create a position with bounded downside. These trades can exhibit long optionality in a variety of interest rate scenarios.

Positive price convexity with respect to interest rates is also a desirable, but not essential, characteristic of the Funds' relative value interest rate positions, and Convexity generally will not seek to forecast interest rates or make directional “bets” based on interest rate forecasts. In implementing the Funds' rates strategies, however, each individual investment opportunity is evaluated independently based on a number of factors and not necessarily simply for its impact on overall portfolio convexity. In the aggregate, the Funds' portfolios may have more positive performance with respect to movements of rates in one direction than in the other.

In general, the Funds will not seek to profit by assuming material unhedged credit risk (that is, the unhedged risk of loss as a result of a default by the issuer of a security in which a Fund invests, or of a security that underlies a derivative contract in which a Fund invests) that is unbounded. (The Funds do, however, assume credit risk in respect of their counterparties and their futures commission merchants and clearinghouses, as applicable, in connection with entering into financial derivatives contracts, which risk is discussed separately below.) The Funds may seek to reduce credit risk assumed by hedging such risk. They are not, however,

required to do so. An example (which is not intended to be exclusive) of an investment in which credit risk generally would not, under current market conditions, be hedged is a transaction based on exposure to Japanese government bonds or Canadian government bonds. There can be no assurance that the Funds' positions will not have some credit risk or that the hedging strategies used by the Funds to reduce credit risk will be effective. In particular, in certain cases, the Funds may invest in securities, commodities and other financial products (including options and credit default swaps and other credit derivatives) that the Funds believe are mispriced due to a misperception of the credit risks therein and, in so investing, may assume credit risk. For example, the Funds might purchase credit instruments at what they believe to be a relative discount and affirmatively assume the associated credit risk, or net credit risk, if they believe that the downside risk is defined and that the return profile is positively asymmetrical – that is, that the potential return is greater than the potential loss, taking into account the credit risk.

The Funds will borrow money and engage in transactions (including, without limitation, derivatives transactions) that have the effect of creating investment leverage. There is no limit on the amount of money the Funds may borrow or the leverage the Funds may employ. Leverage will be created by a Fund's purchase of long option positions; however, the amount at risk in respect of long positions in options is limited to the premiums for such instruments (including any marked-to-market gain previously accrued (*i.e.*, unrealized gain previously accrued)). The Funds may also create leveraged positions using combinations of options purchased and options sold, but will seek to structure such positions so that the risk of loss (including any net marked-to-market gain previously accrued) is generally contractually defined. The Funds may attempt to limit the risk of leverage through hedging and other transactions, although there can be no assurance that the Funds will do so or be successful in doing so.

Permitted Investments. In trading to earn the Benchmark returns and to implement the relative value trading program, the Funds may use any securities, commodities, and other financial instruments and products Convexity may consider appropriate, including, without limitation, U.S. Treasury securities, securities issued by agencies or instrumentalities of the U.S. government, securities issued by non-U.S. sovereign jurisdictions (including securities issued in the emerging markets), U.S. and non-U.S. corporate debt, U.S. and non-U.S. equities, currencies, commodities, options, swaps, futures contracts, forward contracts, interest rate caps and floors, credit products (including credit default swaps and options), and other derivative and structured products of any kind, including variations and combinations of the foregoing, such as swaptions and forward volatility agreements. The Funds may invest as part of the relative value trading program in equities and commodities (and generally hold certain equity and commodity positions in their portfolios).

RISKS

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the Funds. These risk factors include only those risks that Convexity believes to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis. Clients or prospective investors should refer to the relevant Fund's offering documents for full disclosure of the potential risks of an investment in any particular Fund, including a full description of each of its respective risk factors. In addition,

as the Funds' respective strategies may develop and evolve over time, an investment in a particular Fund may be subject to additional and different risk factors than those set forth below.

Risks Relating to the Investment Program/Risk Management. The Funds seek to reduce exposure to risks to the extent, and in the manner, Convexity determines from time to time in its discretion to be appropriate. The Funds do not seek to reduce or limit, and may retain exposure to, various risks to the extent that Convexity believes they provide appropriate opportunities for returns. (In particular, the Funds will generally not hedge in any way the risks inherent in their Benchmark exposures.) Judgments about the relationship between risks and returns and appropriate risk reduction strategies are subjective, and the desired risk levels may not be obtained or may prove to have been too high or too low. Convexity regularly refines and adjusts its risk assessment methods and its risk management techniques and strategies. Convexity's risk assessment methods, as in effect from time to time, may not accurately identify or quantify the risks to which the Funds are exposed, which could limit Convexity's ability to manage the Funds' risks. Convexity's risk assessment methods are, in general, based on historical data. Risks and attendant losses may be significantly greater than may reasonably be predicted from historical data. Additionally, Convexity's models may not correctly interpret or apply the historical data and may be unable to assess correctly the interaction of various risks. Moreover, not all historical data are taken into account by any model, and Convexity's models may fail to include the relevant historical data. Convexity's risk management techniques and strategies, as in effect from time to time, may not fully achieve the targeted risk exposures in all economic or market environments, and may be ineffective to reduce certain types of risk, including but not limited to unidentified or unanticipated risks. Anticipated correlations among the returns of various investments may not materialize. Risk management techniques may be difficult to calibrate and expensive to implement and thus may have the effect of reducing the Funds' returns by more than anticipated. There can be no guarantee that Convexity's risk assessment methods and management techniques and strategies will be effective or that the Funds' relative value strategies will generate positive returns. As noted above, in investing to earn the Benchmark returns, the Funds do not seek to limit or otherwise manage the risks inherent in the Benchmarks.

Benchmark Returns – Market and Credit Risk. It is assumed that each investor in a Feeder Vehicle is and will be knowledgeable about, and comfortable with, the particular Benchmark(s) chosen by it for purposes of computing the Benchmark returns to be allocated to it. Each Benchmark reflects different market, credit, currency and other risks, and the Funds will not take any steps to alter or control in any way these risks. The Benchmark allocation made to any investor will reflect the actual return of the relevant Benchmark (subject to the right of the Feeder Vehicle's general partner (the Fund General Partner) to amend periodically the definition of a Benchmark to more accurately reflect the Fund's relative costs of earning a return approximating that of the Benchmark). Thus, if the return of the relevant Benchmark is negative for a particular Measuring Quarter (or other relevant period), the Benchmark allocation in respect of all Interests in each class to which such Benchmark applies will be negative. If the Benchmark returns used to calculate the Benchmark allocations for Interests of a particular class are less than those used to calculate the Benchmark allocations for Interests of one or more other classes, the capital accounts representing Interests in the first class will increase less (or decrease more) than the capital accounts for Interests in the other classes. This, in turn, will reduce the share of the net return from the relative value trading program allocated to Interests of the first

class in one or more subsequent Measuring Quarters (as relative value returns are allocated quarterly on a *pro rata* basis across all Interests in a Fund based on opening capital accounts for the relevant Measuring Quarter). If the return of the Benchmark for a class of Interests is negative for an annual period (or other relevant period over which Incentive Fees are measured), but the Funds' relative value returns are positive, the Interests of that class will bear incentive fees, even if the total return of such class of Interests is negative for the period.

The Funds' Relative Value Trading Strategies. The success of the Funds' relative value trading strategies depends on Convexity's ability to identify and exploit inefficiencies and other opportunities in the financial markets. Identification and exploitation of these opportunities involve uncertainty. No assurance can be given that Convexity will be able to locate investment opportunities or to exploit inefficiencies in the markets successfully. A reduction in inefficiencies that, in the view of Convexity, provide investment opportunities for the Funds will reduce the scope of the Funds' investment activities. In the event that the perceived mispricings underlying one or more of a Fund's positions were to fail to converge toward, or were to diverge further from, relationships expected by Convexity, the Fund may incur a loss. Further, the investments utilized in implementing such strategies generally include derivatives, such as options, forward contracts, swap contracts, and combinations and derivatives thereof, which are themselves inherently volatile in the context of specific market movements and may not respond to market changes as anticipated by Convexity.

Certain of the relative value trading strategies employed by the Funds are based on historical relationships. There can be no assurance that such historical relationships will continue, and no representation is made by Convexity or the Funds as to what results the Funds will achieve or are likely to achieve based on such trends and relationships. Depending upon the strategies employed and market conditions, the Funds may be adversely affected by unforeseen events involving such matters as political crises, banking crises, changes in currency exchange rates, interest rates or volatilities, forced redemptions of securities or acquisition proposals. There can be no assurance that material losses will not be incurred. An investor in a Feeder Vehicle must be able to bear the loss of its entire investment in the Feeder Vehicle.

Because the Funds' investments are actively managed, trading may be frequent and may result in higher transaction costs to the Funds. No guarantee or representation is made that the Funds' program will be successful or that it will not result in substantial losses.

