

**ED CAPITAL MANAGEMENT LLC  
d/b/a Daniloff Capital**

825 Third Avenue, 2<sup>nd</sup> Fl., New York, NY 10022

Phone: (212) 520-8277

Fax: (212) 937-3844

[www.daniloffcapital.com](http://www.daniloffcapital.com)

**FORM ADV PART 2A  
BROCHURE**

Prepared: March 29, 2013

This brochure provides information about the qualifications and business practices of ED Capital Management LLC d/b/a Daniloff Capital ("EDCM", "we" or "us"). If you have any questions about the contents of this brochure, please contact us at (212) 520-8277 or [akhaytin@daniloffcapital.com](mailto:akhaytin@daniloffcapital.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.

You can also obtain additional information about EDCM on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for EDCM is 161338.

EDCM is an investment adviser registered with the SEC. Registration with the SEC does not imply a certain level of skill or training.

**Item 2: Material Changes**

EDCM's initial Part 2 of Form ADV was prepared in March 2012. EDCM's business activities have not changed materially since the time of that update. This amendment reflects changes to our assets under management and other non-material changes.

Pursuant to SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent brochures within 120 days of the close of EDCM's fiscal year. We may further provide other ongoing disclosure of material changes as necessary.

We will provide you a new brochure as necessary, based on changes or new information, at any time without charge. Currently, EDCM's brochure may be requested by contacting Aleksandr Khaytin, EDCM's Chief Compliance Officer (the "CCO"), at (212) 520-8311 or [akhaytin@daniloffcapital.com](mailto:akhaytin@daniloffcapital.com).

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#### **Item 4: Advisory Business**

ED Capital Management LLC d/b/a Daniloff Capital (“EDCM,” “we” or “us”) is a Delaware limited liability company that was founded in August 1, 2005. Since its formation, EDCM has served as investment manager to seven private investment funds, Hudson River Master Fund, Ltd. (“Fund I”), a Cayman Islands exempted company, Hudson River Russia Fund, L.P. (“Fund II”), a Delaware limited partnership, Hudson River Russia Fund, Ltd. (“Offshore I”), a Cayman Islands exempted company, Synergy Hybrid Fund Ltd. (“Offshore II”), a Cayman Islands exempted company, Synergy Hybrid Feeder Fund Ltd. (“Offshore III”), a Cayman Islands exempted company, Hudson River Property Investments LP (“SPV I”), a BVI International limited partnership, and LFP I SICAV – SIF S.A. – Hudson River Russia Growth Fund Ltd. (“SIF I”, together with Fund I, Fund II, Offshore I, Offshore II, Offshore III, and SPV I, the “Funds”), a Luxemburg SIF SICAV Sub-Fund.<sup>1</sup> Until March of 2012, EDCM has not been required under Section 203 of the Investment Advisers Act of 1940, as amended (the “Advisers Act”), to register as an investment adviser with the SEC. With the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and new rules promulgated by the SEC thereunder, EDCM is required to register with the SEC no later than March 30, 2012.

EDCM is a privately held investment adviser located in New York, New York. Mr. Elliot Daniloff is the managing member and the principal owner of EDCM, as well as its affiliate, ED Capital LLC, a Delaware limited liability company that acts as the general partner of Fund II, as an investment adviser to Fund I, Offshore II and Offshore III, and as the special limited partner of SPV I.

EDCM provides discretionary investment management services to the Funds, using a long biased Russia/CIS focused equity strategy (for Fund I, Fund II, and Offshore I), hybrid strategy (for Offshore II and Offshore III), real estate allocation strategy (for SPV I), and highly liquid Russia/CIS focused long-short equity strategy (for SIF I). The investment objective of Offshore I and Fund II is to invest in Fund I. The investment objective of Offshore III is to invest in Offshore II. The Fund I is the largest shareholder in SPV I (over 90%). For more information regarding EDCM’s investment strategies, please see Item 8 below. Neither the limited partnership interests in Fund II and SPV I nor the shares of the other Funds will be registered under the Securities Act of 1933, as amended (the “1933 Act”), or the securities laws of any state or any other U.S. jurisdiction, nor is any such registration contemplated. In addition, none of the Funds will be registered as investment companies under the Investment Company Act of 1940, as amended (the “1940 Act”), in reliance on the exemption contained in Section 3(c)(7) thereof in the case of Offshore II and Offshore III and in reliance on the exemption contained in Section 3(c)(1) thereof in the case of all other Funds. SIF I is a sub-fund within LFP I SICAV – SIF S.A. formed on 12 February 2010 under the law of the Grand Duchy of Luxembourg (société d’Investissement à capital variable) pursuant to the provisions of the act of 13 February 2007 on specialised investment funds as amended by the law of 26 March 2012 modifying the law of 13 February 2007 on specialised investment funds and incorporated as a public limited company (*société anonyme*) with variable share capital (SICAV) with multiple Sub-Funds.

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<sup>1</sup> Hudson River Russia Funds SA (“HRRF”) that was previously managed by EDCM is in liquidation following the determination to transfer all of HRRF’s assets, with HRRF’s sole investor’s consent, to a new sub-fund structure at a SIF (a specialized investment fund governed by Luxembourg law) platform to lower the total expense ratio of the fund. The new fund, SIF I, accepted the subscription of \$1,225,000 effective February 22, 2013 following the sole investor’s full redemption from HRRF.

Other than the Funds, EDCM does not presently manage assets for any individual or separate account clients and does not tailor its advisory services to individual needs of other clients.

As of December 31, 2011, EDCM's total discretionary assets under management were \$73,905,804.09.

For more information about the Funds, including applicable fees and other terms and conditions of investment, please consult the Confidential Private Offering Memorandum or other offering document for the applicable Fund.

## **Item 5: Fees and Compensation**

### **Management Fee**

EDCM generally charges the Funds a management fee, based on the net asset value of the aggregate capital account balances of the Funds, payable quarterly in advance. For Fund II, Offshore I, and Offshore III, the management fee is 2.0% per annum for limited partners or shareholders, respectively. For SIF I, the management fee for Class A (USD denominated) and Class B (EUR denominated) is 2.0% per annum for all shareholders. We pro rate such fees in the event of contributions or withdrawals by investors on other than a calendar quarter-end or other period applicable to the relevant Fund. Fund II and Offshore I, the portfolio investments of which are and will be held substantially in Fund I, will not be charged a management fee by EDCM at the Fund I level. Offshore III, the portfolio investments of which are and will be held substantially in Offshore II, will not be charged a management fee by EDCM at the Offshore II level. The Fund I, which is the largest shareholder of SPV I will not be charged any management fee on the SPV I level. EDCM may waive or reduce any of the foregoing management fees, in its sole discretion.

