

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

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This brochure (the “Brochure”) provides information about the qualifications and business practices of Three Bays Capital LP (“Three Bays Capital”). If you have any questions about the contents of this Brochure, please contact us at (617) 954-1400 or info@threebayscapital.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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

Being a "registered investment adviser" or describing Three Bays Capital as being "registered" does not imply a certain level of skill or training.

THIS BROCHURE DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITY.

November 8, 2013

Item 2: Material Changes

This brochure (“Brochure”) contains information about Three Bays Capital upon its initial registration as an investment adviser with the SEC. There have been no material changes since its adoption.

In the future, this Item will identify and discuss the material changes since the last annual update to assist investors and make them aware of certain information that has changed since the prior year’s Brochure and that may be important to them.

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Item 4: Advisory Business

Three Bays Capital was founded in April 2013 and is organized as a limited partnership under the laws of the State of Delaware. Matthew Sidman, Managing Partner, is the principal owner of Three Bays Capital. The investment activities of Three Bays Capital are led by Mr. Sidman, as Chief Investment Officer. A number of other investment professionals work with Mr. Sidman to execute Three Bays Capital’s investment strategy. TBC GP LLC serves as the general partner of Three Bays Capital and is also principally owned by Mr. Sidman.

Three Bays Capital serves as the investment manager and provides discretionary advisory services to three private funds (a Delaware limited partnership, a Cayman Islands exempted company and a Cayman Islands exempted limited partnership) that are organized as a master-

feeder structure (the “Fund” or collectively the “Funds”). Investing generally will be done at the master fund (the “Master Fund”). Mr. Sidman serves as the managing member of the general partner and as a director of the Funds, as applicable.

Three Bays Capital may, in the future, organize additional investment vehicles that follow an investment strategy similar to or different from the investment program of the Funds.

The investment objective of the Funds is to seek long-term capital appreciation with low market correlation primarily through a combination of long investment positions and short selling, while also attempting to preserve capital and mitigate risk through hedging activities. In providing services to the Funds, among other things, Three Bays Capital: (i) manages the Funds’ assets in accordance with the terms of the applicable Fund’s confidential offering and/or private placement memoranda, individual limited partnership or shareholder agreements and other governing documents applicable to each Fund (collectively the “Governing Documents”); (ii) formulates investment objectives; (iii) directs and manages the investment and reinvestment of the Funds’ assets; and (iv) provides periodic reports to investors. Three Bays Capital provides investment advice directly to the Funds and not individually to a Fund’s limited partners or investors. Investment restrictions for the Funds, if any, are generally established in the applicable Fund’s Governing Documents.

At the time of its initial ADV filing, Three Bays Capital did not have any assets under management. However, Three Bays Capital has registered with the SEC in reliance on Rule 203A-2(c) because it has a reasonable expectation to be eligible for SEC registration within 120 days from the date its registration became effective.

Item 5: Fees and Compensation

Three Bays Capital deducts its management fees (“Management Fee”) generally from the Master Fund quarterly in advance. Three Bays Capital’s affiliate, TBC Partners GP LLC (“TBC GP”), a Delaware limited liability company and general partner to certain of the Funds, receives performance-based allocations (“Performance Allocation”) generally from the Master Fund on an annual basis in arrears and upon redemptions by investors in the Funds, subject to a standard “highwater mark”. For a further discussion of the Performance Allocation and the “highwater mark”, please see Item 6.

The Management Fee and Performance Allocations will be waived for investments by Three Bays Capital and its affiliates, their partners, members, employees, and any family member or any related party thereof (collectively, “TBC Parties”) and may be altered for other investors to address compliance with any law, regulation or contract applicable to such investor or, to address a tax, ERISA, legal or regulatory issue applicable to such investor or sovereign status of such investor.

In addition to the Management Fee and the Performance Allocation, each Fund will pay costs and expenses related to its investments and its operations, including, without limitation, brokerage and other transaction costs, data fees, clearing and settlement charges, trade break fees, research and brokerage products and services (including Bloomberg, risk management services and order management systems) that fall within Section 28(e) of the Exchange Act (soft dollar safe harbor), legal fees and other expenses in connection with conducting due diligence and negotiating the terms of investments, regardless of whether such investments are consummated, custodial fees, administrator fees and expenses, third party valuation services, initial and variation margin, interest and commitment fees on debit balances or borrowings, stock borrowing fees and proxy solicitation expenses, legal expenses, audit and tax preparation expenses, accounting fees, insurance expenses including costs of any liability insurance obtained on behalf of the fund or officers' and directors' insurance, indemnification expenses, the management fee, government and regulatory costs and expenses (including filing and license fees and preparation and submission of filings and licenses) in connection with specific investments or offering interests in the Fund, any issue or transfer taxes chargeable in connection with any securities transactions, any entity level taxes and fees, costs of reporting and providing information to investors (including updates to offering documents), and costs of litigation or investigation involving fund activities, and any extraordinary expenses. Expenses are generally shared by all of investors, while expenses related to one or more particular series or classes of investments will be allocated accordingly. Each Fund will also be responsible for its pro rata portion of the Master Fund's costs and expenses. Expenses of more than one Fund will be shared on an equitable basis among such Funds.

For more information regarding Three Bays Capital's brokerage practices and brokerage expenses discussed herein, please see Item 12.

The terms of the Funds may be altered for investors to address compliance with any law, regulation or contract applicable to such investor or, to address a tax, ERISA, legal or regulatory issue applicable to such investor or sovereign status of such investor.

Three Bays Capital and its supervised persons do not accept any compensation (e.g., brokerage commissions) for the sale of securities or other investment products, including interests in the Funds.

Item 6: Performance Based Fees and Side-by-Side Management

TBC GP is entitled to receive from the Master Fund the Performance Allocation generally at the end of each calendar year. The Performance Allocation is an amount equal to a percentage (as set forth in the Governing Documents) of the net increase of each investor's capital account or share holdings, as applicable (that is, a share of capital gains on, income derived from, or appreciation of the investment (whether realized or unrealized)) in the applicable Fund, measured at the beginning of such calendar year and subject to a high-water mark.

In general, a "high-water mark" means that TBC GP will receive Performance Allocations on an investor's aggregate investment in a Fund only when the value of the investment, at the time of determination, is higher than the investment's highest value as of the date of the most immediately preceding determination of whether a Performance Allocation is payable. Should the investment decrease in value (that is, due to capital losses or depreciation of the investment (whether realized or unrealized)), the investment must increase in value back above the previous highest value before TBC GP will receive Performance Allocations again.