Current Market Conditions and Governmental Actions. Since mid-2008, world financial markets have from time to time experienced extraordinary market conditions, characterized by, among other things, extreme losses, volatility and illiquidity, and the failure of credit markets to function. In response to these events, regulators in the U.S., the European Union, and a number of other jurisdictions have been taking and continue to take unprecedented regulatory actions to stabilize markets and to encourage growth in the U.S., European and global economies. Despite these efforts, and, to some extent because of them, global financial markets are different from their pre-crisis state. It is uncertain whether the regulatory actions taken already, or to be taken in the future, will be effective to prevent further losses, to impact volatility in the financial markets, to reduce remaining distortions in pricing, or to increase liquidity.

The Funds may be materially adversely affected by adverse economic, political or financial developments, reduced liquidity, uncertainty in the markets, and their consequences, and both the Benchmark returns and relative value trading program returns may be significantly lower than they might otherwise have been. The absence of efficient and reliable credit markets could increase the cost to the Funds of earning the weighted average return of the Benchmarks chosen by investors, limit the Funds' ability to engage in relative value trading, and potentially require the Funds to sell assets at inopportune times or unfavorable prices. A decline in the value of the assets held by a Fund in order to earn a return equal to the weighted average return of the Benchmarks would reduce the net asset value of the Fund and reduce the value of assets that could be posted as collateral for the Fund's relative value transactions. This could limit the ability of the Fund to engage in relative value trading. Losses in a Fund's relative value trading could result in negative returns, which would be allocated among all investors in the Fund and cause the total return realized by an investor in respect of its direct or indirect interest in the Fund to be less than the return of the Benchmark for that interest.

U.S. and non-U.S. regulators have been implementing significant new regulations – including, without limitation, those issued under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"); those issued under Regulation (EU) No. 648/2012 of the European Parliament and of the Council of July 4, 2012 on over-the-counter ("OTC") derivatives, central counterparties and trade repositories ("EMIR"); regulations intended to implement principles agreed by the Financial Stability Board and other international bodies; Basel III, as developed by the Basel Committee on Banking Supervision; and other U.S. and non-U.S. regulations. In the U.S., it is unclear whether the new administration will alter, repeal or affect the implementation schedule of existing and proposed regulations. As a general rule, the regulations are intended to improve the resiliency of the financial system and, in particular, of systemically important financial institutions. If the regulations of the various global jurisdictions continue to be implemented in their current form, however, they could also have certain adverse effects. They are likely to continue to increase costs, increase margin requirements, and decrease liquidity, and could operate to increase counterparty risk, limit the Funds' activities and trading opportunities, and/or change the functioning of capital markets in a manner that adversely affects the Fund's returns. There remains the possibility of a severe worldwide economic downturn. Consequently, the Funds may not be capable of, or successful at, preserving the value of their assets, generating positive returns, or effectively managing their risks.

Liquidity of Investments. The Funds may invest in securities, commodities, and other financial products, particularly in the derivatives markets, that are subject to legal or other restrictions on transfer or for which no liquid market exists. In addition, it is possible that markets for one or more types of investments held by the Funds may become illiquid for a short period or for an extended time. Less liquid positions could result from, among other things, economic events, market events, events specific to the financial product at issue, or changes in the regulatory frameworks for the trading markets (including, without limitation, changes implemented or anticipated to be implemented under the Dodd-Frank Act, Basel III, or similar U.S. or non-U.S. rules). The Funds may not be able to sell or close out less liquid positions when they desire to do so or to realize what they perceive to be their fair value in the event of a sale or close-out transaction. The Funds' liquidity could also be affected adversely by calls from their OTC derivatives counterparties and their futures commission merchants for amounts of initial margin

greater than anticipated by Convexity, including, without limitation, as a result of new rules under the Dodd-Frank Act and similar non-U.S. rules which will likely limit the ability of the Funds to cap contractually the amount of initial margin they must post. Additionally, some OTC derivatives dealers have supercollateral provisions in their OTC trading documentation with the Funds under which they have the right to call for additional initial margin. If a dealer were to exercise this right, a Fund would post additional initial margin with the dealer (or to a tri-party collateral account for the benefit of the dealer). Such posting could increase the credit risk of the Fund to its dealer counterparties and would decrease the amount of liquid assets available to the Fund for use in its trading program.

Subject to the foregoing, Convexity actively monitors the liquidity of the Funds' portfolios and uses a variety of scenario analyses and stress tests to gauge the Funds' exposure to potential increases in initial margin, changes in the value of the securities, derivatives contracts and other financial instruments that the Funds hold, decreases in the availability of financing, and potential withdrawals. Securities purchased in the cash markets that are included in the Funds' "core" portfolios – that is, those positions that the Funds purchase in the cash markets in order to hedge some or all of the Feeder Vehicles' obligations to allocate quarterly returns equal to the relevant Benchmark returns in respect of the Interests in the Feeder Vehicles (such as for example, without limitation, U.S. Treasury securities and non-U.S. sovereign debt securities), as well as any cash held by the Funds, are generally held at a global custodian or in a deposit account at a U.S. bank, except when needed to further the investment program of the Funds (including to post collateral) or to pay expenses. Excess cash may be invested in non-U.S. money funds. The Funds do not have and it is not currently anticipated that the Funds will have traditional prime brokerage relationships in which unencumbered assets are held by various prime brokers. The Funds' uncleared OTC derivatives counterparties may hold collateral posted to them as variation margin and as initial margin, subject to the tri-party collateral account arrangements for initial margin in place with some counterparties, as discussed below. To reduce the risk that calls by a counterparty for initial margin in respect of uncleared OTC derivatives positions could adversely affect the Funds' liquidity, the Funds have historically agreed with each of their uncleared OTC derivatives counterparties for whom initial margin is not fixed at the time of the transaction to formulas for the calculation of maximum initial margins that can be requested by the counterparty. The Funds expect that the aggregate amount of initial margin actually posted with their uncleared OTC derivatives counterparties may be less than the sum of the agreed-upon maximums. Convexity monitors as necessary the spread between the Funds then-posted initial margin and the agreed maximums. However, U.S. and E.U. regulators are beginning to implement regulations that ultimately will require many customers trading uncleared OTC derivatives with dealers to post initial margin for the benefit of the dealers and that set out rules regarding the calculation and posting of such margin. The rules, once in effect, are expected to increase materially the amount of initial margin to which the Funds are subject and will, if implemented in their current form, preclude the Funds, going forward, from continuing to have contractual maximums on the amount of initial margin that may be called by the dealers. Additionally, under regulations currently in effect, certain OTC derivatives positions are required to be cleared. The Funds are obligated, subject to certain contractual limits, to post the variation margin and initial margin in respect of such cleared transactions that is called by the futures commission merchants through which they clear such transactions. The futures commission merchants in turn post collateral with the clearinghouses for the cleared OTC derivatives positions. Under the Funds' documents, the amount of variation and initial margin that may be

called by a futures commission merchant is typically a function of the amount of margin that the futures commission merchant must post with the clearinghouse, but such amounts are not necessarily the same. The amount of initial margin that may be called by a clearinghouse is generally not subject to a cap and can vary depending not only on the characteristics of the transactions cleared by the Funds, but also based on the models and data used by the clearinghouse. This is similar to the mechanics for posting collateral in respect of the Funds' futures contracts and exchange-traded options contracts. The amount of initial margin posted by the Funds may increase or decrease materially from day to day and is not necessarily able to be accurately predicted by the Funds. Convexity, as noted above, applies a variety of scenario analyses and stress tests to monitor the Funds' liquidity generally.

Market Liquidity. When the Funds use options or other derivatives, such as swaps, such financial instruments require less initial funding than outright positions in the cash markets. This reduces the liquidity demands of the trade, but it does not eliminate the market liquidity risk of the option or derivative position itself. Additionally, while trades with defined risk help to reduce the pressure to sell at an inopportune time, they do not eliminate market liquidity risk.

Leverage and Financing Risk. The Funds leverage their capital because Convexity believes that the use of leverage may enable the Funds to achieve higher rates of return. The Funds may pledge their securities, commodities and other assets in order to borrow additional funds for, among other things, the relative value trading program, including, without limitation, to buy options, securities, commodities and other financial instruments. The Funds may also leverage Benchmark and relative value trading positions by using options, short sales, swaps, forwards, futures contracts and other derivative instruments. It is expected that the cash invested by the Feeder Vehicles' investors and the assets acquired with such cash in order to generate a return approximating the weighted average return of each Feeder Vehicle's Benchmarks will be posted as margin, deposited as collateral, sold in reverse repurchase agreement transactions, lent in the repurchase transaction and securities lending markets, and otherwise used in order to facilitate the Funds' relative value trading program. Investors in a Feeder Vehicle could thus bear both a decline in the value of the Benchmark(s) selected by them and losses from the Funds' relative value trading, both of which would, on a cumulative basis, decrease the net asset value of the investors' Interests and the returns realized by such investors more than if the Funds had not used leverage. The use of leverage can involve so-called "roll risk". That is, if the term of a borrowing to finance a position is shorter than the term of the position so financed, the Fund may be forced to close out the position if the borrowing is not renewed, possibly at a price adverse to the Fund. It is also possible that a counterparty to whom a Fund has posted margin, deposited collateral, sold securities in reverse repurchase transactions, or loaned securities will be unable or unwilling to honor its obligations to return those assets on a timely basis, and the Fund may be delayed in or prevented from recovering those assets, resulting in a loss to the Fund.