### **Performance Fee and Allocation**

With respect to Fund II and Offshore II, ED Capital LLC, EDCM's affiliate charges an annual performance allocation equal to 20% of an investor's gain (subject to recoupment of prior loss, if any) in such Funds. No performance fee or allocation is charged to Fund II on the master fund level. With respect to SIF I, EDCM charges an annual performance fee, as the investment advisor for SIF I equal to 20% of net profits. The Performance fee for Offshore I, a feeder to Fund I, and Offshore III, a feeder to Offshore I, is being calculated at the master fund level only. ED Capital LLC, as a special limited partner in SPV I, will also be re-allocated 20% of the net cash flow distributions to investors, including Fund II. In each case, the performance compensation is paid subject to a loss carryforward provision, if applicable.

The performance-based compensation described above conforms to Section 205(a)(1) of the Advisers Act in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. We pro rate performance allocations and fees (and relevant loss recovery accounts), if applicable, in the event of contributions or withdrawals by investors. The performance allocation is made at the end of the financial year to which the allocation pertains or upon a withdrawal or redemption from or termination of a Fund.

EDCM's and/or its affiliate's management fee and performance compensation is separate from brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the Funds.

Item 12 below further describes the factors EDCM considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

Generally, the Funds' administrators calculate the management fees and, if applicable, any performance compensation payable to EDCM or its affiliates, and makes payment in accordance with the terms of the Funds' governing documents. EDCM has no ability to withdraw funds directly from Funds' accounts in connection with the payment of its fees, allocations or reimbursable expenses other than as described above.

#### **Item 6: Performance-Based Fees and Side-By-Side Management**

As described in Item 5 above, EDCM charges the Funds a performance allocation based on a share of capital gains on or capital appreciation of the assets of a Fund investor. In measuring clients' assets for the calculation of performance compensation, EDCM includes realized and unrealized capital gains and losses, after deduction of all expenses including its management fee.

Performance-based compensation arrangements may create an incentive for EDCM to make investments which may be riskier or more speculative than those which would be made under a different fee arrangement. In addition, to the extent that EDCM or its affiliates are charge different performance-based compensation to different client accounts, EDCM's principals will face conflicts when managing such accounts at the same time, including that such persons may have an incentive to favor accounts for which such persons receive higher performance compensation. Notwithstanding the above, EDCM attempts to ensure that all clients are treated fairly and equally, and that performance fees or allocations do not influence its allocation of investment opportunities among clients. It does so by monitoring the investments made for the Funds on an ongoing basis, and endeavoring to ensure that investments made for the Funds are appropriate without regard to the potential for performance compensation. In addition, EDCM has adopted an allocation policy governing allocation of investments among the Funds in order to seek to mitigate any potential conflicts. Performance-based compensation arrangements comply with the requirements of Rule 205-3 promulgated under the Advisers Act or other applicable exemptions under Section 205(b) or (e) of such Act, and with applicable state laws, rules and regulations.

EDCM does not currently manage any accounts other than those of the Funds.

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

EDCM provides portfolio management services to the Funds, the investors in which are generally high net worth individuals, institutional investors, fund of funds and family offices. EDCM may advise different types of clients in the future. The minimum initial capital contribution for the Fund I, Fund II and Offshore I is \$250,000, for the Offshore II and Offshore III is \$1,000,000, for SPV I is \$100,000 and for SIF I is USD equivalent of EUR125,000 (Class

A) and EUR125,000 (Class B). Minimum capital contributions are subject to waiver by the general partner or directors, as applicable.

Each investor in Fund II and each investor who is a U.S. person in all other Funds must be (i) an “accredited investor” as defined in Regulation D under the 1933 Act and (ii) a “qualified client” under the Advisers Act. In addition, each investor who is a U.S. person in Offshore II and Offshore III must be a “qualified purchaser” as defined under the 1940 Act.

All Funds for the exception of Offshore II and Offshore III currently rely on an exemption from registration under the 1940 Act that is available to private funds that do not have more than 100 U.S. investors (or any investors in the case of the Fund II). In addition, Offshore II and Offshore III currently rely (and in the future, one or all of the other Funds may rely) on another exemption which permit such Funds to have more than 100 U.S. investors (or any investors in the case of the Fund II) provided that the investors are “qualified purchasers” (essentially an individual or family entity with \$5 million in investments or any other entity with \$25 million in investments). A Fund relying on this exemption is generally required to redeem, any investors who does not meet these thresholds.

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

The investment objective of Fund I, Fund II and Offshore I is to achieve long term capital appreciation through investments in a diversified portfolio consisting principally of Russian securities and to a lesser extent, other CIS securities. Fund II and Offshore I pursue this objective by investing substantially all of their assets in Fund I. Fund I, Fund II and Offshore I may also invest in companies that have significant trade with, or exposure to, Russia or other countries of the former Soviet Union.

Offshore III expects to invest all or a substantial portion of its assets in Offshore II. Offshore III may, however, in certain circumstances, invest directly in financial assets, in accordance with the policies and strategies described below, rather than invest in Offshore II. Offshore II and Offshore III’s investment objective is to achieve long term capital appreciation by investing primarily, but not exclusively, in Russian public and privately held equity and debt securities, as well as securities of companies located in the Commonwealth of Independent States (the “CIS”). In addition to publicly traded debt and equity securities, the securities in which the Offshore II and Offshore III invest may include private or restricted securities or investments. Certain of such private or restricted securities will be determined by EDCM to be “Special Investments.” Special Investments are private or restricted or other securities (as determined by EDCM in its sole discretion) that carry substantial risks, the value of which are not readily or reliably ascertainable and/or which have a long-term investment horizon. The Offshore II and Offshore III may invest in Special Investments which may include securities that arise from corporate buy-outs, management buy-outs, leveraged buy-outs, IP portfolios, private equity investments, venture capital investments, other pooled investment vehicles, limited partnership interests, preferred stock, options, warrants, real estate related securities or other investments in privately held companies, restructurings, recapitalizations or similar events or securities of established public companies or private companies that are purchased in private placements. These Special Investments will generally carry significant or complete restrictions on transfer prior to the occurrence of specified events, which may be outside of the control of the Offshore II and Offshore III. Accordingly, the Offshore II and Offshore III may be required to hold Special

Investments for several years before any disposition can be effected. Special Investments may represent a material and substantial portion of the Offshore II and Offshore III portfolio.

The investment objective of the SPV I is to achieve long term capital appreciation through investments in a real estate portfolio consisting principally of Russia-based commercial property.

The SIF I's objective is to maximize risk-adjusted returns by investing both long and short in actively traded equity and equity-related securities of companies with main business operations in Russia and the CIS. The SIF fund seeks to take advantage of companies' fundamentally driven value propositions and short-term volatility. The SIF I implements an active portfolio management strategy to generate returns.

Investing in securities involves risk of loss that clients should be prepared to bear and there can be no assurance that any of the Funds will achieve their investment objectives.