If an investor withdraws capital from a Fund, the amount of such investor's highwater mark, if any, will be reduced in proportion to the amount of capital withdrawn.

Three Bays Capital and/or TBC GP will waive the Performance Allocation with respect to any investments by TBC Parties.

The Performance Allocation may create an incentive for Three Bays Capital to make more speculative investments than would otherwise be made or make decisions regarding the timing and manner of realization of investments differently than if such allocations were not received.

Item 7: Types of Clients

Investors in the Funds may include, but are not limited to, high net worth individuals, family offices, fund of hedge funds, endowments, foundations, trusts, charitable organizations, pension plans, and corporate or business entities.

Details concerning applicable investor suitability criteria are set forth in the respective Fund's Governing Documents. The minimum commitment for an investor is outlined in the respective Fund's Governing Documents, including the discretion of Three Bays Capital and its affiliates to accept less than the minimum investment threshold. Each investor is required to meet certain suitability qualifications, such as being a "qualified purchaser" as defined in Section 2(a)(51) of the Investment Company Act, as amended.

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

Three Bays Capital is an investment manager focusing on long term opportunistic value investing generally in North America and Europe. The investment objective of the Funds is to seek long-term capital appreciation with low market correlation primarily through a combination of long investment positions and short selling, while also attempting to preserve capital and mitigate risk through hedging activities. The Funds seek to achieve its investment objective by investing in a relatively concentrated portfolio comprised primarily of long and short positions in marketable equity securities (including common stocks, preferred stocks, stock warrants and rights), as well as a variety of other instruments in both the U.S. and non-U.S. markets, including, but not limited to, bonds, debentures, convertible securities, bank debt, senior secured floating-rate loans (in particular, leveraged loans), second-lien loans, fixed-rate obligations, trade

credits and other debt obligations (both publicly traded and privately issued obligations) and instruments, including high yield bonds, bridge loans and debt obligations of stressed, distressed and bankrupt issuers, as well as credit derivatives, options, futures, currency and forward agreements, contracts on commodities or commodity indices and swap agreements. The Funds expect to hold a relatively concentrated portfolio. Because of the possibility of unlimited loss when taking short positions, Three Bays Capital gives careful consideration to the risk of loss should the short investment thesis prove incorrect. The Funds may invest in (and short) companies of any market capitalization. The Funds intend to invest globally, but with a focus on North America and Europe.

Three Bays Capital expects to utilize leverage depending on the conviction it has in its individual investment ideas and may be in the form of trading on margin, investing in derivative instruments that are inherently leveraged, and entering into other forms of direct or indirect borrowings. The Funds' overall portfolio construction will be generated by a bottom-up process in which the relative attractiveness of individual securities will dictate their inclusion and weighting in the portfolio. In assessing and managing the Funds' investments, Three Bays Capital may avail itself of a number of information and research sources from third parties, including, without limitation, commercially available research reports, specially commissioned reports, meetings with industry analysts and company representatives, and internally-generated models and other quantitative and qualitative research opportunities for the investment selection process.

It is impossible to predict the degree of profitability, if any, that may be achieved from the investment strategy described above. In particular, Three Bays Capital's investment practices may, in some circumstances, increase any adverse impact to which one or more Fund's investment portfolio may be subject. Three Bays Capital endeavors to commit each Fund's resources among the various investments and strategies consistent with the philosophy and process articulated above and in response to changing market conditions and opportunities. The foregoing discussion includes and is based upon assumptions and opinions of Three Bays Capital concerning world financial markets and other matters, the accuracy of which cannot be assured. The description set forth above is general and is not intended to be exhaustive. The risks of each Fund's business are substantial and each Fund could realize losses rather than gains from some or all of the investments described herein. Investing in securities involves a risk of loss that clients should be prepared to bear.

Material Risks

The following is an explanation of the material risks that Three Bays Capital believes are associated with its investment strategy. Unless stated otherwise, each risk applies to all of the Funds. Further discussion of these and other risks associated with an investment in each Fund are set forth in the applicable Fund's Governing Documents. The following risk factors do not purport to be a complete list or explanation of all the risks associated with an investment in one or more of the Funds.

Investment and Trading Risks. An investment in a Fund involves a high degree of risk, including the risk that the entire amount invested may be lost. No guarantee or representation is made that such Fund's investment program will be successful. Three Bays Capital will be investing substantially all of the Funds' assets in securities, some of which may be particularly sensitive to economic, market, industry and other variable conditions. The markets in which the Funds expect to invest have in recent years experienced significant volatility and losses. No assurance can be given as to when or whether adverse events might occur that could cause immediate and significant losses to the Funds.

Relative Value. The Funds may pursue relative value strategies by taking long positions in securities believed to be undervalued and short positions in securities believed to be overvalued. In the event that the perceived mispricings underlying a Fund's trading positions were to fail to converge toward, or were to diverge further from, Three Bays Capital's expectations, such Fund may incur a loss. Even pure riskless arbitrage can result in significant losses if the arbitrage is not sustained (due, for example, to margin calls) until expiration, and the Funds will rarely engage in true arbitrage as opposed to relative value trading (which is inherently a higher-risk strategy). In implementing "relative value" strategies the Funds will seek to reduce exposure to the risk of overall market price movements, but will be fully exposed to the risks of disruptions in historical price relationships, the restricted availability of credit and the obsolescence of its valuation models. There is no assurance that the arbitrage transaction will perform in the manner expected by Three Bays Capital and the exposure of the Funds to a movement in the market or other factors could be significantly increased.

Event Driven Investing. The Funds, as part of their investment program, may invest in companies with pending or anticipated corporate events or other catalysts that are likely to trigger the market's revaluation of a company. The ability to determine the impact of such events or catalysts on the price of an issuer's securities is very difficult to determine and there is no assurance that such events or catalysts will occur, or if they occur, that they occur in the manner anticipated by Three Bays Capital. Furthermore, the prices of securities of issuers with pending or anticipated corporate events or catalysts tend to be more volatile than that of other securities.

Catalysts. Three Bays Capital may seek catalysts in companies in which the Funds seek to invest. This will require Three Bays Capital to make predictions about (i) the likelihood that an event will occur and (ii) the impact such event will have on the value of a company's securities. If the catalyst fails to occur or it does not have the effect foreseen, losses can result. For example, the adoption of new business strategies or completion of asset dispositions or debt reduction programs by a company may not be valued as highly by the market as Three Bays Capital had anticipated, resulting in losses.

