

FORM ADV PART 2A  
FIRM BROCHURE

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This brochure provides information about the qualifications and business practices of SAB Capital Management, L.P. If you have any questions about the contents of this brochure, please contact us by phone at 212-457-8010. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities regulatory authority.

Being a “registered investment adviser” with the SEC or describing SAB Capital Management, L.P. as being “registered” does not imply a certain level of skill or training.

Additional information about SAB Capital Management, L.P. is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

This is the annual amendment to the brochure (the “**Brochure**”) originally dated February 14, 2012. There are no material changes to be noted in response to this Item 2 and the Brochure should be reviewed in its entirety.

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## Item 4 – Advisory Business

SAB Capital Management, L.P. (“**SAB**” or “**we**”) is a Delaware limited partnership founded in August 1998 with its principal place of business in New York, New York. SAB Capital Management, L.L.C., a Delaware limited liability company, is the general partner of SAB. Scott A. Bommer is the principal owner of SAB Capital Management, L.L.C.

SAB currently provides discretionary investment advisory services to:

- (i) SAB Capital Partners, L.P., a Delaware limited partnership (“**SAB Partners**”);
- (ii) SAB Capital Partners II, L.P., a Delaware limited partnership (“**SAB Partners II**” and together with SAB Partners, the “**Domestic Funds**”);
- (iii) SAB Overseas Master Fund, L.P., a Cayman Island exempted limited partnership (“**Offshore Master Fund**”); and
- (iv) SAB Overseas Fund, Ltd., a Cayman Island exempted company (“**Offshore Fund**” and, together with the Overseas Master Fund, the “**Offshore Funds**”). The Offshore Fund is the sole feeder fund for the Offshore Master Fund and invests substantially all of its assets in the Offshore Master Fund.

Each of SAB Partners, SAB Partners II, the Offshore Master Fund and the Offshore Fund may be referred to individually in this Brochure as a “**Fund**” and together as the “**Funds**.” The terms for each Fund are disclosed in detail in the relevant Fund’s offering documents that are provided to prospective investors prior to investment. The Domestic Funds and the Offshore Fund are managed in accordance with the investment objectives, strategies and guidelines and the terms and conditions of investment, set out in their respective private placement memoranda, organizational, governing and other related documents (together, the “**Governing Documents**”). A prospective Fund Investor must consider whether a Fund is an appropriate investment, including with respect to such Fund Investor’s investment objectives and risk tolerance.

As the investment manager to the Funds, SAB makes all investment decisions on their behalf. Our primary responsibilities are to identify, review and select investment opportunities that can achieve the investment objectives of the Funds. SAB Capital Advisors, L.L.C., a Delaware limited liability company (the “**General Partner**”), serves as the general partner for each of the Domestic Funds and the Offshore Master Fund. SAB and the General Partner also provide certain administrative and management services to the Funds.

SAB treats each Fund as an “advisory client” or “client.” SAB neither tailors its advisory services to the individual needs of investors in the Funds (each, a “**Fund Investor**”) nor generally accepts Fund Investor-imposed investment restrictions with respect to the Funds. SAB may take into consideration the general characteristics of its target Fund Investors, but not necessarily the characteristics of any specific Fund Investor. An investment in a Fund does not, in and of itself, create a client-adviser relationship between any Fund Investor and SAB.

The primary investment objective of the Funds is to generate attractive long-term rates of return while minimizing the risk of permanent capital loss through purchasing long and selling short

publicly traded securities. The Funds have broad and flexible investment authority to invest in different economic sectors and geographical markets. In order to achieve the Funds' goals, SAB may pursue a broad array of investment strategies which it believes will minimize its risk of permanent capital loss and may increase or reduce its exposure and correlation to the U.S. public equity markets at any time based on the availability of attractive market opportunities. These strategies may include: long-term value investments, short sale positions, "paired" or "hedged" investment positions and event-driven strategies. In addition, the Funds may be invested in currencies, forward contracts, options and other derivative instruments, as well as a portion of its assets in investments which lack readily ascertainable market values (which allow for the Funds to capitalize on privately structured opportunities).

As of December 31, 2012 we managed approximately \$767.8 million of client assets on a discretionary basis. This amount was determined based upon the aggregate net asset value of the Funds as of such date (excluding the value of the investment of the Offshore Fund in the Offshore Master Fund).

## **Item 5 – Fees and Compensation**

### **Fees**

Pursuant to the Funds' Governing Documents, SAB is generally entitled to two types of fees from each Fund (i) an asset-based "management fee" and (ii) a performance-based "incentive allocation". The management fee is deducted directly from Fund accounts while the incentive allocation is a partnership reallocation from the limited partners of a Fund to the General Partner. The Offshore Fund generally pays for such fees and makes such allocations indirectly through its investment in the Offshore Master Fund.

#### *Asset-Based Fee*

Pursuant to the Funds' Governing Documents, SAB receives a management fee payable quarterly in advance from each Fund. The management fee will be pro-rated when SAB provides services for less than a full quarter.

The quarterly management fee is calculated at the rate of (i) 0.5% of each capital account (2% per annum) of each Fund Investor of Series A interests in each Fund; (ii) 0.375% of each capital account (1.5% per annum) of each Fund Investor of Series B or Series D interests in each Fund; and (iii) 0.25% of each capital account (1% per annum) of each Fund Investor of Series C interests in each Fund.

In consideration of the management fee, we provide to the Funds office space and utilities, administrative services and secretarial, clerical and other personnel, in addition to investment advisory services. The management fee may exceed or may be less than the expenses borne by SAB on behalf of the Funds.