## **MATERIAL RISKS**

No assurance can be given, of course, that its investment strategy will be successful under all or any market conditions. Investments in the Funds are not guaranteed and the instruments in which the Funds invest may lose value. An investment in the Funds involves a risk of loss that an investor should be prepared to bear. EDCM's strategies involve numerous risks, which are more extensively outlined in the Funds' Confidential Private Offering Memoranda or other offering documents. We would like to note the following selected risks associated with investing in the Funds:

### **Investment Risks**

*Investment Strategies.* The Funds success depends on EDCM's ability to select individual securities, to correctly interpret market data, predict future market movements and otherwise implement its investment strategy. The Funds are not market-neutral funds and may underperform the broader markets. Any factor that would make it more difficult to execute more timely trades, such as a significant lessening of liquidity in a particular market, may also be detrimental to profitability. No assurance can be given that the investment strategies to be used by the Funds will be successful under all or any market conditions.

*Investment Risks in General.* The Funds will engage in highly speculative investment strategies. A potential investor in the Funds should note that the prices of securities and derivatives instruments in which the Funds invest may be volatile. Market movements are difficult to predict and are influenced by, among other things, government trade, fiscal, monetary and exchange control programs and policies; changing supply and demand relationships; national and international political and economic events; changes in interest rates; and the inherent volatility of the marketplace. In addition, governments from time to time intervene, directly and by regulation, in certain markets, often with the intent to influence prices directly. The effects of governmental intervention may be particularly significant at certain times in the financial instrument and currency markets, and such intervention (as well as other factors) may cause these markets and related investments to move rapidly.

*Illiquid Investments.* A significant and material portion of the securities and other instruments in which the Funds invest may be thinly traded and relatively illiquid or may cease to be traded after the Funds invest, including the investments that may be classified by EDCM as Special Investments. The Funds may not be able to liquidate its investments, in particular, Special Investments promptly if the need should arise. In addition, the Funds' sales of thinly traded securities or other investments could depress the market value of such investments and thereby reduce the Funds' profitability or increase its losses. Such circumstances or events could affect materially and adversely the amount of gain or loss the Funds may realize. In addition, the Funds may have difficulty selling illiquid securities and other investments, perhaps causing the Funds to have difficulty in meeting redemptions. No assurance may be given that the Funds will be able to satisfy its investors' redemption requests as of each applicable redemption date.

*Restricted Securities.* The Funds may invest a substantial and material portion of its assets in restricted securities that are subject to substantial holding periods or that are not traded in public markets. Restricted securities generally are difficult or impossible to sell at prices comparable to the market prices of similar securities that are publicly traded. No assurance can be given that any such restricted securities will be eligible to be traded on a public market even if a public market for securities of the same class were to develop. It is highly speculative as to whether and when an issuer will be able to register its securities so that they become eligible for trading in public markets.

*Region and Country Investing.* The Funds may focus its investments in particular regions and/or in certain foreign countries. Focusing their investments in such a manner will subject the Funds, to a greater extent than if their investments in those regions or countries were more limited, to the risks of adverse securities markets, exchange rates and social, political or economic developments that may occur in those regions or countries.

*Concentration and Nondiversification Risks.* The Funds may be considered nondiversified if they invest a relatively high percentage of their assets in a few companies and/or sectors. Such companies and/or sectors may be uncorrelated and/or overly correlated with the broader markets. Accordingly, the Funds may be subject to nondiversification risk, which is the possibility that the Funds' performance may be hurt disproportionately by the poor performance of relatively few stocks or even a single stock. In the event the Funds invest a large proportion of their assets in the particular industry or related industries, the Funds' performance will largely depend on the overall condition of those industries. Accordingly, the Funds may also be subject to industry concentration risk, which is the possibility that there will be overall problems affecting a particular industry.

*Short Sales.* The Funds may sell securities short. Short selling involves the sale of a security that the Funds does not own and must borrow in order to make delivery in the hope of purchasing the same security at a later date at a lower price. In order to make delivery to their purchaser, the Funds must borrow securities from a third party lender. The Funds subsequently returns the borrowed securities to the lender by delivering to the lender the securities they receive in the transaction or by purchasing securities in the open market. The Funds must generally pledge cash with the lender equal to the market price of the borrowed securities. This deposit may be increased or decreased in accordance with changes in the market price of the borrowed securities. During the period in which the securities are borrowed, the lender typically retains his right to receive interest and dividends accruing to the securities. In exchange, in addition to lending the securities, the lender generally pays the Funds a fee for the use of the

Funds' cash. This fee is based on prevailing interest rates, the availability of the particular security for borrowing and other market factors.

Theoretically, securities sold short are subject to unlimited risk of loss because there is no limit on the price that a security may appreciate before the short position is closed. In addition, the supply of securities that can be borrowed fluctuates from time to time. The Funds may be subject to losses if a security lender demands return of the lent securities and an alternative lending source cannot be found.

*Accuracy of Public Information.* EDCM selects investments for the Funds, in part, on the basis of information and data filed by issuers with various government regulators or made directly available to EDCM by the issuers or through sources other than the issuers. Although EDCM evaluates all such information and data and ordinarily seeks independent corroboration when EDCM considers it is appropriate and reasonably available, EDCM is not in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information is not available.

*Leverage.* When deemed appropriate by EDCM and subject to applicable regulations, the Funds may use leverage in their investment program, including the use of borrowed funds and investments in certain types of options, such as puts, calls and warrants, which may be purchased for a fraction of the price of the underlying securities while giving the purchaser the full benefit of movement in the market of those underlying securities. While such strategies and techniques increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. To the extent the Funds purchase securities with borrowed funds, their net assets will tend to increase or decrease at a greater rate than if borrowed funds are not used. The level of interest rates generally, and the rates at which such funds may be borrowed in particular, could affect the operating results of the Funds. If the interest expense on borrowings were to exceed the net return on the portfolio securities purchased with borrowed funds, the Funds' use of leverage would result in a lower rate of return than if the Funds were not leveraged.

If the amount of borrowings which the Funds may have outstanding at any one time is large in relation to their capital, fluctuations in the market value of the Funds' portfolios will have disproportionately large effects in relation to the Funds' capital and the possibilities for profit and the risk of loss will therefore be increased. Any investment gains made with the additional monies borrowed will generally cause the net asset value of the Funds to rise more rapidly than would otherwise be the case. Conversely, if the investment performance of the additional moneys borrowed fails to cover their cost to the Funds, the net asset value of the Funds will generally decline faster than would otherwise be the case.

*Derivatives.* Derivatives are financial contracts whose value depends on, or is derived from, an underlying product, such as the value of a securities index. Among the types of derivatives that may be used by the Funds are futures, options and swaps. The risks generally associated with derivatives include the risks that: (1) the value of the derivative will change in a manner detrimental to the Funds; (2) before purchasing the derivative, the Funds will not have the opportunity to observe its performance under all market conditions; (3) another party to the derivative may fail to comply with the terms of the derivative contract; (4) the derivative may be difficult to purchase or sell; and (5) the derivative may involve indebtedness or economic leverage, such that adverse changes in the value of the underlying asset could result in a loss substantially greater than the amount invested in the derivative itself or in heightened price

sensitivity to market fluctuations. The Funds will often be required to pledge all or a part of their assets to the counterparty in a derivatives transaction.