There is no limit on the amount of leverage the Funds may use, and the degree of the Funds' use of leverage will vary. The amount of leverage which may be represented in a Fund's portfolio at any time may be substantial in relation to its capital. Each Feeder Vehicle will report to its investors each quarter the leverage of its portfolio.

While leverage presents opportunities for increasing the Funds' total returns, it has the effect of potentially increasing losses as well. Accordingly, any event that adversely affects the value of

an investment by a Fund would be magnified to the extent the Fund is leveraged. The cumulative effect of the use of leverage by the Funds in a market that moves adversely to the Funds' investments could result in substantial losses to the Funds that would be greater than if the Funds were not leveraged.

Legal and regulatory actions taken in light of recent developments in the securities, derivatives and credit markets may increase the cost of leverage to the Funds and may limit the availability of leverage or the ability of the Funds to use leverage.

"Widening" Risk. For reasons not necessarily attributable to any of the risks set forth herein (for example, supply/demand imbalances, the decreased availability of Treasury repo financing, or other market forces, such as, for example, the implementation of new regulations as to capital, leverage and liquidity, the forced liquidation of hedge funds and other investment vehicles and the de-leveraging of banks, investment banks, clearinghouses, hedge funds and other institutional investors), the prices of the securities, commodities and other financial products in which the Funds invest may decline substantially. In particular, purchasing assets at what may appear to be "undervalued" levels is no guarantee that these assets will not be trading at even more "undervalued" levels at a time of valuation or at the time of sale or other disposition. It may not be possible to predict, or to hedge against, such "spread widening" risk.

Counterparty Risk. Many of the markets in which the Funds effect their transactions – both to generate a return approximating the weighted average return of the relevant Benchmarks and in connection with the relative value trading program – are "over the counter" or "OTC" markets. Currently, most of the Funds' derivatives trades (whether to earn relative value returns or Benchmark returns) are executed in the OTC derivatives markets, are not cleared through a central clearing agency, and thus are bilateral contracts between a Fund and a dealer. (A growing, but still relatively small, percentage of the Funds' current derivatives trades are cleared – either as exchange-traded options or futures or as cleared OTC derivatives contracts.) However, it is anticipated that, over time, a greater percentage of the Funds' trades may be centrally cleared. Presently, the central clearinghouses have not begun meaningfully to clear most of the types of OTC derivatives trades to which the Funds are a party, and, while the Funds' trading of exchange-traded derivatives has increased, the Funds still do not trade a significant number of such derivatives contracts (such as futures and listed options). It is anticipated that regulatory changes may continue to favor OTC cleared and exchange-traded products over OTC uncleared products which, over time, may make OTC cleared products and exchange-traded products more attractive to the Funds. Reverse repurchase agreement transactions (pursuant to which a Fund borrows cash secured by the posting of securities) and repurchase agreement transactions (pursuant to which a Fund lends cash secured by the posting of securities or cash) are still generally effected bilaterally. There are developing market initiatives to centrally clear repurchase agreement and reverse repurchase agreement transactions secured by U.S. Treasury securities, but a number of regulatory hurdles must be resolved before such clearing is likely to be available to the Funds.

In the uncleared OTC derivatives markets, the Funds, except to the extent that they are collateralized, bear the credit risk that one or more counterparties will be unable to pay in full their obligations under such contracts. OTC counterparties are typically not subject to credit evaluation and regulatory oversight as are member of "exchange based" markets though, the

Dodd-Frank Act is bringing increasing regulatory oversight to the OTC markets. The stability and liquidity of OTC derivatives transactions thus depends in large part on the creditworthiness of the parties to the transactions. Less regulation exposes the Funds to the risk that counterparties will not meet their obligations under transactions in accordance with their terms and conditions because of disputes over the terms of the contracts (whether or not *bona fide*) or because of credit or liquidity problems (including, without limitation, the insolvency, bankruptcy or liquidation of the counterparty), thus causing the relevant Fund to suffer a loss. For example, in September 2008, Lehman Brothers Holdings Inc. ("Lehman Holdings"), a major investment bank holding company based in the United States, filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code, and a number of its affiliates filed for bankruptcy in the United States or were placed into administration or receivership outside the United States. Any bankruptcy, insolvency, receivership or other similar creditors' rights event of a material counterparty of a Fund would likely result in losses to the Fund and may impair the operational capabilities of the Fund. Additionally, new rules in the U.S., EU and other jurisdictions limit the ability of the Funds to close out their derivatives positions and demand payment in the event of certain insolvency-related defaults of their dealer counterparties. The Funds are not limited in the number or amount of transactions they may enter into with any particular counterparty or restricted from concentrating any or all of their transactions with one counterparty, although they generally use, and anticipate that they will generally continue to use a number of different counterparties. A concentrated risk to a particular counterparty may mean that if such counterparty were to become insolvent or have a liquidity problem, losses would be greater than if the Funds had entered into contracts with multiple counterparties. Convexity will monitor concentration risk.

To reduce counterparty credit risk, uncleared OTC derivative positions are marked to market on a daily basis and variation margin is exchanged on a bilateral basis as the parties agree from time to time. Additionally, the Funds are generally required to post initial margin or "independent amounts" as additional security for the benefit of their OTC derivatives counterparties (generally, dealers). Variation and initial margin for uncleared OTC derivatives transactions are generally comprised of U.S. Treasury securities, U.S. Agency securities and/or U.S. dollars. The variation margin may be held either by a Fund or its OTC derivatives counterparty, depending on which party is, as of a given valuation day, "in-the-money". If the variation margin is held by the counterparty, then any additional margin posted by a Fund as initial margin would increase the total amount of margin held by the counterparty. If the variation margin is held by a Fund, then any additional margin required as initial margin from the Fund would reduce the amount of variation margin held by the Fund (and could cause the Fund's counterparty to be the holder of margin). In a material number of cases, initial margin is not posted directly with the OTC derivatives counterparty, but instead posted to a separate "tri-party collateral account" owned by a Fund in which the counterparty has been granted a security interest. This arrangement is intended to reduce a Fund's counterparty credit risk associated with posting initial margin directly to a counterparty (or allowing initial margin to reduce the amount of variation margin held by the Fund). The Funds do not have these arrangements in place with all counterparties, and there can be no assurance that these arrangements will be effective to reduce counterparty credit risk. Some OTC derivatives dealers have supercollateral provisions in their OTC trading documentation with the Funds under which they have the right to call for additional initial margin. If a dealer were to exercise this right, the Funds would post additional initial margin

with the dealer (or to a tri-party collateral account for the benefit of the dealer). Such posting could increase the credit risk of a Fund to its dealer counterparties.

The Funds currently clear a limited number of types of OTC derivatives positions, such as, without limitation, fixed-floating interest rate swaps, basis swaps and certain single-name and index credit default swaps. Futures and exchange-traded options positions are also cleared. As noted above, additional types of OTC derivatives are likely to be able to be cleared over time, and OTC cleared and exchange-traded products may, on a relative basis, become more attractive to the Funds. For positions that are cleared, the Funds' credit risk is to the clearinghouse and to its futures commission merchants. Currently, interest rate swaption clearing is in its nascent stages. If in the future, certain OTC options (such as some interest rate swaptions) are required to be cleared, but other related types of OTC options cannot be cleared, the Funds are unlikely to be able to net the cleared and uncleared positions for purposes of posting margin and effecting any set-off in the event of a dealer insolvency. This could materially increase a Fund's margin requirements and corresponding credit risk, as, currently, related OTC options are typically held under the same OTC derivatives trading document and can be netted. When a Fund clears exchange-traded futures and options or OTC derivatives transactions, it is required to deliver variation margin, generally in the form of cash, and initial margin, generally in the form of U.S. Treasuries, to the futures commission merchant ("FCM") that has the direct relationship with the central clearinghouse ("DCO"). Where available and practicable, the Funds will seek to avail themselves of the protections of the segregation rules applicable to FCMs and DCOs. FCMs and DCOs are also subject to regulatory capital rules.