### *Performance-Based Allocation*

Pursuant to the Funds' Governing Documents, the General Partner is entitled to receive from the Funds an annual incentive allocation generally at the end of each year in an amount equal to 20% of the increase in the value of each Fund Investor's investment, subject to high water mark provisions outlined in each Fund's Governing Documents. The incentive allocation generally will take the form of a reallocation to the General Partner at the end of each fiscal year or immediately prior to any withdrawal that occurs prior to the end of any fiscal year.

See Item 6 for discussion of potential conflicts of interest associated with the performance-based compensation received by an affiliate of SAB.

### *General*

The fees and allocations described above are our typical fee rates. However, each Fund has the right to enter into agreements with one or more of its Fund Investors providing waiver or modification of certain terms of the offering of Fund interests, or certain rights and obligations of Fund Investors, including fees, otherwise applicable to such interest(s), in each case without notice to the other Fund Investors.

**It is critical that Fund Investors refer to the relevant Fund's Governing Documents for a complete understanding of how SAB and the General Partner are compensated for their services and how fees are deducted from Fund assets. The information contained herein is a summary only and is qualified in its entirety by the relevant Fund's Governing Documents.**

### **Expenses**

Each Fund, and thus Fund Investors indirectly, will bear all expenses incidental to the Fund's operations and business. These expenses include, but are not limited to: (i) investment expenses (e.g., brokerage commissions, interest expense, consultant expenses and expenses in connection with proposed transactions, including transactions which fail to close); (ii) investment-related travel expenses; (iii) expenses related to legal, accounting, auditing and tax preparation; (iv) organizational expenses; (v) costs relating to the offer and sale of interests and other expenses related to the Funds; and (vi) the cost and expense of news, quotation, research and investment-related costs, including the cost of related computer software and equipment. A portion of these operating expenses may be shared with other investment entities or accounts we and our affiliates manage on an equitable basis.

A description of brokerage and other transaction costs that will be borne by the Funds, and thus indirectly by the Fund Investors, are described in more detail in Item 12 (Brokerage Practices) in this Brochure.

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

As described in Item 5 (Fees and Compensation) above, the General Partner receives compensation from the Funds in the form of a performance-based allocation. This performance-based allocation may create a potential conflict of interest in that it may create an incentive for SAB to make investments that are riskier or more speculative than would be the case in the absence of this compensation. In addition, while all of the Funds are subject to a performance-based allocation (including the Offshore Fund indirectly through its investment in the Offshore Master Fund), SAB may have an incentive to favor those Funds whose fees are higher. SAB recognizes that it is a fiduciary and as such must act in the best interest of the Funds and Fund Investors. Further, SAB recognizes that it must treat all Funds fairly and must refrain from favoring one Fund over another.

The management fee and the performance-based allocation both depend on the value of the Funds' investments. SAB and/or the General Partner may value investments of the Funds when SAB determines that market prices or quotations do not fairly represent the value of particular investments or when investments are not publicly traded. As a result, SAB and/or the General Partner may benefit by receiving a management fee or performance-based allocation that is increased by the impact, if any, of such valuation. Even where a security is accurately valued, at the time of its ultimate sale, the Fund may not realize the value upon which a performance-based allocation was charged due to subsequent market movements. Absent bad faith or manifest error, SAB's valuation determinations are conclusive and binding on all Fund Investors.

Additionally, where a Fund Investor purchases or withdraws or redeems interests or shares in a Fund at a net asset value that is impacted by a discrepancy in valuation, such Fund Investor may receive a greater or lesser interest in (or increased or decreased withdrawal or redemption proceeds from) such Fund than would have been the case absent the discrepancy. Similarly, existing and continuing Fund Investors may be subject to dilution or accretion. A portion of the assets in which the Funds invest may, at any time or from time to time, be illiquid, thinly traded or otherwise difficult to value. As a result, SAB has established valuation policies and procedures to mitigate the conflicts and potential for material pricing discrepancies in respect of Fund assets and to assure that assets are valued in good faith. Under these procedures, assets held by or on behalf of a Fund are valued as described in the relevant Fund's Governing Documents or, in the absence of specific and stated valuation procedures, at fair or market value.

SAB may establish one or more separately managed accounts or funds in the future that employ a similar trading strategy and which may have different fee arrangements than those of the Funds. Such accounts may create additional conflicts of interest for SAB.

## **Item 7 – Types of Clients**

We provide investment advisory services to the Funds, pooled investment vehicles operating as private investment funds. When deemed appropriate for a large or strategic investor, SAB may, in the future, establish a managed account for such investor.

Fund Investors include the following: pension and profit sharing plans; trusts, foundations, endowments, funds of hedge funds (whether organized as partnerships, corporations or other entity types), high net worth individuals and family offices.

The minimum initial investment for a Fund Investor is \$1,000,000. This minimum may be reduced or waived by the General Partner and/or board of directors of the Funds, subject to any applicable statutory minimums.

Fund interests are generally offered only to a limited number of individual and institutional investors that qualify as: (i) “accredited investors”, as defined in Rule 501 under Regulation D promulgated under the U.S. Securities Act of 1933; and (ii) “qualified purchasers” or “knowledgeable employees”, as defined in the U.S. Investment Company Act of 1940 and the rules promulgated thereunder. Fund Investors also need to meet additional requirements set forth in a Fund’s Governing Documents, including the subscription agreement.

This Brochure will be provided to current or prospective Fund Investors, together with the Fund’s Governing Documents, prior to or in connection with such consideration or execution of an investment in a Fund, and will subsequently be provided periodically to each Fund Investor. Fund Investors and other recipients should be aware that while this Brochure may include information about the Funds, as necessary or appropriate, it should not be considered to represent a complete discussion of the features, risks or conflicts associated with any Fund. More complete information about the Funds is included in the Governing Documents, which may be provided to current and eligible prospective Fund Investors only by SAB or another authorized party.