The Funds may also invest in non-U.S.-traded derivatives. When traded outside the United States, derivatives may not be regulated as rigorously as in the United States, may not involve a clearing mechanism and related guarantees, and will be subject to the risk of government actions affecting trading in, or the prices of, foreign securities and other instruments. The value of positions taken as part of non-U.S. derivatives also could be adversely affected by: (1) other complex foreign political, legal and economic factors, (2) lesser availability of data on which to make trading decisions than in the United States, (3) delays in the Funds' ability to act upon economic events occurring in foreign markets during non-business hours in the United States, (4) the imposition of different exercise and settlement terms and procedures and margin requirements than in the United States and (5) lower trading volume and liquidity.

*Non-U.S. Exchanges and Markets.* The Funds may engage in trading on non-U.S. exchanges and markets. Trading on such exchanges and markets may involve certain risks not applicable to trading on U.S. exchanges and is frequently less regulated. For example, certain of those exchanges may not provide the same assurances of the integrity (financial and otherwise) of the marketplace and its participants, as do U.S. exchanges. There also may be less regulatory oversight and supervision by the exchanges themselves over transactions and participants in such transactions on those exchanges. Some non-U.S. exchanges, in contrast to U.S. exchanges, are "principals' markets" in which performance is the responsibility only of the individual member with whom the trader has dealt and is not the responsibility of an exchange or clearing association. Furthermore, trading on certain non-U.S. exchanges may be conducted in such a manner that all participants are not afforded an equal opportunity to execute certain trades and may also be subject to a variety of political influences and the possibility of direct government intervention. Investment in non-U.S. markets would also be subject to the risk of fluctuations in the exchange rate between the local currency and the dollar and to the possibility of exchange controls. Foreign brokerage commissions and other fees are also generally higher than in the United States.

*Investments in Non-U.S. Securities.* The Funds invest and trade a major portion of their assets in non-U.S. securities, which give rise to risks relating to political, social and economic developments abroad, as well as risks resulting from the differences between the regulations to which U.S. and foreign issuers and markets are subject:

- These risks may include political or social instability, the seizure by foreign governments of company assets, acts of war or terrorism, withholding taxes on dividends and interest, high or confiscatory tax levels, and limitations on the use or transfer of portfolio assets.
- Enforcing legal rights in some foreign countries is difficult, costly and slow, and there are sometimes special problems enforcing claims against foreign governments.
- Foreign securities often trade in currencies other than the U.S. dollar, and the Funds may directly hold foreign currencies and purchase and sell foreign currencies through forward exchange contracts. Changes in currency exchange rates will affect the Funds' net asset value, the value of dividends and interest earned, and gains and losses realized on the sale of securities. An increase in the strength of the U.S. dollar relative to these other currencies may cause the value of the Funds' investments to decline. Some foreign currencies are particularly volatile. Foreign governments may

intervene in the currency markets, causing a decline in value or liquidity of the Funds' foreign currency holdings. If the Funds enter into forward foreign currency exchange contracts for hedging purposes, they may lose the benefits of advantageous changes in exchange rates. On the other hand, if the Funds enter forward contracts for the purpose of increasing return, they may sustain losses.

- Non-U.S. securities markets may be less liquid, more volatile and less closely supervised by the government than in the United States. Foreign countries often lack uniform accounting, auditing and financial reporting standards, and there may be less public information about their operations.

*Small Companies.* The Funds may invest a portion of their assets in small and/or unseasoned companies with small market capitalizations. While smaller companies generally have potential for rapid growth, they often involve higher risks because they may lack the management experience, financial resources, product diversification, and competitive strength of larger companies. In addition, in many instances, the frequency and volume of their trading may be substantially less than is typical of larger companies. As a result, the securities of smaller companies may be subject to wider price fluctuations. When making large sales, the Funds may have to sell portfolio holdings at discounts from quoted prices or may have to make a series of small sales over an extended period of time due to the lower trading volume of smaller company securities.

*Real Estate Industry Considerations.* The Funds may invest in real estate related securities. Therefore, an investment in the Funds is subject to certain risks associated with the direct ownership of real estate and with the real estate industry in general. These risks include, among others: possible declines in the value of real estate; risks related to general and local economic conditions; possible lack of availability of mortgage funds; overbuilding; extended vacancies of properties; increases in competition, property taxes and operating expenses; changes in zoning laws; costs resulting from the clean-up of, and liability to third parties for damages resulting from, environmental problems; casualty or condemnation losses; uninsured damages from floods, earthquakes or other natural disasters; limitations on and variations in rents; and changes in interest rates. To the extent that assets underlying the Funds' investments are concentrated geographically, by property type or in certain other respects, the Funds may be subject to certain of the foregoing risks to a greater extent.

*Currency Risk.* The value of the Funds' assets may be affected favorably or unfavorably by the changes in currency rates and exchange control regulations. Some currency exchange costs may be incurred when the Funds change investments from one country to another. Currency exchange rates may fluctuate significantly over short periods of time. They generally are determined by the forces of supply and demand in the respective markets and the relative merits of investments in different countries, actual or perceived changes in interest rates and other complex factors, as seen from an international perspective. Currency exchange rates can also be affected unpredictably by intervention by governments or central banks (or the failure to intervene) or by currency controls or political developments. The Funds may or may not seek to mitigate the risk of currency exchange fluctuation.

*Over-the-Counter ("OTC") Transactions.* The Funds may deal in forward foreign exchange contracts between currencies of the different countries and multi-national currency units and options on currencies for hedging or speculation. With respect to forward currency contracts,

this is accomplished through contractual agreements generally to purchase or sell one specified currency for another currency at a specified future date and price determined at the inception of the contract. The Funds may engage in other OTC transactions, such as options not traded on an exchange, swaps, caps, floors, and collars.

In general, there is less governmental regulation and supervision in the OTC markets than of transactions entered into on an organized exchange. In addition, many of the protections afforded to participants on some organized exchanges, such as the performance guarantee of an exchange clearinghouse, will not be available in connection with OTC transactions. This exposes the Funds to the risks that a counterparty will not settle a transaction because of a credit or liquidity problem or because of disputes over the terms of the contract. The Funds are not restricted from concentrating transactions with one counterparty. The Funds, therefore, will be exposed to greater risk of loss through default than if they confined its trading to regulated exchanges.

The Funds will be subject to the risk of the inability of counterparties to perform with respect to transactions, whether due to insolvency, bankruptcy, governmental prohibition or other causes, which could subject the Funds to substantial losses.