Convexity has no internal credit function that independently evaluates the creditworthiness of the Funds' counterparties; however, Convexity reviews published credit ratings regarding the Funds' counterparties that are prepared by independent third parties, which may or may not be accurate or entirely reliable. The ability of the Funds to transact business with any one or a number of counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities, and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Funds. Although increased regulatory oversight of, and regulatorily required changes to, the OTC markets may decrease some of the risks associated with trading with OTC counterparties, it may increase other risks, including, without limitation, risks associated with clearing organizations, futures commission merchants, certain mandated reorganizations of OTC trading activities, increased capital and liquidity requirements, mandatory limits on default rights, and limits on liquidity. In particular, recent legislative and regulatory initiatives seek to reduce the likelihood that public funds will need to be used to "bail out" financial institutions. These provisions, to the extent finalized and implemented by the U.S. and other relevant jurisdictions, are likely to operate so as to limit the ability of market participants, such as the Funds, to terminate bilateral positions and/or to enforce certain rights under their bilateral trading documentation if the dealer counterparty (or a relevant affiliate) has been placed in resolution by a regulator or, in certain cases, if the dealer counterparty (or a relevant affiliate) is the subject of certain U.S. insolvency proceedings. Additionally, trading documentation with counterparties in certain European Union jurisdictions is or will be required under separate legislation to acknowledge the right of EU bank regulators to "bail-in" (in exchange for equity) certain trading liabilities of the dealer counterparty in prescribed circumstances. By limiting the Funds' and others' rights against financially troubled dealer counterparties, both such initiatives could accelerate market flight from dealers suspected to be

financially troubled, reduce market liquidity, and increase losses to the Funds. The Funds trade actively with a number of different counterparties and take into account exposures to their counterparties. The clearing mandate and new margin requirements for OTC transactions will also reduce, possibly significantly, the ability of a Fund to net the positions (and thus reduce the ability of a Fund to limit the counterparty risks) in its portfolio. In addition, since 2008, the number of potential counterparties has been reduced due to merger and acquisition activity in the investment banking and banking industries and through the insolvency and winding up of certain major market participants. Further consolidation in the industry could limit trading opportunities and the beneficial effects of competition.

Central Clearing. In an effort to reduce counterparty risk and, more generally, systemic risk in the financial markets, various U.S. and international regulatory initiatives have been and are being implemented to require certain more standardized derivatives to be cleared through a clearinghouse, instead of held as bilateral contracts between counterparties. 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 widely-traded interest rate and credit default swaps. The EU regulators are in the process of implementing clearing requirements in the EU, which, generally cover products similar to those required to be cleared in the U.S. Given the change in U.S. administration, it is not yet clear whether U.S. regulators will continue to coordinate with the EU regulators as to the scope of products required to be cleared, or whether they will be more inclined to let the markets determine over time whether additional products should be cleared.

Under the current U.S. model of clearing, a Fund is not a member of, and is thus not in direct privity with, the clearinghouse, but instead faces a member of the clearinghouse, a “futures commission merchant” or “FCM”, which in turn faces the clearinghouse. The futures commission merchant acts as a quasi-agent, guaranteeing the obligations of a Fund to the clearinghouse. This regime is modeled in large part after the U.S. futures clearing regime.

Cleared OTC derivatives transactions (like uncleared derivatives transactions) are marked to market, and variation margin (generally, in the form of cash) is exchanged to collateralize any uncollateralized exposure. The Funds must also post initial margin (generally in the form of U.S. Treasuries or cash) in respect of their cleared OTC derivatives transactions. Margin in respect of cleared trades is required to be posted by a Fund to the futures commission merchant through which the Fund is clearing the transactions. The FCM has a separate obligation to post margin (which need not be comprised of the same cash and/or Treasuries as posted by the Fund) in respect of the Fund’s trades to the clearinghouse. Thus, a Fund cannot always be assured that the particular assets posted by it to its FCM as collateral will be returned to it. While uncleared OTC derivatives trades are generally marked to market daily, cleared trades may be marked to market more frequently -- on an intraday basis -- and thus may subject a Fund to more frequent margin calls. Additionally, virtually all of the margin models that are utilized by the clearinghouses are dynamic, meaning that the amount of the initial margin that is required to be posted in respect of a cleared OTC derivatives contract will fluctuate, sometimes significantly, throughout the life of the contract. The dynamic nature of the margin models utilized by the clearinghouses and the fact that the margin models might be changed at any time may subject a Fund to an unexpected

increase in collateral obligations by clearinghouses during a volatile market environment, which could have a detrimental effect on the Fund. Clearinghouse margin models are also different than the margin models applied by OTC derivative dealers in that they generally do not take into account the risk profile of the customer, but only of the portfolio of trades cleared by the customer (and the futures commission merchant) through the clearinghouse. By contrast, OTC derivatives dealers often use a model that is tailored to some extent to reflect the risk of the relevant customer. In the clearing context, the analysis of individual customer risks occurs principally at the futures commission merchant level (as part of its determination of whether to charge additional initial margin on top of that being charged by the clearinghouse). Thus, while an FCM may call for more margin than the amount of margin called by a clearinghouse in respect of a Fund's cleared OTC derivatives transactions, it cannot call for less margin than that called for by the clearinghouse. This may mean that initial margins for cleared OTC derivatives contracts are greater than initial margins for uncleared contracts. However, regulators are beginning to put in place rules for the margining of uncleared trades which are expected generally to result in uncleared trades being subject to higher initial margins than if they were cleared. Clearing may limit the ability of a Fund to portfolio margin (or cross margin) its derivatives positions, which may increase, possibly materially, the amount of overall margin that the Fund needs to post across its portfolio.

Clearing (and comparatively higher initial margins for uncleared trades) may result in a move by the markets to more standardized products. As products become more standardized in order to be cleared, it may be more difficult and/or expensive for a Fund to access and trade derivatives with customized terms. In certain cases, derivatives may be required to be standardized. Smaller, less liquid and more expensive markets for customized derivatives may mean that a Fund will not be able to hedge its risks or express an investment view as well as if customizable derivatives were more readily available.

Although standardized clearing for derivatives is intended to reduce risk, including, in particular, bilateral credit risk to individual counterparties, it does not eliminate risk. Rather, standardized clearing changes the risk faced by a Fund from a risk of default by one or more over-the-counter derivatives dealers to a risk of default by one or more central clearinghouses (or futures commission merchants through which the Fund clears). The resulting concentration of risk may increase not only a Fund's risk, but systemic risk in the markets generally, as the failure of a clearinghouse or an FCM could have a significant adverse impact on the financial system. Clearinghouses tend to clear particular products in order to achieve economies of scale. This heightens the concentration risk for the Fund, which might not easily be hedged. In the futures context, clearing through futures commission merchants has in certain cases led to losses caused by operational failure or fraud.

Because clearinghouses and applicable rules and processes are still developing and the related resolution/bankruptcy process is untested, it is difficult to speculate what the actual risks would be to the Fund in the event of a default by a clearinghouse or an FCM. While the futures model worked well in the futures markets during the Lehman crisis in 2008, there has been no testing as to whether the model is scalable so that it would apply successfully in the context of the OTC derivatives markets. In addition, there is no one international standard for clearinghouses;

existing clearinghouses have different waterfalls that apply upon the insolvency of a clearinghouse or a clearinghouse member; and it is possible that a Fund could be in a worse position if a clearinghouse or FCM were to fail than had the Fund executed a trade with a traditional OTC derivatives counterparty. In particular, applicable rules will likely give a Fund very little control over its transactions if its FCM or clearinghouse becomes insolvent. In the event of an FCM default, a Fund may be able to transfer its positions to a new FCM. However, there is no assurance that it will be able to do so. If not able to transfer its positions from a defaulting FCM, or in the event of a clearinghouse default, a Fund will likely not be able to terminate and close out its positions, but will instead likely become subject to regulators' (or a bankruptcy trustee's) control over those positions. In such a circumstance, a Fund may not be able to take actions that it deems appropriate to lessen the impact of the FCM or clearinghouse default.

Systems and Operational Risks Generally. The Funds rely to a significant extent on computer programs and systems to trade, clear and settle transactions; to aid in evaluating certain securities, commodities and other financial instruments based on trading information and other data; to monitor their portfolio and net capital; and to generate risk management, accounting, and other reports that are important to the oversight of the Funds' activities. In addition, many of the Funds' operations interface with or depend on systems operated by third parties, including the Funds' administrator, custodians, futures commission merchants (i.e., clearing and executing brokers), and market counterparties, exchanges and other trading facilities. These programs and systems may be subject to certain limitations, including, but not limited to, those caused by malware, malicious software, power failures, interoperability issues, or human error. A defect, delay, or failure in any of these programs or systems could have a material adverse effect on the Funds. Convexity has developed policies and procedures intended to monitor and control operational risks. These policies and procedures may not address every risk to the Funds' operations, including, in particular, those risks that Convexity does not foresee as material. Additionally, the Funds' operations are dynamic and complex. As a result, certain operational risks, including, without limitation, those arising from human error, failed systems, incompatible systems, or events beyond Convexity's control, are intrinsic to the Funds' operations, especially given the volume, diversity and complexity of transactions that the Funds generally enter into daily, and are very unlikely to be eliminated.