In addition, the consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors.

Risk Arbitrage Transactions. The Funds may engage in certain arbitrage trading including, but not limited to, event-driven arbitrage, index/ETF arbitrage and volatility arbitrage. In such trading, the Funds attempt to profit by exploiting price differences of identical or similar securities or financial instruments on different markets or in different forms. Often arbitrage opportunities disappear rapidly once the opportunity becomes well-known and many investors act on it. Arbitrage trading can involve large transaction costs because of the need to simultaneously buy and sell many different securities. There is no assurance that the arbitrage transaction will perform in the manner expected by Three Bays Capital and the exposure of the Funds to a movement in the market or other factors could be significantly increased. In certain transactions, the Funds may not be hedged against market fluctuations unrelated to the anticipated transaction but which may affect the value of the consideration to be received. This may result in losses, even if the proposed transaction is consummated.

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

Fixed Income Securities. The Funds may invest in investment grade and below investment grade bonds or other fixed income securities of U.S. and non-U.S. issuers, including, without limitation, bonds, notes and debentures issued by corporations; debt securities issued or guaranteed by the U.S. government or one of its agencies or instrumentalities, sovereign debt issued or guaranteed by foreign governments; and commercial paper. Fixed income securities pay fixed, variable or floating rates of interest. The value of fixed income securities in which the Funds invest will change in response to fluctuations in interest rates. In addition, the value of certain fixed-income securities can fluctuate in response to perceptions of credit worthiness, political stability or soundness of economic policies. Fixed income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (i.e., credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (i.e., market risk).

Credit obligations are subject to certain risks including credit risk and interest rate risk. “Credit risk” refers to the likelihood that an issuer will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of an issuer are the primary factors influencing credit risk. In addition, inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of an instrument, and debt obligations which are rated by rating agencies are often reviewed and may be subject to downgrade. “Interest rate risk” refers to the risks associated with market changes in interest rates. Interest rate changes may affect the value of a debt instrument indirectly (especially in the case of fixed rate securities) and directly (especially in the case of instruments whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules.

Short Sales. Three Bays Capital expects to engage in short sales as part of hedging transactions or when it believes securities are overvalued. Short sales are sales of securities the Funds borrow but does not actually own, usually made with the anticipation that the prices of the securities will decrease and the Funds will be able to make a profit by purchasing the securities at a later date at the lower prices. The Funds will incur a potentially unlimited loss on a short sale if the price of the security increases prior to the time it purchases the security to replace the borrowed security. A short sale presents greater risk than purchasing a security outright since there is no ceiling on the possible cost of replacing the borrowed security, whereas the risk of loss on a “long” position is limited to the purchase price of the security. Closing out a short position may cause the security to rise further in value creating a greater loss.

Short sale transactions have been subject to increased regulatory scrutiny in response to market events in recent years, including the imposition of restrictions on short selling certain securities and reporting requirements. The Funds’ ability to execute a short selling strategy may be materially adversely impacted by temporary and/or new permanent rules, interpretations, prohibitions, and restrictions adopted in response to these adverse market events. Temporary restrictions and/or prohibitions on short selling activity may be imposed by regulatory authorities with little or no advance notice and may impact prior trading activities of the Funds. Additionally, the SEC, its foreign counterparts, other governmental authorities and/or self-regulatory organizations may at any time promulgate permanent rules or interpretations consistent with such temporary restrictions or that impose additional or different permanent or temporary limitations or prohibitions. The SEC might impose different limitations and/or prohibitions on short

selling from those imposed by various non-U.S. regulatory authorities. These different regulations, rules or interpretations might have different effective periods.

Regulatory authorities may impose restrictions that adversely affect the Funds' ability to borrow certain securities in connection with short sale transactions. In addition, traditional lenders of securities might be less likely to lend securities under certain market conditions. As a result, the Funds may not be able to effectively pursue a short selling strategy due to a limited supply of securities available for borrowing. The Funds may also incur additional costs in connection with short sale transactions, including in the event that it is required to enter into a borrowing arrangement in advance of any short sales. Moreover, the ability to continue to borrow a security is not guaranteed and the Funds are subject to strict delivery requirements. The inability of the Funds to deliver securities within the required time frame may subject the Funds to mandatory close out by the executing broker-dealer. A mandatory close out may subject the Funds to unintended costs and losses. Certain action or inaction by third-parties, such as executing broker-dealers or clearing broker-dealers, may materially impact the Funds' ability to effect short sale transactions. Such action or inaction may include a failure to deliver securities in a timely manner in connection with a short sale effected by a third party unrelated to the Funds.

Swap Transactions. The Funds may enter into swap agreements with respect to securities, indexes of securities and other assets or other measures of risk or return. Swap agreements are typically two-party contracts entered into primarily by institutional investors for periods ranging from a few weeks to many years. In a standard "swap" transaction, two parties agree to exchange the returns (or the differential in rates of return) earned or realized on particular predetermined investments, instruments, or indices. The gross returns to be exchanged or "swapped" between the parties are generally calculated with respect to a "notional amount". Whether the Funds' use of swap agreements will be successful will depend on Three Bays Capital's ability to select appropriate transactions for the Funds. Swap transactions may be highly illiquid. Moreover, the Funds bear the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty. Many swap markets are relatively new and still developing. It is possible that developments in the swap markets, including potential government regulation, could adversely affect the Funds' ability to terminate existing swap transactions or to realize amounts to be received under such transactions. Swaps and certain other custom instruments are subject to the risk of non-performance by the swap counterparty, including risks relating to the creditworthiness of the swap counterparty.

Total return swaps are another form of swap transaction that the Funds may utilize in their investment program. A total return swap allows the total return receiver to receive the change in market value of an asset (whether a security, interest rate, form of debt, currency or other asset) from the total return payer in return for paying a floating or fixed

interest-rate on a predetermined amount. The total return payer is synthetically short and the total return receiver is synthetically long. Thus, total return swap agreements may effectively add leverage to the Funds' portfolio because, in addition, to its total net assets, the Funds would be subject to investment exposure on the notional amount of the swap agreement.

In addition, the Funds may enter into credit default swap transactions. The credit default swap market in high yield securities is comparatively new and rapidly evolving compared to the credit default swap market for more seasoned and liquid investment grade securities. Swap transactions dependent upon credit events are priced incorporating many variables, including, for example, the pricing and volatility of the common stock, potential loss upon default and the shape of the U.S. Treasury Yield curve, among other factors. As such, there are many factors upon which market participants may have divergent views. The Funds may also enter into credit default swap transactions, even if the credit outlook is positive, if Three Bays Capital believes that participants in the marketplace have incorrectly valued the components which determine the value of a swap.