*Risks of Non-Controlling Investments; Control Person Liability.* The Funds may take minority shareholdings in certain investee companies and, as a result, may be unable to protect their interests effectively. Such investments may involve risk not present in the Funds' investments where a third party is not involved, including the risk that a co-investor might at any time have economic or business interests or goals that are inconsistent with those of the Funds or may be in a position to take action contrary to the Funds' investment objectives. Conversely, the Funds may acquire controlling interests in certain investee companies. The exercise of control over an investee company may impose additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations or other types of liability in which the limited liability generally characteristic of business ownership may be ignored. If these liabilities were to arise, the Funds might suffer a significant loss.

*Trading Errors.* Though EDCM will attempt to correct trading errors as soon as they are discovered, it may not be responsible for poor executions or trading errors committed by the brokers with which they transact or EDCM itself, unless, in the case of EDCM, such errors resulted from EDCM's gross negligence or willful misconduct.

*Valuation of Fund Investments.* The Administrator shall calculate the net asset value of the Funds with the assistance of EDCM and under the supervision of the Directors. Valuation of the Funds' investments, including the Special Investments (which will indirectly determine the amount of the Management Fee and the Performance Allocation) may involve uncertainties and judgmental determinations, and if such valuations should prove to be incorrect, the Fund investors could be adversely affected. Independent pricing information may not at times be available with respect to certain of the Funds' securities and other investments. Accordingly, while the Directors, EDCM and the Administrator will use their best efforts to value and/or calculate (as applicable) all investments in the Funds fairly, certain investments may be difficult to value and may be subject to varying interpretations of value.

*Compensation Arrangements with Fund Managers.* The Funds may enter into arrangements with certain managers of investment funds or vehicles, including affiliated managers ("Managers") which provide that such Managers be compensated, in whole or in part, based on the appreciation in value (including unrealized appreciation) of the account during specific

measuring periods. Due to the fees and expenses charged by the Managers, the Funds are subject to layering of administrative expenses, as well as of incentive compensation. In addition, the Funds may be required to make an incentive allocation to certain Managers who make a profit for the Funds in a particular fiscal year even though the Funds may in the aggregate incur a net loss for such fiscal year.

*Certain Conflicts.* The principals of EDCM may be involved in various other ventures, including serving as directors or principals of the portfolio companies in which the Funds may invest. Thus, such principals may have a conflict between their duties as principals of EDCM and their duties to, and financial or other interest in, the Funds' portfolio companies which may compensate such persons for their activities on behalf of such portfolio companies. If a conflict of interest arises, EDCM will endeavor to ensure that the conflict is resolved fairly and that EDCM's clients are not disadvantaged in any manner in this regard.

### **Risk Factors Relating to Russia and CIS**

Described below are certain risk factors peculiar to investing in Russia and CIS which require consideration of matters not usually associated with investing in securities of issuers in more developed capital markets. Russia and CIS present different economic and political conditions from those in Western markets, and less social, political and economic stability. The absence, until relatively recently, of any move towards capital markets structures or to a free-market economy means investing in these countries is more risky than investing in Western markets. Information on Russia and CIS is to be treated with particular care due to the limited availability and reliability of such information.

*Political and Economic Risks.* Under the Communists, Russia had a centrally planned, socialist economy and a totalitarian system of government. Since the break-up of the Soviet Union at the end of 1991, Russia and other countries within the CIS have undergone substantial political and social upheaval. Though the transition from a centrally controlled, command system to a market-oriented, democratic model is taking place, the terms on which this will occur are still not entirely clear and may be affected by further fears of inflation. The consequences, however, are profound, and investors should take into account the unpredictability of their eventual outcome. The economies of Russia and the CIS may differ significantly from the economies of Western Europe, North America and Japan in such respects as the rate of inflation, currency depreciation, capital reinvestment, structural unemployment and balance of payments position. The value of the Funds may therefore be affected by uncertainties such as political or diplomatic developments, social and religious instability, changes in government policies, taxation and interest rates, currency repatriation and other political and economic developments in law or regulations in Russia and the CIS and, in particular, the risks of expropriation, nationalism and confiscation of assets and changes in legislation relating to the level of foreign ownership. Russia's economy and markets remain highly sensitive to oil prices. According to direct revenue estimates, Russia's budget surplus would be reduced by US\$ 1 billion, or 0.2% of GDP, for each US\$ 1/bbl drop in oil price. Additionally, a sharp fall in the oil price might cause enterprises to delay investment plans, thus growth could slow, leading to a greater negative impact on the overall federal budget.

*Regulatory Risk.* Enterprises in which the Funds invest may be or become subject to unduly burdensome and restrictive regulation affecting the commercial freedom of the investee

company, thereby diminishing the value of the Funds' investment in it. Restrictive or overregulation may therefore be a form of indirect nationalization.

*Lack of Market Economy.* Businesses in Russia have only a very recent history of operating within a market oriented economy. In general, relative to companies operating in Western economies, companies in Russia are characterized by a lack of experienced management; modern technology; and sufficient capital base with which to develop and expand their operations. It is unclear what will be the effect on companies in Russia, if any, of attempts to move towards a more market-oriented economy.

*Settlement Risk.* Because of the relatively underdeveloped securities markets, banking and telecommunications systems concerns arise in relation to settlement, clearing and registration of transactions in securities. Furthermore, due to the local postal and banking systems, no guarantee can be given that all entitlements attaching to securities acquired by the Funds, including in relation to dividends, can be realized. However, none of the Funds, the Custodians, the Administrators, EDCM or ED Capital LLC or any of their agents makes any representation or warranty about, or any guarantee of, the operation, performance or settlement, clearing and registration of transactions dealing in securities in Russia.

*Registration Risk in Russia.* Currently, evidence of legal title to shares in Russia is typically maintained in "bookentry" form. In order to be recognized as the registered owner of a company's shares, a purchaser or a purchaser's representative must physically visit the registrar of the company ("Regional Registrar") and open an account with the Regional Registrar (which, in certain cases, requires the payment of an account opening fee). Thereafter, each time that purchaser purchases additional shares in the company, the purchaser's representative must present to the Regional Registrar powers of attorney from the purchaser and the vendor of such shares, along with evidence of such purchase, at which time the Regional Registrar will debit such purchased shares from the vendor's account maintained on the register and credit such purchased shares to the purchaser's account maintained on the register. The role of the Regional Registrar in the custodial and registration process is crucial. Although the Russian Federal Securities Commission has published regulations governing activities of registrars the effectiveness of government supervision of registrars is questionable and it is possible for the Funds to lose their registration in one or more securities through fraud, negligence or mere oversight. Furthermore, while companies with more than 500 shareholders are required under Russian law to maintain independent Regional Registrars that meet certain statutory criteria, in practice this regulation has not historically always been strictly enforced. Because of the lack of independence, the management of a company can potentially exert significant influence over the make-up of that company's shareholders. If a Regional Registrar were to suffer a fire or other catastrophe, the consequence of which were to be the destruction or mutilation of the Register, the Funds' holdings of the relevant shares of the related company could be substantially impaired or, in certain cases, erased. The Regional Registrars typically do not maintain insurance against such occurrence, nor are they likely to have assets sufficient to compensate the Funds as a result thereof. While the Regional Registrar and the company may be legally obliged to remedy such loss, there is no guarantee that either of them would do so, nor is there any guarantee that the Funds would be able to successfully bring a claim against them as a result of any such loss. In addition to the possibility of a Regional Registrar suffering a catastrophic loss, a Regional Registrar or the relevant company could willfully refuse to recognize the Funds as the registered owner of shares previously purchased by the Funds. None of the Funds, the EDCM, the ED

Capital LLC, the Administrators, the Custodians or any of their agents makes any representation or warranty about, or any guarantee of, any Regional Registrar's operations or performance.