Cybersecurity Risk. As part of its business, Convexity processes, stores and transmits large amounts of electronic information, including information relating to the transactions of the Funds and personally identifiable information of investors in the Funds. Similarly, service providers of Convexity or the Funds, especially the Funds' administrator, may process, store and transmit such information. Convexity has procedures and systems in place that it believes are reasonably designed to protect such information and prevent data loss and security breaches. However, such measures cannot provide absolute security. The techniques used to obtain unauthorized access to data, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time. Hardware or software acquired from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Network connected services provided by third parties to Convexity may be susceptible to compromise, leading to a breach of Convexity's network. Convexity's systems and facilities may be susceptible to employee error or malfeasance, government surveillance, or other security threats. On-line services provided by Convexity to the Funds' investors may also be

susceptible to compromise. Breach of Convexity's information systems may cause information relating to the transactions of the Funds and personally identifiable information of the Funds' investors to be lost or improperly accessed, used or disclosed.

The service providers of Convexity and the Funds, including, without limitation, the Funds' OTC derivatives counterparties, custodians, futures commission merchants, executing brokers, as well as the clearinghouses, trading platforms, trade reconciliation services and trade record repositories utilized by the Funds, the Funds' trading counterparties, and the Funds' administrator, are subject to the same electronic information security threats as Convexity. If a service provider fails to adopt or adhere to adequate data security policies, or in the event of a breach of its networks, information relating to the transactions of the Funds and personally identifiable information of the Funds' investors may be lost or improperly accessed, used or disclosed.

The loss or improper access, use or disclosure of Convexity's or the Funds' proprietary information may cause Convexity or the Funds to suffer, among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing events could have a material adverse effect on the Funds and the investors' investments therein.

Fixed Income Securities. The Funds may invest in bonds and other fixed income securities of U.S. and non-U.S. issuers, including, without limitation, debt securities issued or guaranteed by the U.S. Government or one of its agencies or instrumentalities; debt securities issued or guaranteed by a non-U.S. government or one of its agencies or instrumentalities; bonds, notes and debentures issued by corporations; and commercial paper. The values of fixed income securities in which the Funds invest will change in response to fluctuations in interest rates and, in certain cases, inflation. In addition, the values of certain fixed-income securities can fluctuate in response to changes in perceptions of creditworthiness, political stability or soundness of economic policies and in response to supply and demand in the markets for such securities. Fixed income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (*i.e.*, credit risk) and are subject to price volatility due to such factors as interest rate and inflation sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (*i.e.*, market risk). For fixed income securities used as part of the Funds' relative value trading program, the Funds may seek to hedge against the risks mentioned above. However, there can be no assurance that they will do so or will succeed in doing so. Additionally, as noted above, no effort will be made to hedge any such risks inherent in any Benchmark.

Options. Convexity, on behalf of the Funds, may purchase and sell ("write") options on securities (including without limitation equity securities and indices thereof), currencies, interest rates, commodities, swaps, other derivatives, or other financial products or on financial indices or measures (or components of any of the foregoing) or the relationships or "spreads" between any of the foregoing (or components thereof). The Funds may purchase and sell options on national or international commodities and securities exchanges (or other centralized trading facilities) or with private counterparties in U.S. and international OTC markets. The buyer of an option assumes the risk of losing its entire investment (the premium) in the option, including any

marked-to-market gain previously accrued (*i.e.*, unrealized gain previously accrued). The seller of an option may assume the risk of a theoretically unlimited loss.

Counterparty Transactions. The Funds will enter into a variety of transactions – such as forward contracts, options, swap contracts, and other derivatives transactions of any kind, as well as transactions in respect of currencies, commodities and securities not traded on an exchange -- with private counterparties. The terms of these transactions are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Transactions in these markets are substantially unregulated, although, as noted above, the Dodd-Frank Act has brought increased regulatory oversight to these markets. For example, in the OTC derivatives markets, there is no limitation on daily price movements, and speculative position limits are not yet applicable. Under the Dodd-Frank Act, record keeping, reporting, materially higher margin levels, and, in some cases, central clearing and trading on registered trading facilities, are required or, unless the applicable rules are changed by the new administration, are expected to be required in the reasonably near term. End users such as the Funds now have the right to require segregation of any cash or other assets posted as initial margin in respect of OTC derivatives trades. These provisions are intended to reduce systemic risk in the markets and risks to the largest financial institutions, but whether if and when fully implemented they will operate to reduce the Funds' risk cannot yet be determined. A party to an OTC transaction must rely on its counterparty to fulfill its contract (unless that contract is cleared, in which case a Fund's credit risk is principally to the futures commission merchant and the clearinghouse through which and at which, respectively, the position is cleared). Uncleared OTC transactions are generally believed to be subject to greater risks than transactions in exchange-traded instruments (such as futures contracts and certain options) or cleared OTC instruments, including, but not limited to, the risk of default due to the unwillingness or inability of an OTC counterparty to perform its obligations. Although Convexity seeks to trade with responsible counterparties, failure by a counterparty to fulfill its contractual obligations could expose the Funds to unanticipated losses. The principals who deal in the OTC markets are not required to continue to make markets in the financial instruments and products that 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 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. Disruptions can occur in markets where the Funds are participants due to unusually high trading volume, political intervention or other factors. The imposition of limitations on leverage, requirements as to capital and liquidity, and other controls by governmental authorities might also limit the ability of the Funds to enter into certain transactions, including closing transactions, to the possible detriment of the Funds. Market illiquidity or disruption could result in major losses to the Funds. The Dodd-Frank Act currently requires that trading in certain standard instruments (such as, for example, certain spot-starting standardized interest rate swaps) be effected only on one or more exchanges or swap execution facilities. These requirements are intended to reduce systemic risk in the markets, but may potentially limit the nature or amount of transactions available to the Funds, as well as expose the Funds to the credit and operational risks related to newly mandated clearing structures, as noted above.

Repurchase and Reverse Repurchase Agreements. The Funds may enter into repurchase and reverse repurchase agreements. When a Fund enters into a reverse repurchase agreement, it

"sells" securities to a broker-dealer or financial institution, and agrees to repurchase such securities on a mutually agreed date for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. In a repurchase transaction, a Fund "buys" securities from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid by the Fund, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by the Funds involves certain risks. For example, if the seller of securities to a Fund under a repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, the Fund will likely seek to dispose of such securities, which action could involve costs or delays. Proceeds from the sale of the underlying securities may be less than the repurchase price agreed to by the defaulting seller, and the Fund's recourse against the seller may be limited. If the seller is placed in receivership or resolution or becomes insolvent and is subject to liquidation or reorganization under applicable bankruptcy or other laws, the Fund's ability to dispose of the underlying securities may be restricted, including, without limitation, pursuant to certain mandated stays on the close-out of transactions and on the sale of related collateral. Additionally, in so-called tri-party repurchase agreement transactions, the seller (almost always a dealer) may in certain cases have the right to post cash in substitution for the securities originally sold to the buyer, which can raise additional issues in the event of the placement in receivership, resolution, insolvency or bankruptcy of the seller or the tri-party custodian (including, but not limited to, concerns regarding the availability of such cash to the buyer in such situations). Reverse repurchase agreements involve similar risks to a Fund when it is the seller of the securities. The Fund may be prevented or delayed from recovering the securities it has sold in such a transaction, and it is possible, in a receivership, resolution, bankruptcy or liquidation scenario, that the Fund may not be able to substantiate its interest in the underlying securities. The amount of cash received by a Fund when it enters into a reverse repurchase agreement transaction may be less than the current market value of the securities it transfers in the transaction, and the Fund may not be able to recover any deficit from the buyer. Reverse repurchase agreements and repurchase agreements have the effect of creating leverage, which involves risks.

Loans/Borrows of Portfolio Securities. The Funds may lend portfolio securities on both a secured and an unsecured basis. They may also borrow securities. In the event of the bankruptcy of the other party to a securities loan, a Fund may be delayed or prevented from recovering the securities it lent to such party, or, in a case where a Fund has borrowed securities, from recovering collateral it has provided to the lender. Lending and borrowing portfolio securities will have the effect of creating investment leverage.