Investments in High Yield and Distressed Securities. The Funds may invest in high-yield and distressed securities. Such securities are generally not exchange traded and, as a result, these instruments trade in a smaller secondary market than exchange-traded bonds. In addition, the Funds may invest in credit instruments of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. High-yield securities that are below investment grade or unrated face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities are often highly leveraged and may not have available to them more traditional methods of financing. It is possible that an economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default of such securities. Such investments involve a substantial degree of risk and could result in substantial losses to the Funds.

The terms and conditions associated with credit instruments, particularly high yield and distressed securities, are often complex and require a sophisticated level of evaluation of financial, operational and legal matters. There is no assurance that Three Bays Capital will correctly evaluate the value of a company's assets, the terms of its debt instruments

or the prospects for a successful reorganization or similar action. Investments in these securities require active monitoring and may, at times, require participation in business strategy or reorganization proceedings by Three Bays Capital. The involvement by Three Bays Capital in an issuer's reorganization proceedings could result in the imposition of restrictions limiting the Funds' ability to liquidate its respective position in the issuer.

Bank Loans. The Funds may invest in bank debt ("Bank Loans") and participations therein originated by banks and other financial institutions. The Bank Loans in which the Funds may invest are expected to primarily be term loans, which may pay interest at a fixed or floating rate and may be senior or subordinated. There can be no assurance that current levels of supply and demand in Bank Loan trading will provide an adequate degree of liquidity. The Funds acquire interests in Bank Loans either directly (by way of sale or assignment) or indirectly (by way of participation or other derivative contract). The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution. Participation interests in a portion of a debt obligation typically result in a contractual relationship only with the institution participating out the interest, not with the borrower. In purchasing participations and other derivatives, Three Bays Capital on behalf of the Funds generally have no right to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, and the Funds may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. As a result, the Funds will assume the credit risk of both the borrower and the institution selling the participation or other derivative contract.

Investments in Bankrupt or Restructured Companies. Certain of the issuers of securities which may be purchased by the Funds, may be involved in bankruptcy or other reorganization proceedings which involve a substantial degree of risk. Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. Accordingly, a bankruptcy court may approve actions that are contrary to the Funds.

Generally, the duration of a bankruptcy case can only be roughly estimated. The process can involve substantial legal, professional and administrative costs to the company and the Funds; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets. Although the Funds may invest a portion of their assets in debt, the debt of companies in financial reorganization will in most cases not pay current interest, may not accrue interest during reorganization and may be adversely affected by an erosion of the issuer's fundamental values. Such investments can result in a total loss of principal.

Investment in the debt of financially distressed companies domiciled outside the U.S. involves additional risks. Bankruptcy law and process may differ substantially from that in the U.S., resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

Three Bays Capital may cause the Funds to purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser.

Small-Cap and Mid-Cap Risks. The Funds may invest in equities of small- and mid-capitalization companies. While, in Three Bays Capital's opinion, the securities of small- and mid-cap issuers may offer the potential for greater capital appreciation than investment in securities of larger-cap issuers, securities of small- and mid-capitalization issuers may also present greater risks. For example, some small- and mid-cap issuers have limited product lines, markets, or financial resources and may be dependent for management on one or a few key persons. In addition, such issuers may be subject to high volatility in revenues, expenses and earnings. Their securities may be thinly traded, may be followed by fewer investment analysts and may be subject to wider price swings and thus may create a greater chance of loss than when investing in securities of larger-cap issuers. In addition, due to thin trading in many smaller capitalization stocks, an investment in such stocks may be characterized by reduced liquidity. Further, the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) is potentially higher than for larger, "blue-chip" companies. The market prices of securities of small- and mid-cap issuers generally are more sensitive to changes in earnings expectations, corporate developments, and market rumors than are the market prices of larger-cap issuers. Transaction costs in securities of small- and mid-cap issuers may be higher than in those of large-cap issuers. There may be less information about small and mid-cap companies than larger cap companies.

Position Limits. "Position limits" imposed by various regulators may limit the Funds' ability to effect desired trades. Position limits are the maximum amounts of gross, net long or net short positions that any one person or entity may own or control in a particular financial instrument. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. Thus, even if the Funds do not intend to exceed applicable position limits, it is possible that different accounts managed by Three Bays Capital may be aggregated. If at any time positions managed by Three Bays Capital were to exceed applicable position limits, Three Bays Capital would

be required to liquidate positions, which might include positions of the Funds, to the extent necessary to come within those limits. Further, to avoid exceeding the position limits, the Funds might have to forego or modify certain of its contemplated trades.

Execution of Orders. The Funds' trading strategy may depend on its ability to establish and maintain an overall market position in a combination of financial instruments selected by Three Bays Capital. The Funds' trading orders may not be executed in a timely and efficient manner due to various circumstances, including, without limitation, systems failures or human error attributable to the Funds, their brokers, agents or other service providers. In such event, the Funds might only be able to acquire some, but not all, of the components of such position, or if the overall position were to need adjustment, the Funds might not be able to make such adjustment. As a result, the Funds would not be able to achieve the market position selected by Three Bays Capital, and might incur a loss in liquidating its position. In addition, the Funds rely on electronic execution systems, and such systems may be subject to failure, causing the interruption of trading orders made by the Funds.

Concentration of Investments. The Funds' portfolio may, from time to time, be concentrated in a particular type of security, industry, geographic location or market capitalization. This may be the result of the Funds' opportunistic investing, external market forces or the lack of liquidity in one security as compared to other securities the Funds hold. Losses incurred in a position making up a significant percentage of the Funds' capital could have a material adverse effect on the Funds' overall financial condition. This limited diversity could expose the Funds' to significantly greater volatility than in a more diversified portfolio.

Use of Leverage. Three Bays Capital may leverage the Funds' portfolio through margin and other debt in order to increase the amount of capital available for investments. Although leverage increases returns to investors in a Fund if such Fund earns a greater return on the incremental investments purchased with borrowed funds than it pays for such funds, the use of leverage decreases returns to the investors if such Fund fails to earn as much on such incremental investments as it pays for such funds. In the event that a Fund leverages its portfolio, fluctuations in the market value of such Fund's portfolio will have a significant effect in relation to such Fund's capital and the risk of loss and the possibility of gain will each be increased. In addition, when a Fund utilizes leverage, the level of interest rates generally, and the rates at which such Fund can borrow in particular, will be an expense of such Fund and therefore affect the operating results of such Fund. Leverage increases the risk of substantial losses (including the risk of a total loss of capital), and leverage can significantly magnify the volatility of each Fund's portfolio.