**In no event should this Brochure be considered to be an offer of interests or shares in a Fund or relied upon in determining whether to invest. It is also not an offer of, or agreement to provide, advisory services directly to any recipient.** Rather, this Brochure is designed solely to provide information about SAB for the purpose of compliance with certain obligations under the U.S. Investment Advisers Act of 1940, as amended (the “**Advisers Act**”) and, as such, responds to relevant regulatory requirements under the Advisers Act, which may differ from the information provided in the Governing Documents. **To the extent that there is any conflict between discussions herein and similar or related discussions in any of the Governing Documents, the Governing Documents shall control.**

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

Investing in securities involves the risk of loss that Fund Investors should be prepared to bear. Fund Investors could lose some or all of their investment.

### **Investment Objective**

Each Fund’s primary investment objective is to generate attractive long-term rates of return while minimizing the risk of permanent capital loss. SAB makes use of several different investment strategies in order to achieve this objective. Each Fund may pursue a broad array of

investment strategies intended to minimize its risk of permanent capital loss and may generally reduce its exposure and correlation to the U.S. public equity markets.

## **Investment Strategies**

Long-Term Value Investments. While we may purchase securities believed to be trading at discounts to their “intrinsic” values within a wide array of valuations and time horizons, we generally have a bias toward purchasing businesses at very attractive prices and quantitatively low multiples of current economic earnings or asset values. We define “intrinsic” value as the present value of the expected cash flows that will be available to the owners of a security over its lifetime discounted at a rate that appropriately reflects the risk and volatility of the cash flows. We generally make investments at price levels that get us comfortable holding onto such securities for long periods of time.

“Paired”/ “Hedged” Positions. We may establish “paired” or “hedged” investment positions through the combination of a long investment in a security and a short sale position in a specific security, basket of securities or index. We may pursue these investments in several circumstances including: (i) to hedge public market securities which a company owns (holding company structure) or a particular business unit of a company by selling short a comparable company, to create the remaining businesses at a discount to the sum of its parts; and (ii) to invest in a business believed to be mispriced relative to its peers and fits the investment strategy, but does not appear attractive on an absolute basis; We may also establish positions intended to hedge all or a portion of a portfolio, as market conditions warrant.

Short Sale Positions. We may establish stand-alone short sale positions in securities believed to be trading at a premium to their “intrinsic” values. We generally pursue stand-alone short sale opportunities that we find attractive including companies which under a reasonable set of circumstances appear unlikely to grow into their valuations, are earning seemingly unsustainably high returns on capital in commodity businesses (“at risk” companies), utilize significantly aggressive accounting practices, have large volumes of insider stock sales, or have deteriorating fundamentals or clear competitive threats.

Event-Driven Investments. We may pursue investments in situations tied to significant events. Examples of these events include: distressed situations, liquidations, spin-offs, and selective risk arbitrage situations. Notwithstanding the existence of an “event,” these investments will be evaluated with the same philosophy by which all investments are examined including a focus on “intrinsic” value and “margin of safety”.

## **Investment Philosophy**

In order to implement the Funds’ primary investment objective and strategies, we employ an investment philosophy encompassing five primary components: (i) applying a “private market” investment approach focused on identifying the “intrinsic” value of a business or security, (ii) employing a research intensive investment methodology, (iii) pursuing opportunities which we believe possess a “margin of safety” and a low probability of a permanent capital loss, (iv) making concentrated investments (subject to some limitations discussed herein) in situations which we believe have favorable risk/reward characteristics, and (v) focusing on situations in



which we believe we have a competitive insight through identifying investment attributes which are not widely recognized or are misread by the market. We currently intend to focus on situations which we believe are underfollowed, misperceived due to complexity or change, or experiencing market overreactions or other structural inefficiencies, and in which we believe there is a high probability of value creation or value realization over a reasonable period of time.

## **Investment Focus**

We believe that the following areas may afford attractive investment opportunities consistent with the Funds' primary investment objective and enables our research intensive investment methodology to yield a competitive advantage: (i) underfollowed securities where the lack of significant Wall Street research coverage and familiarity can often lead to mispricing of securities, (ii) complexity and change during industry or issuer-specific events, including spin-offs, restructurings and acquisitions, that often lead to mispricing as many analysts lack the time, inclination or capability to perform the intensive analysis necessary to evaluate these situations, and (iii) market overreaction and other structural inefficiencies whereby issuers experience irrational sentiment, liquidity and regulatory-driven events created by capital scarcity, overreaction to events and investment behavior which is based on factors other than a company's "intrinsic" value.

## **Risk Management**

We define "risk" in the investment context as the possibility of permanent capital loss as well as interim liquidity constraints. In executing the investment strategies for the Funds, we apply a variety of techniques which we believe may help reduce risk including: (i) value orientation, (ii) hedging, (iii) security analysis, (iv) diversification, and (v) investment review and monitoring.

## **Certain Risk Factors**

### ***General***

There can be no assurance that the investment objectives of the Funds will be achieved and investment results may vary substantially on a quarterly and annual basis. In fact, the practices of short selling, leverage and limited diversification can, in certain circumstances, substantially increase the adverse impact to which the Funds' investment portfolio may be subject.