Swap Transactions. The Funds may enter into swap agreements with respect to interest rates, currencies, securities (including without limitation equity securities and indices thereof), indexes of securities, commodities, indexes of commodities, and other assets or other measures of risk or return (or components of any of them). The Funds may enter into options on swap agreements ("swaptions"). Historically, swap agreements have typically been two-party contracts entered into primarily by institutional investors and traders for periods ranging from a few weeks to many years. In a standard "swap" transaction, two parties agree to exchange the returns (or the differential in rates of return) earned or realized on particular predetermined investments, instruments, indices or other measures. The gross returns to be exchanged or "swapped" between the parties are generally calculated with respect to a "notional amount". Types of

interest rate swap agreements include interest rate caps, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates exceed a specified rate, or "cap"; interest rate floors, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates fall below a specified rate, or "floor"; and combinations of caps and floors, under which a party purchases or sells caps or floors or a combination thereof in an attempt to protect itself against interest rate movements inside or outside a specified range. Under the Dodd-Frank Act, certain standard interest rate swaps denominated in major currencies (e.g., USD, EUR, GBP and JPY) are required to be cleared, effectively causing the clearinghouse, once it accepts the trade, to be the relevant Fund's "counterparty". This is intended to reduce aggregate credit risk in the markets. Additionally, the CFTC currently requires that certain of such swaps that are mandatorily clearable be entered into on or pursuant to the rules of "swap execution facilities" or designated contract markets (which include exchanges), rather than traded bilaterally. This is intended to increase the transparency of the markets for such products.

A swaption is a contract that gives a party the right (but not the obligation) to enter into a new swap agreement or to shorten, extend, cancel, or otherwise modify an existing swap agreement, at some designated future time on specified terms. The Funds may write (sell) and purchase put and call swaptions. Currently, such transactions are not cleared or traded on swap execution facilities, but this is expected to change over time, particularly for more standardized, liquid swaptions.

Whether the Funds' use of swap agreements or swaptions will be successful will depend on Convexity's ability to select appropriate transactions for the Funds. Swap and swaption transactions may be highly illiquid. Moreover, a Fund bears the risk of loss of the amount expected to be received under a swap or swaption agreement in the event of the default or insolvency of its counterparty (or the relevant clearinghouse). Many swap markets are relatively new and still developing. It is possible that developments in the swap markets, including the effects of increasing government regulation, could adversely affect the Funds' ability to terminate existing swap or swaption transactions or to realize amounts to be received under such transactions.

Credit Default Swaps. The Funds may enter into credit default swaps and other similar transactions, including swaptions in respect of credit default swaps. A credit default swap is a contract between two parties which transfers the risk of loss if a company or a sovereign or other governmental entity fails to make timely payments of principal or interest on its debt securities or becomes insolvent. In essence, an institution which owns corporate or sovereign or other government debt instruments or which believes that the risk of default for such instruments is undervalued (even if it does not own them) can purchase a limited form of default protection by entering into a credit default swap with another bank, broker-dealer or financial intermediary.

Credit default protection is also purchased and sold in respect of credit risks represented in baskets of securities. Protection may be bought or sold on the entire spectrum of credit risks in such a basket, or only on the first x%, the last x% or an intermediate x% thereof (*i.e.*, on tranches). The creditworthiness of various baskets of debt instruments is often reflected in certain indices (which are effectively baskets of credit default swaps). Options can be bought and sold on such indices, allowing the buyer or seller to be long or short credit protection in

respect of the securities underlying the index. Credit protection may be bought or sold not only so as to give the buyer the one-time right to be compensated in the event of certain defaults, but also on a "pay-as-you-go" basis, where underpayments of interest or principal and certain writedowns and other similar events result in payments to the protection buyer.

Credit default swaps and similar transactions can be used to hedge a portion of the default risk on a single corporate or sovereign or other government bond or a portfolio of bonds. Credit default swaps can be used to implement Convexity's view that a particular credit, or group of credits, will experience a change in creditworthiness. In the case of expected credit improvement, a Fund may sell credit default protection in which it receives a premium to take on the risk. In such an instance, the obligation of the Fund to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. A Fund may also "purchase" credit default protection even in the case in which it does not own the referenced instrument if, in the judgment of Convexity, there is a likelihood of credit deterioration not fully reflected in the price of the protection. A Fund may also purchase credit default protection in respect of one class of debt issued by a corporation or sovereign or other governmental entity and sell credit default protection in respect of another class of debt issued by such corporation or sovereign or other governmental entity, effectively taking the position that the relative pricing of the two swaps is incorrect. The Funds may enter into credit default swap and similar transactions, even if the credit outlook is positive, if Convexity believes that participants in the marketplace have incorrectly valued the components which determine the value of a swap.

The credit default swap market is comparatively new and rapidly evolving. Swap, option and similar transactions dependent upon credit events are priced incorporating many variables including the pricing and volatility of the common stock and outstanding debt securities, the potential loss upon default and the shape of the U.S. Treasury or other relevant yield curve, among other factors. As such, there are many factors upon which market participants may have divergent views. In addition, in light of recent developments in the securities and credit markets, it is possible that the market for credit default swaps may be significantly limited, and may become subject to significant legal and regulatory constraints.

Total Return Swaps. Total return swaps are another form of derivative that the Funds may utilize to achieve their investment objective. A total return swap allows the total return receiver to receive an amount equal to the increase in market value of an asset or other financial measure (whether a security, currency or other asset, or an index on any of the foregoing), plus an amount equal to any dividends or other distributions in respect of the asset or financial measure, from the total return payer in return for paying to the total return payer both a floating or fixed rate on a predetermined amount and an amount equal to any decrease in the market value of the asset or other financial measure. The total return payer is synthetically short and the total return receiver is synthetically long. Total return swaps may create a highly leveraged exposure to the underlying asset.

Short Selling. The Funds may enter into short sales. Short selling involves selling securities which are not owned by the short seller and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from a decline in market price to the extent the decline exceeds the transaction costs and the costs of borrowing the securities. A short sale creates the risk of a theoretically unlimited

loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the short seller of buying those securities to cover the short position. There can be no assurance that a Fund will be able to maintain the ability to borrow securities that it has sold short. In such cases, the Fund could be "bought in" (*i.e.*, forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. An increasing number of jurisdictions are limiting the ability of market participants to engage in short selling in respect of certain securities. In some cases, these rules may also limit the ability of market participants to enter into a short position through a credit default swap or other similar derivatives contract. Such rules may limit or preclude the Funds from entering into short sales or otherwise taking short positions that Convexity believes could be advantageous to the Funds.

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

Futures positions may be illiquid because certain exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent a Fund from promptly liquidating unfavorable positions and subject the Fund to substantial losses or could prevent a Fund from entering into desired trades. In extraordinary circumstances, a futures exchange, the CFTC or other similar non-U.S. regulatory body or agency could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

Other Derivative Instruments. The Funds may take advantage of opportunities with respect to derivative instruments and transactions of any nature that are not specifically described herein, whether they now exist or are developed in the future, if Convexity believes they may assist the Funds in meeting their objectives. Those instruments and transactions may be subject to various types of risks, including without limitation market risk, liquidity risk, leverage risk, and the risk of non-performance by the counterparty, legal risk and operations risk, and other risks not described herein.

Risks Related to Documentation of Counterparty Transactions. Written confirmations of OTC derivative transactions can be highly complex and the forms used have not all been standardized throughout the industry. Terms used may not always have uniform meanings and may be subject to more than one interpretation. There is no assurance that a Fund's

interpretation of such agreements will in all circumstances fully comport with those of the relevant counterparties, and disagreements, possibly in respect of fundamental terms of the documents, could arise. The documentation of most OTC derivative transactions grants a Fund's counterparty the right to make a variety of determinations or calculations with respect to the transactions, such as certain valuations, the level of certain interest rates or exchange rates, the determination of whether certain significant events have happened, and the like. The Fund may have the right, in respect of certain transactions, to dispute some of these determinations or calculations. Even where the Fund has such dispute rights, they are likely to be limited and there can be no assurance that the Fund would prevail in any dispute resolution process that did occur.

Hedging Transactions. A Fund may, but may in its discretion choose not to, utilize various financial instruments both for trading purposes and for risk management purposes in order to: (i) protect against possible changes in the market value of the Fund's positions resulting from fluctuations in the financial markets or changes in interest rates, currency exchange rates or other financial measures, (ii) protect the Fund's unrealized gains, (iii) facilitate the sale of any such positions, (iv) enhance or preserve returns, spreads or gains on any positions in the Fund's portfolio, (v) limit the amount of risk in one or more positions, (vi) hedge the interest rate or currency exchange rate on any of the Fund's liabilities or assets, (vii) protect against any increase in the price of any securities the Fund anticipates purchasing at a later date or (viii) for any other reason that Convexity deems appropriate.

The success of the Funds' hedging strategies will be subject to Convexity's ability to assess correctly the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the positions being hedged. Since the characteristics of many securities, commodities and other financial instruments change as markets change or time passes, the success of the Funds' hedging strategies will also be subject to Convexity's ability to continually recalculate, readjust, and execute hedges in an efficient and timely manner.

There can be no assurance that the Funds will enter into hedging transactions generally or with respect to any particular risk, or that any hedging transaction entered into by the Funds will be successful. Legal and regulatory developments may limit significantly the nature and amount of hedging instruments and strategies available to the Funds.