The Funds may use short-term margin borrowing in purchasing securities positions. Such borrowing, if made, may result in certain additional risks to the Funds. For

example, should the securities pledged to brokers to secure the Funds' margin accounts decline in value, the Funds could be subject to a "margin call" pursuant to which the Funds would be required to either deposit additional funds with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden, precipitous drop in value of the Funds' assets, the Funds might not be able to liquidate assets quickly enough to pay off its margin debt.

Risks of Investments in Options. Investing in options can provide greater potential for profit or loss than an equivalent investment in the underlying asset. The value of an option may decline because of a change in the value of the underlying asset relative to the strike price, the passage of time, changes in the market's perception as to the future price behavior of the underlying asset, or any combination thereof. In the case of the purchase of an option, the risk of loss of an investor's entire investment (i.e., the premium paid plus transaction charges) reflects the nature of an option as a wasting asset that may become worthless when the option expires. Where an option is written or granted (i.e., sold) uncovered, the seller may be liable to pay substantial additional margin, and the risk of loss is unlimited, as the seller will be obligated to deliver, or take delivery of, an asset at a predetermined price which may, upon exercise of the option, be significantly different from the market value. Over-the-counter options that the Funds may use in their investment strategies generally are not assignable except by agreement between the parties concerned, and no party or purchaser has any obligation to permit such assignments. The over-the-counter market for options is relatively illiquid, particularly for relatively small transactions.

Put and Call Options. The Funds may purchase exchange-listed and over-the-counter ("OTC") put and call options. In addition, the Funds may write and sell covered or uncovered call and put option contracts. A call option gives the purchaser of the option the right to buy, and obligates the writer to sell, the underlying investments at a stated exercise price at any time prior to the expiration of the option. Similarly, a put option gives the purchaser of the option the right to sell, and obligates the writer to buy, the underlying investments at a stated exercise price at any time prior to the expiration of the option. Options written by the Funds may be wholly or partially covered (meaning that the Funds hold an offsetting position) or uncovered. Options on specific investments may be used by the Funds to seek enhanced profits with respect to a particular investment. Alternatively, they may be used for various defensive or hedging purposes. For example, they may be used to protect against a future adverse change in the market price of particular portfolio investments held by the Funds without requiring a sale of the investments.

Use of put and call options may result in losses to the Funds, force the sale or purchase of portfolio investments at inopportune times or for prices higher than (in the case of put options) or lower than (in the case of call options) current market values, limit the amount of appreciation the Funds can realize on their investments or cause the Funds to hold an

investment it might otherwise sell. For example, a decline in the market price of a particular investment could result in a complete loss of the amount expended by the Funds to purchase a call option (equal to the premium paid for the option and any associated transaction charges). An adverse price movement may result in unanticipated losses with respect to covered options sold by the Funds. The use of uncovered option writing techniques may entail greater risks of potential loss to the Funds than other forms of options transactions. For example, a rise in the market price of the underlying investment will result in the Funds realizing a loss on the calls written, which would not be offset by the increase in the value of the underlying investments to the extent the call option position was uncovered.

Single Stock Futures. A single stock futures contract is an agreement to buy or sell shares of a specific stock at a specified price on a designated date in the future. Investments in single stock futures involve a substantial degree of risk. The market for single stock futures is relatively new to the United States. Therefore, the size of the market for single stock futures is yet unknown. There is no assurance that a liquid secondary market will exist for single stock futures contracts purchased or sold, and the Funds may be required to maintain a position until exercise or expiration, which could result in losses. Furthermore, margin for single stock futures contracts is typically low relative to the value of the futures contracts purchased or sold. Low margin requirements mean that a relatively small price movement in a single stock futures contract may result in immediate and substantial losses to the investor.

Hedging. The Funds may utilize certain financial instruments and investment techniques for risk management or hedging purposes. There is no assurance that such risk management and hedging strategies will be successful, as such success will depend on, among other factors, Three Bays Capital's ability to predict the future correlation, if any, between the performance of the instruments utilized for hedging purposes and the performance of the investments being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the Funds' hedging strategies may also be subject to Three Bays Capital's ability to correctly readjust and execute hedges in an efficient and timely manner. There is also a risk that such correlation will change over time rendering the hedge ineffective. It may be more difficult to hedge a position in a smaller cap issuer than a larger-cap issuer. The Funds' portfolio is not expected to be completely hedged at all times and at various times Three Bays Capital may elect to be more fully hedged and at other times hedged only to a limited extent, if at all. Accordingly, the Funds' assets may not be adequately protected from market volatility and other conditions.

Counterparty Risk. Some of the markets in which the Funds may effect transactions are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to the credit evaluation and regulatory oversight to which members of "exchange-based" markets are subject. 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 their transactions with a single or small group of counterparties. Counterparties in foreign markets face increased risks, including the risk of being taken over by the government or becoming bankrupt in countries with limited if any rights for creditors. The Funds are not restricted from concentrating any or all of their transactions with one counterparty. The ability of the Funds to transact business with any one or number of counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Funds. Counterparty risks also include the failure of executing brokers to honor, execute, or settle trades.

Pursuant to the Dodd-Frank Act (as defined below), some derivatives transactions will be subject to mandatory clearing and will also be subject to the margin requirements set forth by the clearinghouse. The additional margin, capital and collateral obligations may increase the cost of derivatives transactions and thereby potentially decrease the profitability of certain positions.

Purchasing Securities of Initial Public Offering. From time to time the Funds may purchase securities that are part of initial public offerings. The prices of these securities may be very volatile. The issuers of these securities may be undercapitalized, have a limited operating history, and lack revenues or operating income without any prospects of achieving them in the near future. Some of these issuers may only make available a limited number of shares for trading and therefore it may be difficult for the Funds to trade these securities without unfavorably impacting their prices. In addition, investors may lack extensive knowledge of the issuers of these securities. The Funds may invest in securities that are “new issues,” as defined by Rule 5130 of the Financial Industry Regulatory Authority, Inc. (“FINRA”). Rule 5130 and Rule 5131 of FINRA restrict certain persons from participating in “new issues.”