There is high risk associated with an investment in the Funds and an investment in the Funds should only be made after consultation with independent qualified sources of investment and tax advice. Among the risks involved with an investment in the Funds are the following:

### ***Investment-Related Risks***

Possible Lack of Diversification. We may concentrate investments in particular industries, companies and/or geographic areas. If the Funds' portfolio becomes relatively concentrated, the value of an investment in the Funds may be subject to greater volatility and may be more susceptible to any single economic, political, or regulatory occurrence or the fortunes of a single company or industry than would be the case if the Fund's investments were more diversified.

Turnover. We will not be restricted in effecting transactions by any limitation with regard to portfolio turnover rate. In light of the investment objectives and policies, the Fund's portfolio turnover rate may be substantial, which would result in significant transaction costs.

Illiquid Investments. We may from time to time invest in restricted, as well as thinly-traded, instruments and securities (including privately placed securities and instruments). There may be no trading market for these securities and instruments, and we might only be able to liquidate these positions, if at all, at disadvantageous prices. As a result, the Funds may be required to hold such securities despite adverse price movements. In addition, if the Funds make a short sale of an illiquid security or instrument, they may have difficulty in covering the short sale, resulting in a potentially unlimited loss on that position. Our valuation of these positions may prove to be materially inaccurate and to have resulted in inflated management fees paid and incentive allocations, inflated redemption proceeds paid out to redeeming investors and diminished capital percentages accorded to new subscribers.

We will value the illiquid securities and instruments in the portfolio using reasonable discretion. There can be no assurance that these valuations will accurately predict the price at which an arm's-length buyer would be willing to purchase the securities or instruments.

Side-Pocket Investments. We may invest, from time to time, in investments which, we believe lack a readily ascertainable market value or which, in the sole discretion of the General Partner, should otherwise be held in separate accounts. Investments held in side-pocket accounts may require a significant amount of time from the date of initial investment until disposition. Sales of securities held as side-pocket investments may not be possible and, if possible, may be made at substantial discounts from cost. An investor redeeming an interest from a Fund will not receive any amount in respect of such investor's interest attributable to a side-pocket account until the related side-pocket investment is liquidated or distributed.

Directional Trading. Certain of the positions taken by the Funds are designed to profit from forecasting absolute price movements in a particular instrument. Predicting future prices is inherently uncertain and the losses incurred, if the market moves against a position, will often not be hedged. The speculative aspect of attempting to predict absolute price movements is generally perceived to exceed that involved in attempting to predict relative price fluctuations.

Hybrid and Other Strategies. Many of the strategies we execute combine elements of more than one of the strategy types described in the Brochure or the Governing Documents of a Fund. Often, in the course of implementing a particular strategy, an opportunistic trade representing a different trading approach will be made. For example, in seeking to exploit a relatively mispriced pair of assets, we may conclude that an asset is sufficiently over or under priced to merit taking an outright directional position.

Our approach combines a range of different trading techniques, implementing different strategies in different markets as well as combining different strategies, in the same or related markets.

Evolving and New Investment Strategies. Our strategies and trading techniques are continually evolving. We are not restricted from using the Fund's capital to develop new strategies consistent with the investment objective, even if we have limited experience in the type of

strategy or in the markets or instruments involved. The strategies developed by us may not be successful and the resources devoted to the implementation of new strategies may diminish the effectiveness of our implementation of our established strategies.

Investments in Undervalued Securities. We may make certain speculative investments in securities which we believe to be undervalued; however, there are no assurances that the securities purchased will in fact be undervalued. While investments in undervalued securities offer the opportunities for above-average capital appreciation, these investments can result in substantial losses.

Investments in Fixed Income Securities. We may invest in bonds or other fixed income securities, including, without limitation, commercial paper and “higher yielding” (and, therefore, higher risk) debt securities. It is likely that a major economic recession could disrupt severely the market for such debt securities and may have an adverse impact on the value of such debt securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such debt securities to repay principal and pay interest thereon and therefore increase the incidence of default for such debt securities. In addition, the Funds may be required to hold such debt securities for a substantial period of time before realizing their anticipated value. During this period, a portion of the Fund’s assets would be committed to the debt securities purchased, thus possibly preventing the Funds from investing in other opportunities. Returns generated from the Fund’s investments may not adequately compensate for the risks assumed.

Troubled Company Investments. We may invest in securities and private claims and obligations of entities which are experiencing significant financial or business difficulties, some of which may not be publicly traded and may involve a substantial degree of risk. In certain periods, there may be little or no liquidity in markets for securities of troubled entities. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such entities. Troubled company investments also may be adversely affected by state and Federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court’s discretionary power to disallow, subordinate or disenfranchise particular claims. In addition, the public market prices of distressed securities and private claims and obligations may be subject to abrupt and erratic market movements and above-average price volatility, and the spread between the bid and asked prices of such securities may be greater than normally expected for other securities.

Troubled company investments require active monitoring and may, at times, require participation in business strategy or reorganization proceedings by SAB. To the extent that we become involved in such proceedings, the Funds may have a more active participation in the affairs of the issuer than that assumed generally by an investor. In addition, involvement by SAB in an issuer’s reorganization proceeding could result in the imposition of restrictions limiting the Funds’ ability to liquidate its position in the issuer for a significant period.

Micro, Small and Mid Capitalization Companies. We may invest a portion of a Funds’ assets in companies in the micro-, small- and mid-cap areas. While we believe they often provide significant potential for appreciation, those stocks, particularly micro- and small-cap stocks, involve higher risks in some respects than do investments in stocks of larger companies. For

example, prices of micro- and small-cap and even mid-cap stocks are often more volatile than prices of large-capitalization stocks and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) is higher than for larger, “blue-chip” companies. In addition, due to thin trading in some small-capitalization stocks, an investment in those stocks may be illiquid.