Currencies. The Funds may invest portions of their assets in instruments denominated in non-U.S. currencies or instruments the prices of which are determined with reference to currencies other than the U.S. dollar, including, without limitation, options on non-U.S. currencies. The Funds, however, value their securities, commodities and other assets and liabilities in U.S. dollars. Convexity may or may not seek to hedge all or any portion of the foreign currency exposure of the Funds. In particular, certain of the Benchmarks reflect unhedged currency exposure, and the Funds will not seek to hedge any such exposure. To the extent unhedged, the value of the assets and liabilities of the Funds will fluctuate with U.S. dollar exchange rates as well as the price changes of the positions of the Funds in the various local markets and currencies. Thus, an increase in the value of the U.S. dollar compared to the other currencies in which a Fund makes its investments will reduce the effect of increases and magnify the effect of decreases in the prices of the securities, commodities and other financial instruments owned by the Fund in the local markets of such other currencies. Conversely, a decrease in the value of the

U.S. dollar will have the opposite effect on the non-U.S. dollar securities, commodities and other financial instruments owned by a Fund.

Global Investments. Convexity may invest, as part of the relative value trading program and in seeking to earn a return approximating the weighted average return of the Benchmarks, a substantial portion of the Funds' assets in the debt or other securities (including without limitation equity securities) and financial instruments of issuers located outside the United States, including in emerging markets. It is anticipated that most of such debt securities and financial instruments would be issued by sovereign governments or their agencies or instrumentalities, but the Funds may also from time to time invest in the debt of non-U.S. corporate issuers. The Funds may also (and do) invest in derivative financial contracts in respect of the debt and equity of non-U.S. corporate issuers. All such non-U.S. investments may be affected by political, social and economic uncertainties affecting a country or region, and may also be affected by business uncertainties. 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 bank regulation, insolvency, resolution, bankruptcy and reorganization, and as to the trading, reporting and posting of collateral in respect of OTC derivatives. Financial accounting standards and practices may differ, and there may be less publicly available information in respect of non-U.S. companies.

Investments in securities of non-U.S. issuers (including non-U.S. governments) and securities denominated or whose prices are quoted in non-U.S. currencies (including non-U.S. equities and derivatives in respect of non-U.S. securities or indices of non-U.S. securities) pose, to the extent not hedged, currency exchange risks (including blockage, devaluation and non-exchangeability), as well as a range of other potential risks which could include expropriation, confiscatory taxation, limitations on the removal of funds or other assets, political or social instability, illiquidity, price volatility and market manipulation. In addition, some of the securities may be subject to brokerage, stamp, transaction and other taxes levied by governments, which would have the effect of increasing the cost of such investments and reducing the realized gain or increasing the realized loss on such securities at the time of sale. Income and capital transaction proceeds received by a Fund from sources within some countries may be reduced by withholding and other taxes imposed by such countries. Any such taxes paid by a Fund will reduce its net income or return from such investments.

Less information may be available regarding securities of non-U.S. issuers, and non-U.S. issuers. Such information may not be subject to accounting, auditing and financial reporting standards and requirements comparable to, or as uniform as, those of U.S. issuers. Transaction costs of investing in non-U.S. securities markets are generally higher than in the U.S. There is generally less government supervision and regulation of exchanges, brokers and issuers than there is in the U.S. The Funds might have greater difficulty taking appropriate legal action in non-U.S. courts or choose not to do so. Non-U.S. markets also have different clearance and settlement procedures that in some markets have at times failed to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures that could adversely affect the Funds' performance. While Convexity will take these factors into consideration in making investment decisions for the Funds, no assurance can be given that the Funds will be able

to avoid these risks, and the Funds will not seek to avoid these risks to the extent they are inherent in a Benchmark the return of which the Fund is seeking to approximate.

Contingent Liabilities. A Fund may from time to time incur contingent liabilities in connection with an investment. For example, a Fund may enter into agreements pursuant to which it agrees to assume responsibility for default risk presented by a third party, and may, on the other hand, enter into agreements through which third parties offer default protection to the Fund.

Highly Volatile Instruments. The prices of derivative instruments and other financial instruments in which the Funds may invest are highly volatile. Price movements of derivatives transactions in which the Funds engage are influenced by, among other things, changes in interest and exchange rates, changes in implied volatilities, changes in inflation, changes in equity and commodity prices, changes in supply and demand relationships, trade, fiscal, tax, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies and financial instrument options, and as to certain types of transactions, such as certain short transactions. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. In addition, events can occur which lead to, among other things, market dislocations, widely varying prices and spreads, or substantially reduced demand resulting in little or no ability to liquidate instruments or the ability to do so only at substantial discounts from previously available prices, as well as substantially increased collateral requirements. This risk is generally higher for derivatives and other complex or structured instruments that do not trade on exchanges and for which the number of counterparties willing to transact may vary. The Funds are also subject to the risk of the failure of any exchange on which their positions trade and of clearinghouses and futures commission merchants.

Item 9 – Disciplinary Information

There are no legal or disciplinary events that Convexity believes are material to a client's or prospective client's evaluation of Convexity's business or the integrity of its management.

Item 10 – Other Financial Industry Activities and Affiliations

Related Broker-Dealers:

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

Related Futures Commission Merchant/Commodity Pool Operator/Commodity Trading Advisor:

As a consequence of the elimination of certain regulatory exemptions by the U.S. Commodity Futures Trading Commission ("CFTC"), Convexity registered as a commodity pool operator ("CPO") effective as of January 1, 2013. Convexity has claimed an exemption with respect to

the Funds from certain of the CFTC's disclosure, reporting and record-keeping requirements applicable to registered CPOs pursuant to CFTC Rule 4.7. Convexity is exempt from registration with the CFTC as a commodity trading advisor.

Recommendation of Other Investment Advisers:

Convexity does not recommend or select other investment advisers for its clients for compensation.

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

Code of Ethics:

The operating principles of Convexity require both personal and professional integrity. Convexity personnel are expected to conduct professionally all business activities in accordance with Convexity policies and procedures, applicable law, and the highest ethical standards. Convexity personnel, however, not only must conform their conduct to applicable policies, laws and standards, but also must come forward when violations or irregularities that could jeopardize the integrity of Convexity are observed. Convexity personnel may not look the other way when they observe conduct of others which is unethical or unlawful. In furtherance of these principles, Convexity has adopted a Code of Ethics. The Code of Ethics provides, very generally, that Convexity personnel shall at all times act in a manner consistent with Convexity's fiduciary responsibilities to its clients and shall exercise particular care that no detriment results to Convexity or its clients from conflicts between Convexity (or its personnel) and Convexity's clients. The Code of Ethics includes provisions relating to the confidentiality of both Fund and investor information, a prohibition on engaging in "insider trading" (as defined under applicable law), restrictions on political contributions by certain Convexity personnel, restrictions on the acceptance of significant gifts and entertainment, requirements as to the reporting of certain gifts and entertainment, and rules regarding personal securities trading, among other things.

Personal Trading Policy. Convexity's personal trading policy permits Convexity personnel to invest for their personal accounts, subject to certain guidelines and restrictions. All personal securities transactions by Convexity personnel and certain family members must be conducted in accordance with the requirements of the personal trading policy. Among other things, Convexity's policy requires that Convexity personnel pre-clear certain personal securities transactions with Convexity's Legal and Compliance team; that they report personal securities accounts and/or holdings upon beginning their association with Convexity and periodically thereafter; and that they arrange for duplicate trade confirmations (where available) and account statements, or copies thereof, to be received by Convexity's Legal and Compliance team for relevant accounts. In addition, certain personal securities positions are subject to a minimum holding period.

This is only a brief summary of some of the key provisions of Convexity's Code of Ethics. The Funds or investors in the Funds may request a copy of Convexity's Code of Ethics by contacting compliance@convexitycapital.com.

Conflicts of Interest in Client Transactions:

Currently, Convexity's only clients are the Feeder Vehicles, the Master Fund and certain subsidiaries of these entities. The Feeder Vehicles currently invest substantially all of their assets (except, from time to time, certain amounts of cash), directly or indirectly, in the Master Fund. In the future, each Feeder Vehicle may invest other than through the Master Fund (directly or indirectly) in instances in which Convexity deems that it would be appropriate for tax, regulatory or operational reasons or because Convexity determines that differences in the investments of the Offshore Fund and the U.S. Fund are desirable. It is also possible that in the future Convexity will have clients (including, without limitation, managed accounts and other pooled investment vehicles) other than the Funds. If Convexity were to have clients other than the Master Fund, Feeder Vehicles and their subsidiaries, participation in specific investment opportunities could be appropriate, at times, for more than one client of Convexity. Participation in such opportunities would be allocated on a fair and equitable basis over time, taking into account such factors as Convexity determines in its sole discretion to be relevant, which may include the clients' different investment strategies, the clients' different structures, the relative amounts of capital available for new investments, relative exposure to short-term market trends, and the investment programs and portfolio positions of the various clients for which an investment is appropriate. Such considerations may result in allocations of certain investments between the Funds on the one hand, and other clients on the other hand, or among Convexity's clients generally, other than on a *pari passu* basis. Additionally, in cases where one or both Feeder Vehicles invests other than (directly or indirectly) in the Master Fund, the above considerations may also result in allocations of certain investments between the two Feeder Vehicles other than on a *pari passu* basis. In each case, such allocations could result in differences in performance.