*Custody Risk.* Custody services in Russia and the CIS remain undeveloped and, although the Funds will endeavor to put into place control mechanisms, including the selection of agents to register securities on behalf of the Funds, and, where appropriate, regular reconciliations of entries on relevant securities registers to ensure that the Funds' interests continue to be recorded, there is a transaction and custody risk of dealing in these securities. The Funds' custodians are empowered by the Funds to delegate all or any of their functions and duties to local sub-custodians ("Correspondents") in Russia and the CIS. The custodians will exercise due skill, care and diligence in the selection, appointment and monitoring of such Correspondents and will maintain an appropriate level of supervision over such Correspondents and make appropriate periodic enquiries to confirm that the obligations of such Correspondents continue to be competently discharged. The custodians retain responsibility for the acts and omissions of its Correspondents in developed markets, but are not liable for any loss directly or indirectly arising as a result of the acts or omissions of its Correspondents in certain emerging markets countries (as referred to in the custodian agreements, and including Russia and the majority of CIS countries). The custodians shall for the duration of any agreement with such Correspondent satisfy themselves as to the ongoing suitability of that Correspondent to provide custodial services to the Funds. The custodians will not be liable for any losses suffered by the Funds as a result of the bankruptcy or insolvency of any Correspondent. The custodians are not responsible for the safekeeping of assets deposited with brokers.

*Accounting Practice.* Accounting standards in Russia and the CIS do not correspond to accounting principles generally accepted in the United States of America in all material respects. In addition, auditing requirements and standards differ from those generally accepted in the international capital markets and consequently information available to investors in developed capital markets is not always obtainable in respect of companies in Russia and the CIS. The Funds' own financial statements will conform to accounting principles generally accepted in the United States of America.

*Quality of Information.* Investors in Russia and the CIS generally have access to less reliable or less detailed information, including both general economic data and information concerning the operations, financial results, capitalization and financial obligations, earnings and securities of specific enterprises. The quality and reliability of information available to the Funds will, therefore, be less than in respect of investments in Western countries. Obligations on companies to publish information are also more limited, thus further restricting opportunities for the Funds to carry out due diligence. At present, the Funds will be obliged to make investment decisions and investment valuations on the basis of financial information that will be less complete and reliable than that customarily available in the West. Also, the quality and reliability of official data published by the government and government agencies of Russia and the CIS is generally not equivalent to that of more developed Western countries.

*Uncertain Legal and Regulatory Environment.* The laws and regulations in Russia and the CIS affecting Western investment and business continue to evolve in an unpredictable manner. Laws and regulations, particularly those involving taxation, currency regulation, foreign investment, trade and transfer of title to securities and other property applicable to the Funds' activities are relatively new and can change quickly and unpredictably. Although basic commercial laws are in place, they are often unclear and untested and subject to varying interpretation, and may at any

time be amended, modified, repealed or replaced in a manner adverse to the interests of the Funds. Enterprises in which the Funds invest may be or may become subject to unduly burdensome and restrictive regulation, including, in particular, price controls and restrictions on export. Such regulations may affect the commercial freedom of such enterprises and thereby diminish the value of the Funds' investment in such enterprises.

*Taxation.* Tax law and practice in Russia and the CIS is not as clearly established as that of the Western nations. It is possible, therefore, that the current interpretation of the law or understanding of practice may change or, indeed, that the law may be changed with retrospective effect. Accordingly, it is possible that the Funds could become subject to taxation in Russia and the CIS that is not anticipated either at the date of this document or when investments are made, valued or disposed of. In addition, in some of these countries the domestic tax burden is high and the discretion of local authorities to create new forms of taxation has resulted in a proliferation of taxes, in some cases imposed or interpreted retrospectively. Penalties on the late payment of tax (even when it is imposed retrospectively) can be substantial.

*Repatriation Restrictions.* The foreign investment legislation of Russia currently provides general assurances of the rights of foreign investors to remit profits and dividends from their investments in Russia. In some cases, however, these rights are subject to currency, tax and export restrictions and no guarantee can be given that all the proceeds of investments will be capable of being remitted.

#### **Item 9: Disciplinary Information**

This item requires EDCM to disclose any legal or disciplinary events material to a client's or prospective client's evaluation of our business or the integrity of our management. Currently, there are no legal or disciplinary events material to a client's or prospective client's evaluation of our business or the integrity of our management to disclose in this Item.

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

EDCM is an SEC-registered investment advisor. Neither EDCM nor any of its officers, managers or employees is registered, or has a current application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant ("FCM"), commodity pool operator ("CPO") or commodity trading advisor ("CTA"). However, EDCM currently relies upon an exemption from registration under Regulation 4.13(a)(3) of the U.S. Commodities Exchange Act for all of its Funds that may invest in commodities. In addition, neither EDCM nor any of its officers, managers or employees is an associated person of an FCM or a CPO or CTA.

ED Capital LLC, EDCM's affiliate, is the general partner of Fund II, the investment advisor to Fund I, Offshore II and Offshore III, and a special limited partner of SPV I. The principals of EDCM are also the principals of ED Capital LLC, including Mr. Daniloff, who serves as the managing member for both entities. Other than as described herein, EDCM does not have any arrangement in which it is compensated for recommending or selecting other investment advisers for the Funds, nor does it have any other business relationship with an investment adviser that would create a material conflict of interest with respect to EDCM's management of the Funds. Other than otherwise disclosed herein, to EDCM's knowledge,

neither EDCM nor its officers, managers or employees have a relationship or arrangement with any related person that would create a material conflict of interest with its clients.

As described above, EDCM will receive management fees in connection with the management and operation of the Funds. EDCM may also recommend managed accounts or other vehicles (including Funds) to investors that contain a performance fee or a performance allocation that will permit EDCM or an affiliate, including ED Capital LLC, to participate in the profits of the Funds or other investment vehicles.