Derivatives. We will use derivative instruments, including, without limitation, warrants, options, swaps, notional principal contracts, forward contracts, futures contracts and options thereon, and may use derivative techniques for hedging and for other trading purposes. The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage often embedded in such instruments and the possibility of counterparty non-performance as well as material and prolonged deviations between the actual and the theoretical value of a derivative (*i.e.*, due to nonconformance to anticipated or historical correlation patterns). In addition, the markets for certain derivatives are frequently characterized by limited liquidity, which can make it difficult as well as costly to the Funds to close out positions in order either to realize gains or to limit losses.

Some of the derivatives that we may trade are principal-to-principal or “over-the-counter” contracts between the Funds and third parties entered into privately, rather than on an exchange. As a result, the Funds will not be afforded the regulatory and financial protections of an exchange or its clearinghouse (or of the government regulator that oversees such exchange and clearinghouse). In privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices.

Many derivatives are valued on the basis of dealers’ pricing of these instruments. However, the price at which dealers value a particular derivative and the price which the same dealers would actually be willing to pay for such derivative should we wish or be forced to sell such position may be materially different. Such differences can result in an overstatement of the the Funds’ net asset value and may materially adversely affect the Funds in situations in which the Funds are required to sell derivative instruments.

Use of Leverage. We may, in our sole discretion, leverage investment positions by borrowing funds from securities broker-dealers, banks or others. From time to time, the Funds may borrow significant amounts to take advantage of perceived opportunities, such as short-term price disparities between markets or related securities. Such leverage increases both the possibilities for profit and the risk of loss. Borrowings will typically be secured by the Funds’ securities and other assets. Under certain circumstances, such a lender may demand an increase in the collateral that secures the Funds’ obligations and if the Funds were unable to provide additional collateral, the lender could liquidate assets held in the account to satisfy the Funds’ obligations. Liquidation of any such assets could have extremely adverse consequences for the Funds. In addition, the amount of the Funds’ borrowings and the interest rates on those borrowings, which will fluctuate, may have a significant effect on the Funds’ profitability.

Use of Options. We may buy or sell (write) both call options and put options, and when we write options we may do so on a “covered” or an “uncovered” basis. A call option is “covered” when the writer owns securities of the class and amount of those as to which the call option

applies. A put option is covered when the writer has an open short position in securities of the relevant class and amount. The Funds' options transactions may be part of a hedging tactic (*i.e.*, offsetting the risk involved in another securities position) or a form of leverage, in which the Funds have the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be large, depending on the circumstances. In general, the principal risks involved in options trading are described in the following paragraphs, without taking into account other positions or transactions the Funds may enter into.

When the Funds buy an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the security in the case of a put, could result in a total loss of the Funds' investment in the option (including commissions). The Funds could mitigate those losses by selling short the securities as to which it holds call options or taking a long position on securities underlying put options.

When the Funds sell (write) an option, the risk can be substantially greater than when they buy an option. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. The risk is theoretically unlimited unless the option is "covered". If it is covered, an increase in the market price of the security above the exercise price would cause the Funds to lose the opportunity for gain on the underlying security (assuming the Funds bought the security for less than the exercise price). If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction costs) would provide profit that would reduce or offset any loss the Funds might suffer as a result of owning the security.

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

Forward Trading. We may invest in forward contracts and options thereon, which, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market traded by the Funds due to unusually high or low trading volume, political intervention or other factors. The imposition of controls by government

authorities might also limit such forward (and futures) trading to less than that which we would otherwise recommend, to the possible detriment of the Funds. Market illiquidity or disruption could result in major losses to the Funds.

Short Selling. The Funds' investment portfolio may include short positions. Short selling involves selling securities which may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in the price of a particular security. 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 Funds of buying those securities to cover the short position. There can be no assurance that the security necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Hedging Transactions. We may utilize a variety of financial instruments, such as derivatives, options, interest rate swaps, caps and floors, and forward contracts, both for investment purposes and for risk management purposes. While the Funds may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Funds than if we had not engaged in any such hedging transaction. Moreover, it should be noted that the portfolio will always be exposed to certain risks that cannot be hedged, such as credit risk (relating both to particular securities and counterparties).

Non-U.S. Investments. We may invest in securities of non-U.S. corporations and in countries other than the United States and in securities of non-U.S. governments. Investing in the securities of non-U.S. companies or governments involves certain considerations not usually associated with investing in securities of U.S. companies or of U.S. governments, including political and economic considerations, such as greater risks of expropriation and nationalization, the potential difficulty of repatriating funds and general social, political and economic instability; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the Funds' investment opportunities. In addition, accounting and financial reporting standards that prevail in countries other than the United States generally are not equivalent to U.S. standards and, consequently, less information may be available to investors in companies located in countries other than the United States than is available to investors in companies located in the United States. There is also less regulation, generally, of the securities markets in countries other than the United States than there is in the United States.

Exchange-Rate Risk. We may invest a portion of the Funds' assets in instruments denominated in currencies other than the U.S. dollar, the price of which is determined with reference to currencies other than the U.S. dollar. The Funds will, however, value its securities and other assets in U.S. dollars. To the extent unhedged, the value of the Funds' assets will fluctuate with U.S. dollar exchange rates as well as the price changes of the Funds' investments 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 the Funds make its investments will reduce the effect of increases and magnify the effect of decreases in the prices of the Funds' securities in their local markets.

Conversely, a decrease in the value of the U.S. dollar will have the opposite effect on the Funds' non-U.S. dollar securities. The Funds also may utilize options and forward contracts to hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be effective.