Even where the investment objectives of clients are very similar and investments are generally made on a *pari passu* basis, the portfolios of the clients may differ as a result of subscriptions and withdrawals being made at different times and in different amounts, as well as because of different tax and regulatory considerations.

Decisions to buy and sell investments for each client advised by Convexity are made by the relevant personnel at Convexity with a view to achieving each client's investment objectives; however Convexity generally is not under any obligation to share any investment, idea or strategy with all of its clients.

Convexity does not engage in principal or agency cross securities transactions for client accounts.

Convexity attempts to disclose material conflicts of interest with its clients in this document. Set forth above is a description of potential conflicts that may arise in the course of Convexity's activities, as well as a description of how Convexity seeks to address such conflicts. Other conflicts may be disclosed elsewhere in this brochure or in the offering documents of each Fund, and these materials should be read in their entirety.

Item 12 – Brokerage Practices

In selecting the brokers/dealers with or through which to purchase and sell (or enter into and terminate positions in) securities, commodities and other financial instruments for the Funds, Convexity considers a range of relevant factors. These factors apply whether the broker/dealer is acting as a principal or agent. Convexity portfolio managers and analysts make a qualitative assessment as to which brokers/dealers can provide best execution, as well as seek to avoid actual and potential conflicts of interest. Convexity has established a “Best Execution Working Group” that is responsible for developing, monitoring, evaluating and, when necessary, recommending changes to Convexity’s trade execution practices and policies.

In effecting transactions for clients, Convexity seeks to achieve best execution. In selecting brokers/dealers, Convexity, having in mind the client’s best interests, considers all factors it deems relevant, including but not limited to the following (in no particular order):

- Overall costs of a trade (*i.e.*, net price paid or received);
- Quality of execution – accurate, efficient and timely execution, clearance and settlement capabilities, and sound error/dispute resolution;
- Ability to handle in a timely manner a trade of the desired size;
- Ongoing reliability and favorable experience in prior transactions;
- Willingness to execute difficult transactions and ability to handle complex transactions (*e.g.*, transactions involving multiple legs traded on a spread basis);
- Convexity’s desire to maintain “good derivatives hygiene” (for example, to close positions with the same counterparty with which they were opened rather than entering into offsetting transactions with another counterparty that could not be netted if one counterparty became insolvent; putting all legs of a multi-leg trade on with the same counterparty, particularly if there are short legs that offset in part long legs);
- Quality of back office;
- A history of being able to provide mark-to-market calculations and valuations in an accurate, consistent and transparent way;
- Creditworthiness, particularly if acting as principal in an OTC derivative transaction;
- For OTC derivative transactions that are not cleared, whether initial margin is posted and, if so, whether it is posted to a tri-party collateral account;
- Sophistication of risk systems and ability to incorporate most products in determining initial margin;
- Ability to cross margin across products;
- Willingness and ability to commit capital and provide financing;
- Nature of the financial instrument and the available market makers;
- Confidentiality of trading activity and positions; and
- The country/region in which located and access to relevant local markets.

None of the above factors alone is determinative of best execution. Instead, best execution for a particular transaction is determined in light of all relevant facts and circumstances. Generally, contemporaneous market data does not readily exist on a position-by-position basis in the OTC derivatives markets; therefore, evaluating trades chiefly by reference to price on a trade-by-trade basis often will not be feasible or appropriate.

Subject to always seeking best execution, Convexity may choose to execute a transaction with a broker/dealer that makes available to the Funds and Convexity market data and other information useful to Convexity and/or the Funds in evaluating the contemplated transaction and that Convexity expects, based on its prior experience with that broker/dealer, is likely to continue to provide post-trade support for the transaction.

Neither Convexity nor any Fund has agreed to provide a certain level of business to any broker/dealer in exchange for the receipt of brokerage or research services. Convexity does not enter into formal arrangements with brokers or dealers pursuant to which Convexity or a Fund receives, based on commissions or similar amounts paid by the Fund, brokerage or research services from a broker/dealer. Although Convexity may receive certain information that benefits the Funds (*e.g.*, broker/dealer generated research reports and data), neither Convexity nor any Fund pays for these services or will pay for these services unless the arrangement has been approved in accordance with Convexity's policies.

Convexity does not select brokers/dealers with which to trade on the basis of investor or client referrals. Convexity does not have any directed brokerage arrangements.

Item 13 – Review of Accounts

Members of Convexity's Portfolio Management team, Operations team, and the Finance/Risk team review Fund performance regularly. On a daily basis, the key economic terms of a Fund's transactions are affirmed with counterparties/brokers by the Operations team, and transactions (as recorded in Convexity's transaction management system) are reviewed and approved by the senior portfolio managers. Members of the Portfolio Management team and the Finance/Risk team receive daily profit and loss reports with respect to the Funds' investment positions as of the close of the preceding business day. The Cash Management team prepares and reviews daily reports summarizing the amount of cash and collateral held by the Funds and the amount of collateral posted by the Funds, and distributes a summary liquidity report to the Portfolio Management team and the remainder of the Finance/Risk team weekly (and more often, if deemed necessary). The Finance/Risk team conducts regular analysis, including various scenario analyses and stress tests, and produces risk reports.

By the earlier of (x) 120 days of the end of each calendar year, or as soon as possible thereafter (but within no more than six months of the end of each calendar year) and (y) the date required by the CFTC (currently, 90 days after the end of each calendar year), Convexity will deliver to each Fund and each Fund will deliver (or cause to be delivered) to each of its investors, audited financial statements (which will not include a list of the Fund's investments except to the extent required by accounting principles generally accepted in the United States ("GAAP")). Each Feeder Vehicle will also provide to investors periodic unaudited performance information, no

less frequently than quarterly. Additionally, each Feeder Vehicle will provide monthly statements of net asset value and performance (as of 4 p.m. on the last day of each month) within 14 business days of the end of the subject month. Investors in the Feeder Vehicles also receive a quarterly letter with portfolio and market commentary and summary risk data.

Item 14 – Client Referrals and Other Compensation

Convexity does not currently compensate any person who is not a supervised person of Convexity, either directly or indirectly, for client referrals or for referrals of investors to the Funds. Convexity does not receive any economic benefit from someone who is not a client for providing investment advice or other advisory services to Convexity's clients.

Item 15 – Custody

Under the Advisers Act, Convexity is deemed to have custody of each Fund's funds and securities because Convexity is authorized to obtain possession of funds or securities of the Fund (for example, to deduct Convexity's fees from a Fund's account). It is also deemed to have custody of the funds and securities of the Master Fund, the Offshore Fund and the U.S. Fund because the Fund General Partner is a related person of Convexity. Each fiscal year, the Funds engage a Public Company Accounting Oversight Board-registered independent public accounting firm to conduct an audit of the Funds. By the earlier of (x) 120 days after the end of each calendar year, or as soon as possible thereafter (but within no more than six months of the end of each calendar year) and (y) the date required by the CFTC (currently, 90 days after the end of each calendar year), each Fund will deliver (or cause to be delivered) to each of its investors, audited financial statements (which will not include a list of the Fund's investments except to the extent required by GAAP).

Item 16 – Investment Discretion

Convexity has discretionary authority over all assets and liabilities it manages for the Funds as described in the respective investment management agreements, limited partnership agreements, and other organizational documents of such entities.

Item 17 – Voting Client Securities

Each Fund has delegated the power to vote the securities owned by it to Convexity. In accordance with Advisers Act Rule 206(4)-6, Convexity has adopted a proxy voting policy. It is the policy of Convexity to exercise the proxy voting rights of a Fund in a manner that is in the best interests of the Fund. Proxy voting authority will only be exercised by Convexity to the extent that the Fund invests in voting securities. As of December 31, 2016, the Funds invest principally in U.S. Treasury securities, other sovereign debt securities, and derivatives (*i.e.*, principally non-voting securities), although they may, from time to time, hold other financial instruments. Investors in a Fund may not direct Convexity to vote Fund proxies in a certain manner.

Upon request, a Fund or any of the investors in the Fund may obtain (i) a copy of Convexity's proxy voting policy or (ii) additional information concerning proxy votes.

Item 18 – Financial Information

Convexity 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.