Any of EDCM or ED Capital LLC's affiliates may act as investment adviser or investment manager for others, may manage funds, separate accounts or capital for others and may serve as an officer, director, consultant, partner or stockholder of one or more investment funds, partnerships, securities firms or advisory firms. Such other entities or accounts may have investment objectives or may implement investment strategies similar to or different from those of the Funds (and in the event of different investment objectives, may receive allocations of investments, that are similar to or different from those received by the Funds) and the performance of such entities and accounts may diverge from that of the Funds. In addition, such entities and accounts may have negotiated different engagement (including management fee and performance fee and allocation and liquidity) terms with EDCM or its affiliates and may have access to additional trading information and supporting analytics as relating to EDCM's investment strategies, which could affect their performance.

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

EDCM has adopted a Code of Ethics ("Code") that describes standards of conduct expected of EDCM personnel. The Code sets forth standards of conduct, expected of EDCM's personnel, reflecting the fiduciary obligations of EDCM and its personnel to the Funds, and requires EDCM's personnel to comply with applicable federal securities laws. Among other things, the Code requires EDCM's personnel to report any violation(s) of the Code or any violation(s) of federal securities laws. EDCM's personnel generally may not trade securities of individual issuers held by the Funds in their personal accounts, though on rare occasions an employee may be permitted to purchase or sell a security that is held by the Funds. On such occasion, EDCM's Managing Member must approve the request, subject to the restriction, to minimize even the appearance of a conflict of interest, that an employee order may not be placed on the same day EDCM has entered, or expects to enter, an order in the same security in advance. EDCM's principals and employees must instruct the brokerage firm holding their personal accounts to provide duplicate trade confirmations and monthly customer statements directly to EDCM's Chief Compliance Officer. All employees must certify, that he or she has complied with the Code. EDCM keeps records of reports and other information that access persons are required to provide under the Code.

The Code states that EDCM personnel owe a duty of loyalty to EDCM and its clients that requires EDCM personnel to act in the best interests of its investors. In addition, EDCM personnel must avoid actions or activities that allow (or appear to allow) them or their family members to profit or benefit from their relationship with EDCM or its investors. The Code also contains policies involving the safeguarding of proprietary and non-public information along with restrictions on the use of insider information, or use of non-public information, regarding an investor.

Clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Aleksandr Khaytin, EDCM's Chief Compliance Officer, at akhaytin@daniloffcapital.com.

As a general policy, EDCM does not effect principal transactions for client accounts. EDCM itself does not hold securities, nor is it affiliated with a broker-dealer, thus has never done a principal transaction of this sort.

A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. EDCM may arrange these sorts of transactions when it needs to rebalance the portfolios of the Funds to make the relative size of holdings proportionately equal, to take advantage of the available exchange rates or to aggregate holdings of a security in connection with fund liquidations, in each case as deemed necessary by EDCM for the benefit of the respective Funds' investors at the time of the transaction. EDCM may also generally rebalance or aggregate the accounts of its clients following capital contributions or withdrawals or for other reasons that cause the weight of a holding (as a percent of equity), to differ more than a negligible amount. When rebalancing the Funds, EDCM uses the market price. Each such trade will be consistent with the investment objectives and policies of each of EDCM's clients.

#### **Item 12: Brokerage Practices**

EDCM or its affiliates are authorized to determine the broker or dealer to be used for each securities transaction for the Funds. When selecting brokers or dealers to execute transactions, EDCM need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not always EDCM's practice to negotiate "execution only" commission rates, thus the Funds may be deemed to be paying for research, brokerage or other services provided by the broker which are included in the commission rate.

Section 28(e) of the Securities Exchange Act of 1934, as amended, is a "safe harbor" that permits a general partner to use commissions or "soft dollars" to obtain research and brokerage services that provide lawful and appropriate assistance in the investment decision-making process. Except for services that would be a Fund expense, EDCM intends to limit the use of "soft dollars" to obtain research and brokerage services to services which constitute research and brokerage within the meaning of Section 28(e).

Overall, the volume of products and services EDCM obtained through soft dollar arrangements in the past year was fairly low due to the size of the Funds and their low trading volumes and the services and data received from Bloomberg and other vendors were generally paid with hard dollars, although EDCM does occasionally receive research from brokers without a payment of hard dollars for such research. In light of the low trading volume, in the past year, it has been EDCM's practice to direct order flow to broker-dealers on the basis of the brokers' history of best execution, access to companies' management through meetings and availability of research on companies traded. In general, research services within Section 28(e) may include, but are not limited to, proprietary research from brokers or third party consultants, which may be written, oral or electronic, research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences;

discussions with research analysts; meetings with corporate executives; consultants' advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); advice from brokers on order execution; and certain proxy services. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between EDCM or its affiliate and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self regulatory organization such as comparison services, electronic confirms or trade affirmations. The use of commissions arising from a Fund's investment transactions for services other than research and brokerage is intended to be limited to services that would otherwise be a Fund expense. However, the use of commissions to obtain such other services would be outside the parameters of Section 28(e).

In general, in selecting brokers and negotiating commission rates, EDCM will take into account the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution; the financial strength, integrity and stability of the broker; the firm's risk in positioning a block of securities; the quality, comprehensiveness and frequency of available research services considered to be of value; and the competitiveness of commission rates in comparison with other brokers satisfying EDCM's other selection criteria. EDCM may place transactions with a broker or dealer that (i) provides EDCM (or an affiliate) with the opportunity to participate in capital introduction events sponsored by the broker-dealer or (ii) refers investors to the Funds or other products advised by EDCM (or an affiliate), if otherwise consistent with seeking best execution; provided EDCM is not selecting the broker-dealer in recognition of the opportunity to participate in such capital introduction events or the referral of investors.

EDCM does not consider, in selecting or recommending broker-dealers, any client referrals it may receive from a broker-dealer or third party.

EDCM uses soft dollar benefits to service all of its clients' accounts and not only those that generate the benefits. Because the brokerage and research benefit all accounts, soft dollar benefits are not proportionally allocated to any accounts that may generate different amounts of the soft dollar benefits. When EDCM uses client brokerage commissions (or markups or markdowns) to obtain research or other products or services, EDCM receives a benefit because it does not have to produce or pay for the research, products or services. As a result, EDCM may have an incentive to select or recommend a broker-dealer based on its interest in receiving the research or other products or services, rather than on its clients' interest in receiving most favorable execution.

In some instances, EDCM may receive a product or service that may be used only partially for functions within Section 28(e) (e.g. an order management system, trade analytical software or proxy services). In such instances, EDCM intends to make a good faith effort to determine the relative proportion of the product or service used to assist EDCM in carrying out its investment decision-making responsibilities and the relative proportion used for administrative or other purposes outside Section 28(e). The proportion of the product or service

attributable to assisting EDCM in carrying out its investment decision-making responsibilities will be paid through brokerage commissions generated by client transactions and the proportion attributable to administrative or other purposes outside Section 28(e) will be paid for by EDCM or EDCM, as appropriate, from their own resources.