Other Derivative Investments. Derivative instruments or “derivatives” include futures, options, structured securities and other instruments and contracts that are derived from, or the value of which is related to, one or more underlying securities, financial benchmarks, currencies or indices. Derivatives allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark currency or index at a fraction of the cost of investing in the underlying asset. The value of a derivative depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives of such asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives are leveraged, and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a

relatively small adverse market movement may expose the Funds to the possibility of a loss exceeding the original amount invested. Derivatives may also expose investors to liquidity risk, as there may not be a liquid market within which to close or dispose of outstanding derivatives contracts. Swaps and certain options and other custom instruments are subject to the risk of non-performance by the swap counterparty, including risks relating to the creditworthiness of the swap counterparty.

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 contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent Three Bays Capital from promptly liquidating unfavorable positions and subject the Funds to substantial losses.

Forward Trading. Forward contracts and options thereon, 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. For example, there are no requirements with respect to record keeping, financial responsibility or segregation of customer funds or positions. In contrast to exchange-traded futures contracts, interbank traded instruments rely on the dealer or contracting counterparty to fulfill its contract. As a result, trading in interbank foreign exchange contracts may be subject to more risks than futures or options trading on regulated exchanges, including, but not limited to, the risk of default due to the failure of a counterparty with which the Funds have forward contracts. Although Three Bays Capital seeks to trade with responsible counterparties, failure by a counterparty to fulfill its contractual obligation could expose the Funds to unanticipated losses. 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 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 currency market traded by the Funds due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward trading to less than that which Three Bays Capital would otherwise recommend, to the possible detriment of the Funds. Market illiquidity or disruption could result in significant losses to the Funds.

Convertible Securities and Investments in Equity-Related Convertible Securities. The Funds may invest a portion of their capital in convertible securities and equity-related

convertible securities. Convertible securities are equities, bonds, debentures, preferred stocks or other securities that may be converted into or exchanged for a specified fixed or variable amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. A convertible security entitles the holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics in that they generally (i) have higher yields than common stocks, but lower yields than comparable non-convertible securities, (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases. The value of a convertible security is a function of its “investment value” (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its “conversion value” (the security’s worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security’s investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is influenced principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases as the convertible security approaches maturity. A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security’s governing instrument. If a convertible security held by the Funds are called for redemption, the Funds will be required, depending on the terms of the security, to permit the issuer to redeem the security, convert it into the underlying common stock, or sell it to a third party. Any of these actions could have an adverse effect on the Funds’ ability to meet their investment objective.

Mortgage-Backed Securities and Asset-Backed Securities. The Funds may invest in mortgage-and asset-backed securities. The investment characteristics of mortgage-backed securities and asset-backed securities differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that principal may be prepaid at any time because the underlying mortgage loans or other assets generally may be prepaid at any time.

Commercial Mortgage-Backed Securities. The Funds' portfolio may include commercial mortgage-backed securities, which are securities backed by obligations (including certificates of participation in obligations) that are principally secured by interests in real property having a multifamily or commercial use, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, nursing homes and senior living centers. Commercial mortgage-backed securities have been issued in public and private transactions by a variety of public and private issuers using a variety of structures, including senior and subordinated classes. Commercial mortgage loans generally lack standardized terms, tend to have shorter maturities than residential mortgage loans and may provide for the repayment of all or substantially all of the principal only at maturity. All of these factors increase the risk involved with commercial real estate lending. Commercial properties tend to be unique and are more difficult to value than single-family residential properties. Commercial lending is generally viewed as exposing a lender to a greater risk of loss than residential one-to-four family lending since it typically involves larger loans to a single borrower than residential one-to-four family lending.

Commercial mortgage lenders typically look to the debt service coverage ratio of a loan secured by income-producing property as an important measure of the risk of default on a loan. Commercial property values and net operating income are subject to volatility, and net operating income may be sufficient or insufficient to cover debt service on the related mortgage loan at any given time. The repayment of loans secured by income-producing properties is typically dependent upon the successful operation of the related real estate project as well as upon the liquidation value of the underlying real estate. The value of commercial real estate is also subject to a number of laws and regulations, such as regulations and laws regarding environmental clean-up and limitations on remedies imposed by bankruptcy laws and state laws regarding foreclosures and rights of redemption.

Most commercial mortgage loans underlying mortgage-backed securities are effectively non-recourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related mortgage-backed securities are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of mortgage-backed securities may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed-in-lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks, and governmental disclosure requirements with respect to the condition of the property may make a third party unwilling to purchase the property at a foreclosure sale

or to pay a price sufficient to satisfy the obligations with respect to the related mortgage-backed securities. Revenues from the assets underlying such mortgage-backed securities may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court-appointed receiver to control collateral cash flow.

Commercial mortgage-backed securities may pay fixed or floating rates of interest. Fixed-rate commercial mortgage-backed securities, like all fixed income securities, generally decline in value as rates rise. Moreover, although generally the value of fixed income securities increases during periods of falling interest rates, the inverse relationship may not be as marked in the case of commercial mortgage-backed securities due to the increased likelihood of prepayments during periods of falling interest rates. This effect is mitigated to some degree for mortgage loans providing for a period during which no prepayments may be made.

Certain commercial mortgage-backed securities lack regular amortization of principal, resulting in a single “balloon” payment due at maturity. If the underlying mortgage borrower experiences business problems, or other factors limit refinancing alternatives, such balloon payment mortgages are likely to experience payment delays or even default.

Residential Mortgage-Backed Securities. The Funds’ portfolio may include residential mortgage-backed securities (“RMBS”). Holders of RMBS bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans that are generally secured by one to four family residential properties. Such loans may be prepaid at any time. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity, although such loans may be securitized by government agencies and the securities issued are guaranteed. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the geographic area where the mortgaged property is located, the terms of the mortgage loan, the borrower’s “equity” in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

Further, each underlying residential mortgage loan in an issue of RMBS may have a balloon payment due on its maturity date. Balloon residential mortgage loans involve a greater risk to a lender than self-amortizing loans, because the ability of a borrower to pay such amount will normally depend on its ability to obtain refinancing of the related mortgage loan or sell the related mortgaged property at a price sufficient to permit the borrower to make the balloon payment, which will depend on a number of factors

prevailing at the time such refinancing or sale is required, including, without limitation, the strength of the residential real estate markets, tax laws, the financial situation and operating history of the underlying property, interest rates, conditions in credit markets and general economic conditions. If the borrower is unable to make such balloon payment, the related issue of RMBS may experience losses.