Among the factors that may affect currency values are direct government intervention (often intended specifically to change currency values), trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. The Funds may seek to hedge these risks by investing directly in non-U.S. currencies and buying and selling options, futures or forward contracts thereon. There can, however, be no assurance that these strategies, if implemented, will be effective.

Futures Contracts. We may utilize futures as part of our investment program. Futures positions may be illiquid because certain commodity 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 the Funds from promptly liquidating unfavorable positions and subject the Fund to substantial losses.

Counterparty Risk. Many of the markets in which the Funds may effect its transactions are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange based" markets. This exposes the Funds to the risk that a counterparty will not settle a transaction in accordance with or because of a credit or liquidity problem, thus causing the Funds to suffer a loss. In addition, in the case of a default, the Funds could become subject to adverse market movements while replacement transactions are executed. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Funds have concentrated transactions with a single or small group of counterparties. The Funds are not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Moreover, the Funds have no internal credit function which evaluates the creditworthiness of its counterparties. The ability of the Funds to transact business with any one or 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.

Notwithstanding the foregoing, markets in which the Funds may effect transactions (*e.g.*, credit default risk swaps) may include OTC or "interdealer" markets, and may also include unregulated private markets. The participants in such markets are typically not subject to the same level of credit evaluation and regulatory oversight as are members of the exchange-based markets. This exposes the Funds to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Funds to suffer a loss. Such

counterparty risk is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Funds have concentrated transactions with a single or small group of counterparties. The Funds are not restricted from dealing with any particular counterparty or from concentrating any or all transactions with one counterparty. The ability of the Funds to transact business with any one or number of counterparties, the lack of any meaningful or 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.

## **Other Risks**

General Economic and Financial Conditions. The success of any investment activity is influenced by general economic and financial conditions that may affect the level and volatility of equity prices, interest rates, and the extent and timing of investor participation in the markets for both equity and interest-rate-sensitive securities. Unexpected volatility, illiquidity, governmental action, currency devaluation, or other events in global markets in which the Funds directly or indirectly hold positions could impair the Funds' ability to carry out its business and could cause the Funds to incur substantial losses.

Market Disruption Risk. Geopolitical instability and terrorism expose the Funds to potential risks of market closures or disruptions, periods of illiquidity, periods of price volatility, government interventions in the currency markets and communications disruptions.

**The Funds have broad and flexible investment authority. SAB may have other investment strategies or methods of analysis, or engage in other activities, than those described herein. The foregoing list of risk factors is not an exhaustive explanation of the risks involved in an investment in a Fund. It is critical that investors refer to the relevant Fund's Governing Documents for a more complete understanding of that Fund's investment objectives and strategies. The information contained in this Item 8 is a summary only and is qualified in its entirety by the relevant Fund's Governing Documents.**

**An investment in the Funds may be deemed speculative and is not intended as a complete investment program. There can be no assurance that the investment objective of a Fund will be achieved. The Funds are designed only for experienced and sophisticated persons who are able to bear the risk of substantial impairment or total loss of their investment in the Funds.**

## **Item 9 – Disciplinary Information**

SAB and its employees have not been involved in any disciplinary events that require disclosure in response to this Item 9.



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

As disclosed in Item 4, SAB acts as the investment manager to the Funds. The General Partner, an affiliate of SAB, acts as the general partner of each of the Domestic Funds and of the Offshore Master Fund. Because the General Partner and SAB are affiliates, there is a disincentive for the General Partner to replace SAB as investment manager to the Funds.

SAB and its management persons have no other relationships or arrangements with any related persons that are material to SAB's advisory business or the Funds.

## **Item 11 – Code of Ethics**

SAB maintains a Code of Ethics as required by Rule 204A-1. The Code of Ethics is designed to ensure that no Fund is disadvantaged in any respect by the transactions executed by any SAB employee and that SAB employees in no respect misappropriate any benefit properly belonging to any Fund. The Code of Ethics highlights our policies on the following topics:

- Fiduciary responsibility of SAB
- The responsibility of each employee to report violations to the Chief Compliance Officer
- Insider Trading
- Personal Investment and Trading
- Gifts and Entertainment
- Political Contributions and "Pay to Play"

All employees are required to provide written acknowledgement to the Chief Compliance Officer of receipt and review of the materials contained in the Code of Ethics. The Code of Ethics makes clear that SAB values a culture of honesty, integrity and professionalism and lays out the policies and procedures all SAB employees are expected to follow. All personnel of SAB are required to certify their compliance with the Code of Ethics. Personnel who fail to observe the Code of Ethics and related compliance policies risk serious sanctions, including dismissal and personal liability.

Under the Code of Ethics, SAB, its employees, affiliates or their related persons may buy, sell or otherwise invest in securities for their own accounts that they also recommend to Funds (however, pursuant to the Code of Ethics, such trades require pre-approval of the Chief Compliance Officer). In an effort to minimize our potential conflicts of interest, SAB generally does not approve any "opening" transactions in any single name equities or fixed income products. Each such related person transaction is separately identified and made strictly in accordance with the Code of Ethics. In order to manage this conflict of interest, the Code of Ethics requires related persons of SAB to obtain prior written approval from the Chief Compliance Officer before engaging in all reportable security transactions in their personal accounts. Such transactions will be reviewed in the best interests of the Funds and will be denied by the Chief Compliance Officer if there is risk of potential adverse consequences to the Funds.

The Code of Ethics requires political contributions to government officials by SAB personnel to be reported to the Chief Compliance Officer. This policy is designed to curtail the influence of “pay-to-play” based on political contributions to government officials who influence or control how government funds, such as state pension plans, invest. The Code of Ethics also requires notice and approval for gifts and entertainment that SAB personnel receive from third-parties with which SAB or the Funds conduct business. All gifts or entertainment above a de minimis amount must be reported to and approved by the Chief Compliance Officer.