EDCM may use research and brokerage services obtained by the use of commissions arising from a Fund's portfolio transactions in its other investment activities and thus, a Fund may not necessarily, in any particular instance, be the direct or indirect beneficiary of the research or brokerage services provided.

Although EDCM will make a good faith determination that the amount of commissions paid is reasonable in light of the products or services provided by a broker, commission rates are generally negotiable and thus, selecting brokers on the basis of considerations that are not limited to the applicable commission rates may result in higher transaction costs than would otherwise be obtainable. The receipt of such products or services and the determination of the appropriate allocation in the case of "mixed use" products or services creates a potential conflict of interest between EDCM and its clients.

When appropriate, EDCM may, but is not required to, aggregate client orders to achieve more efficient execution or to provide for equitable treatment among accounts. Clients participating in aggregated trades will be allocated securities based on the average price or other equitable basis achieved for such trades.

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

EDCM monitors the Funds' profit and loss, market exposure and risk characteristics of the Funds' portfolios to ensure conformity with the Funds' investment objectives, generally, on a daily basis although monitoring the portfolio of SPV I is done on quarterly basis. Reviews and monitoring are generally supervised by the Managing Member of EDCM and the Director of Research (New York) (in the case of SIF I only).

EDCM also prepares and distributes (with the assistance of the Administrator) monthly (quarterly for SPV I), account statements for all Funds. Statements preparation and distribution is being supervised by the Administrator's head of accounting covering EDCM accounts. In addition, EDCM provides newsletters to Funds' investors on a periodic basis. The newsletter issuance is being supervised by the Managing Member of EDCM. Letters are being distributed to investors by Funds' Administrators.

Finally, EDCM also may prepare the following periodic reports:

1. Generally, monthly or on another period basis, a one page StatSheet prepared by EDCM that gives an overview of results and exposures for Fund II and Offshore I, and for SIF I. Among other things, the StatSheet typically contains (i) the month's results, and (ii) portfolio exposure by long/short, industry sector, geography and (iii) top 10 positions. When available, StatSheets are being furnished to investors. The StatSheets issuance and distribution is supervised by the Managing Member.

2. Generally, semi-annually, or on another period basis investors to Offshore III may receive the portfolio overview report. The report preparation and distribution is supervised by the Managing Member of EDCM.
3. Generally, annually, EDCM may provide a year-end portfolio overview for Fund I, Fund II and Offshore I investors. The report is supervised by the Managing Member of EDCM.

EDCM also provides reports to investors at their request. Report issuance is supervised by the Managing Member of EDCM.

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

EDCM or its affiliates may, from time to time, compensate other independent sales and marketing representatives for referring advisory clients to invest in the Funds. Such persons or firms may receive cash fees out of a portion of EDCM's management and performance fees or allocations attributed to the referred investor. Neither EDCM nor ED Capital LLC charge the Funds a higher management or performance fee or allocation to compensate marketing representatives for referrals. These independent representatives will have no relationship with EDCM other than entering into marketing and solicitation agreements covering the solicitation of business on EDCM's or its affiliates' behalf. Independent sales and marketing representatives must sign this agreement acknowledging, among other things, their responsibility regulatory compliance for themselves and their employees who solicit clients on behalf of EDCM and its affiliates.

Each such arrangement may create conflicts of interests for EDCM and/or each third party firm who receives compensation for introductions to procure the investments regardless of the merit of the Funds. EDCM addresses such conflicts by only paying any such compensation out of its own management fee and performance compensation. EDCM also addresses such conflicts by fully disclosing the referral arrangement to all introduced investors, in advance of the investments, to enable such investors to make informed decisions in connection with such investments.

In addition, the use of soft dollars arguably confers an economic benefit to EDCM related to the advisory services that EDCM provides to clients. As discussed in Item 12 above, conflicts of interest may arise from EDCM's use of soft dollars. See Item 12 above for additional information concerning soft dollars and the types of research and brokerage services that EDCM may acquire with soft dollars.

#### **Item 15: Custody**

Because EDCM is authorized to approve the payment of fees and other compensation by the Funds (calculated by the Fund administrator) to itself and its affiliate, and similarly approves the Funds' payments for third party services (such as audit and legal expenses), EDCM may be deemed to have custody of the Funds' assets. In addition, ED Capital LLC, EDCM's affiliate and the general partner of Fund II, is deemed to have the custody of such Fund's assets. EDCM and ED Capital LLC comply with Rule 206(4)-2 under the Adviser Act ("Custody Rule") by providing investors in the Funds with audited financial statements within 120 days of the Funds' fiscal year-end in compliance with Rule 206(4)-2(b)(4) thereof.

#### **Item 16: Investment Discretion**

EDCM has discretionary authority over the investment activities of the Funds. EDCM receives discretionary authority from investors and/or clients at the outset of an advisory relationship. EDCM receives the discretionary authority pursuant to the Limited Partnership Agreement and the Subscription Agreement (if for Fund II and SPV I) or the Investment Management Agreement and the Subscription Agreement (if for all other Funds). Notwithstanding its broad discretionary powers, EDCM invests the assets of the Funds in accordance with the investment policies and objectives, as they may change from time to time, as described in the Confidential Private Offering Memorandum of each Fund.

#### **Item 17: Voting Client Securities**

EDCM has adopted a proxy voting policy pursuant to Rule 206(4)-6 under the Advisers Act. The policy reflects the fact that EDCM is a fiduciary to the Funds and, accordingly, votes proxies in a manner consistent with the best interests of each Fund and its investors. As such, EDCM exercises voting authority with respect to its clients' securities in accordance with the requirements of Rule 206(4)-6 under the Advisers Act. EDCM's Managing Member reviews each proxy solicitation on a case-by-case basis in order to determine that any action taken is in the financial interest of EDCM's clients. Because the number of securities held long is relatively modest, and proxy matters usually pertain to routine corporate governance matters, EDCM does not retain the services of a proxy advisory firm.

EDCM presumes that proxy proposals that are 'routine', such as uncontested elections of directors or appointment of outside auditors, do not involve a material conflict of interest, while non-routine proxy proposals, such as any contested matter, merger or sale, or changes to articles of incorporation that materially affect the rights of shareholders do involve a material conflict of interest, unless EDCM determines that neither it nor its personnel have such a conflict. In the event EDCM believes a material conflict exists, EDCM intends to engage an independent third party to determine how to vote the proxy – EDCM has not done so in the past year.

The Funds delegate voting responsibility to EDCM, and thus do not instruct EDCM how to vote a particular solicitation.

Clients may obtain a copy of EDCM's proxy voting policies and procedures upon request by contacting Aleksandr Khaytin, EDCM's Chief Compliance Officer, at (212) 520-8311 or akhaytin@daniloffcapital.com, and may also obtain information from us about how EDCM voted any proxy.

#### **Item 18: Financial Information**

This item requires disclosure of any financial condition that is reasonably likely to impair EDCM's ability to meet contractual commitments to clients. Currently, there is no financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.