Certain mortgage loans may be of sub-prime credit quality. Originators of loans make sub-prime mortgage loans to borrowers that typically have limited access to traditional mortgage financing for a variety of reasons, including impaired or limited past credit history, lower credit scores, high loan-to-value ratios or high debt-to-income ratios. As a result of these factors, delinquencies and liquidation proceedings are more likely with sub-prime mortgage loans than with mortgage loans that satisfy customary credit standards. Another factor that may result in higher delinquency rates is the increase in monthly payments on adjustable rate mortgage loans.

Risks of Investing in REIT Securities and Real Estate Securities. The Funds may invest in securities issued by entities which qualify as “real estate investment trusts” under the Internal Revenue Code of 1986, as amended, and in securities of non-REIT issuers which are primarily engaged in real estate activities, such as real estate development and management. As a result, some of the Funds’ investments are subject to the risks incident to investments in REITs and companies engaged in real estate activities, generally, including: (i) potential environmental liabilities, the risk of uninsured losses, the perceptions of prospective tenants of the safety, convenience and attractiveness of the properties, the ability of the owner to provide adequate management, maintenance and insurance, the expenses of periodically renovating, repairing and reletting spaces, and increasing operating costs (including mortgage payments, real estate taxes, insurance, maintenance costs and utilities) which may not be passed through to tenants; (ii) risks of owning properties through joint ventures or partnerships which may render a REIT or a company engaged in real estate activities unable to exercise sole decision-making authority and subject the REIT or other company to the risk that a joint venturer or partner will act in a manner contrary to its best interests; (iii) general real estate investment considerations, such as the effect of local economic and other conditions on property cash flows and values, the need to re-let space upon the expiration of current leases, dependence on major tenants and the possibility of tenant defaults, the ability of a property to generate revenue sufficient to meet debt service payments and other operating expenses, periodic excessive real estate development, and the illiquidity of real estate investments, all of which may affect the REIT’s or other company’s ability to make expected distributions to its stockholders; (iv) possible increases in interest rates, which may lead prospective purchasers of real estate equity securities, as well as other classes of equities, to demand higher annual yields, and which would adversely affect the market price of such securities; (v) borrowing risks; (vi) relative illiquidity of real estate investments which will tend to limit the ability of a REIT or non-REIT issuer to vary its holdings promptly in response to changes in local economic or other conditions; and (vii)

risks associated with the management by REITs of properties owned by third parties, including the risk that management contracts (which are typically cancelable without notice) will be terminated by the entity controlling the property or in connection with the sale of such property, that contracts may not be renewed upon expiration or may not be renewed on terms consistent with current terms, and that the rental revenues upon which management fees are based will decline as a result of general real estate market conditions or specific market factors.

Investments in REITs are also subject to special risks, including, without limitation: (i) restrictions on ownership (which may prohibit ownership of more than 9.9% of a REIT's shares by one investor), which are designed to ensure that the REIT does not violate certain share accumulation restrictions imposed by federal tax laws on REITs and which may also deter possible acquisitions of, or changes in control of, a REIT; (ii) many REITs have small-to-medium sized market capitalizations which may be more volatile than prices of large-capitalization securities and an investment in such securities may be less liquid; and (iii) tax risks, including risk of changes in the tax laws that may cause a REIT to fail to qualify as a REIT or cause REITs, generally, to be subject to corporate taxation, and limitations on a REIT's ability to sell properties at a time when it is otherwise economically advantageous to do so, thereby adversely affecting returns to its stockholders.

Third Party Investments Vehicles. The Funds may invest in pooled investment vehicles (both publicly traded and privately held) managed by investment advisers that are not affiliated with Three Bays Capital (each, an "Unaffiliated Fund"). Such Unaffiliated Funds may invest in a wide variety of securities and assets. No assurance can be given that the investment strategies used by such Unaffiliated Funds will be successful under all or any market conditions. The Funds' investment in Unaffiliated Funds may be subject to withdrawal limitations that could prevent the Funds from terminating investments in Unaffiliated Funds that are poorly performing or have otherwise had adverse changes, although in certain instances the Funds have negotiated terms that seek to minimize such risks. Investments in Unaffiliated Funds also may result in the payment by the Funds directly or indirectly of management fees and carried interest or promote to third parties. Investments in Unaffiliated Funds may result in Three Bays Capital (or its affiliate not having full control over the assets of the Funds, which lack of control represents a significant risk.

Foreign Securities. The Funds may invest in securities of non-U.S. issuers. The Funds' investments in securities and instruments in foreign markets involve substantial risks not typically associated with investments in U.S. securities. Foreign securities investments may be affected by changes in currency rates or exchange control regulations, changes in governmental administration or economic or monetary policy (in the United States and abroad) or changed circumstances in dealings between nations. Changes in foreign currency exchange rates relative to the U.S. dollar will affect the U.S. dollar value of the

Funds' assets denominated in that currency and thereby impact the Funds' total return on such assets. The Funds may utilize options and forward contracts to hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be effective.

Investments in foreign securities will also occasion risks relating to political and economic developments abroad, including the possibility of expropriations or confiscatory taxation, limitations on the use or transfer of Fund assets and any effects of foreign social, economic or political instability. Foreign companies are not subject to the regulatory requirements of U.S. companies and, as such, there may be less publicly available information about such companies. Moreover, foreign companies are not subject to uniform accounting, auditing and financial reporting standards and requirements comparable to those applicable to U.S. companies. Finally, in the event of a default of any foreign debt obligations, it may be more difficult for the Funds to obtain or enforce a judgment against the issuers of such securities.

Securities of foreign issuers may be less liquid than comparable securities of U.S. issuers and, as such, their price changes may be more volatile. Furthermore, foreign exchanges and broker-dealers are generally subject to less government and exchange scrutiny and regulation than their American counterparts. Brokerage commissions, dealer concessions and other transaction costs may be higher in foreign markets than in the U.S. In addition, differences in clearance and settlement procedures in foreign markets may occasion delays in settlements of the Funds' trades affected in such markets.

In addition, changes or modifications in existing judicial decisions or in the current positions of the IRS, either taken administratively or as contained in published revenue rulings and revenue procedures (which changes or modifications may apply with retroactive effect), and the passage of new legislation, could lead to unfavorable treatment of certain non-U.S. investments which could adversely impact the Funds' portfolio.