SAB serves as the investment manager to the Funds. SAB, its employees, affiliates or their related persons may also invest directly in any one, some or all of the Funds. The fact that SAB, its employees, affiliates or their related persons have a financial ownership interest in the Funds creates a potential conflict in that it could cause SAB to make different investment decisions than if they did not have such a financial ownership interest. Further, SAB or its affiliates charge the Funds fees based on a percentage of assets under management and receive allocations based on performance. The management fee is payable without regard to the overall success or income earned by the Funds and therefore may create an incentive on the part of SAB to raise or otherwise increase assets under management to a higher level than would be the case if SAB were receiving a lower or no management fee. The receipt of performance-based allocations by SAB or its affiliates may create an incentive for SAB to make investments for the Funds that are riskier or more speculative than it otherwise would.

Furthermore, SAB and its affiliates are not restricted from forming additional investment funds, from entering into other investment advisory relationships, or from engaging in other business activities, even though such activities may be in competition with the existing Funds and/or may involve substantial time and resources of SAB. These activities could be viewed as creating a conflict of interest in that the time and effort of the members of SAB and its affiliates are not devoted exclusively to the business of the existing advisory clients (i.e., the Funds), but are allocated between the business of the existing advisory clients and the management of the monies of future funds and accounts managed by SAB. SAB uses its best judgment to be fair and equitable to all advisory clients to minimize this conflict of interest.

Fund Investors and prospective Fund Investors may request a full copy of our Code of Ethics by contacting the Chief Compliance Officer.

## **Item 12 – Brokerage Practices**

### **Selecting Brokers**

SAB seeks to achieve best execution from the broker-dealers we use to execute transactions on behalf of our clients, including the Funds. All brokerage commissions and related transaction costs are borne directly by the Domestic Funds and the Offshore Master Fund, and indirectly by the Offshore Fund and by Fund Investors. Brokerage transactions for the Funds are executed by brokers and dealers generally selected on the basis of best execution.

In selecting broker-dealers and negotiating commission rates, SAB considers a variety of factors, including, without limitation, reliability, financial responsibility, commitment of capital, strength of the broker, the ability of the broker to efficiently execute transactions; and the broker's provision or payment of the cost of brokerage, research and other investment management-related products, services or property which are of benefit to SAB and accounts managed by SAB or its affiliates.

SAB maintains a list of approved brokers. The Chief Compliance Officer approves the addition of each broker to the approved broker list. SAB also maintains a commission run that is updated and reviewed no less than monthly by the trader and the Chief Financial Officer to ensure SAB's distribution of commission revenues to broker-dealers is consistent with our view of the quality of overall service proved by each broker-dealer.

The selection of a broker-dealer and trading venue for a particular trade is generally based on the type of security, size of position, market liquidity and need for anonymity. For example, for a small position in a large-cap company, trades will generally be routed to an ECN at the lowest commission. Trades involving larger blocks in small-cap companies require a more skillful and experienced broker-dealer and it is appropriate to pay a higher commission.

SAB may also receive Fund Investor referrals from the Funds' prime brokers. This could create a potential conflict of interest in that SAB may have an incentive to select a broker based on its interest in receiving referrals of potential Fund Investors rather than on the Funds' interest in receiving most favorable execution. However, SAB's broker-dealer selection policy generally prohibits SAB from including Fund Investor referrals as a factor in the selection of brokers.

The Funds may pay a broker a commission in excess of that which another broker might have charged for effecting the same transaction in recognition of the value of the brokerage, research and related services provided by the broker.

SAB does not permit Fund Investors to direct brokerage.

## **Soft Dollars**

SAB may enter into soft dollar arrangements with brokers only for services that fall within the "safe harbor" provided by Section 28(e) of the U.S. Securities Exchange Act of 1934. Any soft dollar arrangements must be reviewed and approved by the Chief Compliance Officer in advance.

In our last fiscal year, the services for which we used soft dollars include: reports or other information about particular companies or industries; economic surveys and analyses; recommendations as to specific securities; financial publications; and data feeds.

SAB will not obligate itself pursuant to a binding agreement to generate a certain minimum level of commission revenue for a broker-dealer in return for soft dollar services.

SAB's use of soft dollars may represent a conflict of interest in that the receipt of eligible research and brokerage in exchange for soft dollars allows SAB, at no cost to it, to supplement its own activities, to receive the views and information of individuals and research staffs of other

securities firms, and to gain access to persons having special expertise on certain companies, industries, areas of the economy and market factors. Moreover, SAB's use of soft dollars to acquire mixed use items may represent a conflict of interest in that SAB has discretion to allocate costs for such items among soft dollars and its own cash and an incentive to allocate those costs in such a manner as to minimize the amount of out-of-pocket expenses incurred.

Benefits obtained with soft dollars will not always be utilized by SAB for the specific account that generated the soft dollars. Commissions paid by one account that generated soft dollars may, in effect, subsidize services that benefit another account advised by SAB or its affiliates.

### **Aggregation of Trades**

The majority of the trades executed on behalf of the Funds are aggregated and allocated on a pro rata basis among each of the Domestic Funds and the Offshore Master Fund. In all cases in which a materially non-pro rata allocation is made, SAB should be able to demonstrate the general criteria on the basis of which such allocation was made. The general criteria may include tax considerations, portfolio concentration considerations, regulatory considerations or other criteria.

## **Item 13 – Review of Accounts**

All accounts are managed and reviewed on an ongoing basis, typically daily, with particular attention given to the positioning of the Funds, the reported performance, daily trading activity and general exposure to the markets. In addition to review by Scott Bommer, SAB's Founder and Chief Executive Officer, the accounts are also reviewed by the Funds' head trader, the Chief Financial Officer and/or their delegates periodically, typically on a daily basis to the extent possible. The underlying positions in individual companies and/or broad market indices are monitored on an ongoing basis by members of SAB's investment team in addition to Scott Bommer.

The Chief Compliance Officer periodically reviews the Funds' investments to ensure consistency with applicable law and regulations and with stated investment guidelines and objectives.

Each Fund Investor is provided with audited financial statements of such Fund within 120 days after the end of each fiscal year. Each Fund Investor also receives a written report on the Fund Investor's investment and certain tax reporting information, such as Schedule K-1s, as applicable. On a monthly basis, each Fund Investor receives unaudited written reports on their investment balance and the return of the Fund for that calendar month as well as year-to-date performance through the most recent completed month.

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

SAB does not currently pay direct or indirect cash or other compensation to any person, including any employee of SAB or any affiliate of SAB, for soliciting potential Fund Investors for any Fund, or referring potential Fund Investors to any Fund.

SAB reserves the right to enter into written arrangements with third parties to act as solicitors or placement agents for SAB's investment advisory business, including the sale of Fund interests or shares. Compensation for such solicitors and placement agents may be payable out of the fees and allocations payable or made to SAB and its affiliates, and generally will not increase the fees and allocations payable by Fund Investors. Because of such compensation, solicitors and placement agents have a substantial financial interest in selling interests and shares in the Funds to its clients and others. All such compensation would be fully disclosed to each affected Fund Investor consistent with applicable law.

SAB may also receive Fund Investor referrals from the Funds' prime brokers. SAB's broker-dealer selection policy generally prohibits SAB from including Fund Investor referrals as a factor in the selection of brokers. See Item 12.

## **Item 15 – Custody**

SAB or its affiliates are deemed to have "custody" of the assets of the Funds within the meaning of Rule 206(4)-2 under the Advisers Act because the General Partner serves as general partner.

All Fund assets are generally held by a qualified custodian and segregated in separate accounts by Fund.

To comply with Rule 206(4)-2, the Chief Compliance Officer will ensure that each Fund is audited annually by an independent accounting firm that is registered with and subject to review by the Public Company Accounting Oversight Board, in accordance with U.S. Generally Accepted Accounting Principles, and that the results of the annual audits are distributed to each Fund Investor within 120 days of the Fund's fiscal year end. Fund Investors should carefully review the audited financial statements of the Funds upon receipt. If a Fund Investor has invested in a Fund and has not received such financial statements in a timely manner, such Fund Investor should contact SAB immediately.

## **Item 16 – Investment Discretion**

We and our affiliates have full discretionary authority with respect to the investment decisions on behalf of the Funds pursuant to the investment advisory agreements with the Funds. Investment decisions for the Funds are made in accordance with the Funds' investment objectives and guidelines as set forth in the Funds' Governing Documents. No prospective Fund Investor should invest in a Fund unless such Fund Investor is willing to entrust all aspects of the management of the Fund's investments to SAB.

As explained in Item 4 above and pursuant to the Governing Documents, Fund Investors generally do not have any ability to impose limitations on SAB's discretionary authority.

Prospective Fund Investors are provided with an offering memorandum prior to their investment and are encouraged to carefully review the offering memorandum, along with all other relevant

Governing Documents, and to be sure that the proposed investment is consistent with their investment goals and tolerance for risk. Prospective Fund Investors must also execute a subscription agreement, which constitutes a legal, valid and binding obligation of the Fund Investor, enforceable in accordance with its terms, and, in the case of the Domestic Funds only, a limited partnership agreement.

## **Item 17 – Voting Client Securities (i.e., Proxy Voting)**

SAB has adopted written Proxy Voting Policies and Procedures as required by Rule 206(4)-6, governing conflict of interest resolution, disclosure, reporting and recordkeeping relating to voting proxies. The Proxy Procedures are intended to facilitate compliance with the Proxy Voting Rule and other applicable fiduciary obligations under rules and regulations of the SEC and interpretations of its staff.

SAB considers proxy voting an important responsibility on behalf of the clients for which SAB has discretionary voting authority, and seeks to vote proxies of securities held in such clients' accounts for which it has such authority in the best economic interest of that client.

To the extent that SAB receives such proxies, SAB is guided by general fiduciary principles. SAB need not vote all proxies held by the Funds. However, if SAB does vote, SAB shall cast ballots in a manner it believes to be consistent with the interests of the Funds and Fund Investors and shall not subordinate Fund interests to its own.

SAB votes proxies in the manner that it believes is consistent with efforts to achieve a Fund's stated objectives, including maximizing the value of the Fund's portfolio. SAB follows procedures that are designed to identify conflicts or potential conflicts that could arise between its own interests and those of the Funds. If it is determined that any such conflict or potential conflict is not material, SAB may vote proxies notwithstanding the conflict. If it is determined, however, that a conflict of interest or potential conflict of interest is material, the Chief Compliance Officer will work with appropriate personnel to agree upon a method to resolve such conflict before voting proxies affected by the conflict.

Fund Investors are not permitted to direct how proxies will be voted in a particular situation.

To receive a record of proxy votes of the Funds or for more information related to the voting policies and procedures, including requesting a copy of our Proxy Voting Policies and Procedures, please contact the Chief Compliance Officer.

## **Item 18 – Financial Information**

We do not require or solicit prepayment of fees six months or more in advance.

We are not aware of any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.

We have not been the subject of a bankruptcy petition at any time during the past ten years.