Exchange Traded Funds. The Funds may invest in and sell short shares of exchange traded funds ("ETFs") and other similar instruments. These transactions may be used to adjust the Funds' exposure to the general market or industry sectors and to manage the Funds' risk exposure. ETFs and other similar instruments involve risks generally associated with investments in a broadly based portfolio of common stocks, including the risk that the general level of stock prices, or that the prices of stocks within a particular sector, may increase or decrease, thereby affecting the value of the shares of the ETF or other instruments.

Money Market Instruments. Three Bays Capital may invest, for defensive purposes or otherwise, all or a portion of the Funds' assets in high quality fixed-income securities, money-market instruments, and foreign money-market mutual funds, or hold cash or cash

equivalents in such amounts as Three Bays Capital deems appropriate under the circumstances. Money market instruments are high quality, short term fixed-income obligations, which generally have remaining maturities of one year or less, and may include U.S. government securities, commercial paper, certificates of deposit and bankers' acceptances issued by domestic branches of United States banks that are members of the Federal Deposit Insurance Corporation, and repurchase agreements. However, there can be no assurances that such investments will not be subject to significant risks.

Loans of Portfolio Securities. The Funds may lend their portfolio securities on terms customary in the securities industry, enter into reverse repurchase agreements or enter into other transactions constituting a loan of the Funds' assets. By doing so, the Funds attempt to increase their income through the receipt of interest on the loan. In the event of the bankruptcy of the other party to a securities loan, the Funds could experience delays in recovering the securities they lent. To the extent that the value of the securities the Funds lent has increased, the Funds could experience a loss if such securities are not recovered.

Service on Boards of Directors. Individual representatives of the Three Bays Capital, and its affiliates may serve as a member of the board of directors of a company that is the issuer of securities owned by the Funds. In their capacity as board members, such individuals may become subject to fiduciary, reporting or other duties which may adversely affect the Funds. For example, the Funds may be unable to sell or buy securities or enter into transactions that may benefit the Funds if a representative of Three Bays Capital (or its affiliate) is in possession of inside information relating to such portfolio investment.

Inside Information. From time to time, Three Bays Capital or its affiliates may be in possession of material, non-public information concerning the issuer of securities or other instruments in which the Funds have invested, or as to which it is evaluating an investment. The possession of such information may limit the ability of Three Bays Capital to cause the Funds to buy or sell such securities or other instruments. Accordingly, the Funds may be required to refrain from buying or selling such securities or other instruments at times when Three Bays Capital might otherwise wish to cause the Funds to buy or sell such securities or other instruments. Three Bays Capital has policies and procedures in place that seek to ensure that its investment practices do not violate federal and state securities law prohibitions on trading on inside information.

Restricted Investments. The Funds may invest their assets in restricted securities or securities that are subject to certain liquidity restrictions, including, without limitation, lock-up periods. These securities may be subject to legal restrictions on resale and transfer and, therefore, may be illiquid and subject to wide fluctuations in value. Such securities may be held by the Funds until the occurrence of certain events or for an

extended period, as determined by Three Bays Capital. The resale of restricted and illiquid securities may be difficult to value and oftentimes may have higher brokerage charges.

General Economic and Market Conditions. The success of the Funds’ activities will be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of the Funds’ investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect, among other things, the level and volatility of securities’ prices, the liquidity of the Funds’ investments and the availability of certain securities and investments. Volatility or illiquidity could impair the Funds’ profitability or result in losses. The Funds may maintain substantial trading positions that can be materially adversely affected by the level of volatility in the financial markets—the larger the positions, the greater the potential for loss.

Market Disruptions; Governmental Intervention; Dodd-Frank Wall Street Reform and Consumer Protection Act. The global financial markets have in recent years gone through pervasive and fundamental disruptions that have led to extensive governmental intervention. Such intervention was in certain cases implemented on an “emergency” basis, suddenly and substantially eliminating market participants’ ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition, certain of these interventions have been unclear in scope and application, resulting in confusion and uncertainty which in itself has been materially detrimental to the efficient functioning of the markets as well as previously successful investment strategies.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which aims to reform various aspects of the U.S. financial markets, covers a broad range of market participants including investment advisers (registered and unregistered) such as Three Bays Capital. The Dodd-Frank Act may directly affect Three Bays Capital by mandating additional new reporting requirements, including, but not limited to, position information, use of leverage and counterparty and credit risk exposure. Until the SEC implements the new reporting requirements, it is unknown how burdensome such new reporting requirements will be.

The Dodd-Frank Act may also affect the Funds in a number of other ways. Pursuant to the Dodd-Frank Act, banks and other financial firms (like the Funds and Three Bays Capital) may be designated as “Systemically Important Financial Institutions” or SIFIs. Any bank or financial firm so designated will be subject to regulation by the Federal Reserve Board. In the area of derivatives, the Dodd-Frank Act provides for the registration and comprehensive regulation of “major swap participants.” Although Three Bays Capital believes it is unlikely to be classified as SIFIs and is not subject to the

requirements for “major swap participants,” the consequences of being so classified could be substantial and adverse. In addition, the cost of derivative transactions may substantially increase as result of the Dodd-Frank Act as additional margin, capital and collateral obligations are implemented.

The Funds may incur major losses in the event of disrupted markets and other extraordinary events in which historical pricing relationships become materially distorted. The risk of loss from pricing distortions is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. The financing available to the Funds from their banks, dealers and other counterparties will typically be reduced in disrupted markets. Such a reduction may result in substantial losses to the Funds. Market disruptions may from time to time cause dramatic losses for the Funds, and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk.

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

Broker Risk. The Funds’ assets may be held in one or more accounts maintained for the Funds by their prime brokers or at other brokers or custodian banks, which may be located in various jurisdictions, including emerging market jurisdictions. The prime brokers, other brokers (including those acting as sub-custodians) and custodian banks are subject to various laws and regulations in the relevant jurisdictions that are designed to protect their customers in the event of their insolvency. Accordingly, the practical effect of the laws protecting customers in the event of insolvency and their application to the Funds’ assets may be subject to substantial variations, limitations and uncertainties. For instance, in certain jurisdictions brokers could have title to the Funds’ assets or not segregate customer assets. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a prime broker, another broker or a clearing corporation, it is impossible further to generalize

about the effect of the insolvency of any of them on the Funds and their assets. Investors should assume that the insolvency of any of the prime brokers, local brokers, custodian banks or clearing corporations may result in the loss of all or a substantial portion of the Funds' assets or in a significant delay in the Funds having access to those assets.

Item 9: Disciplinary Information

Three Bays Capital is not aware of any legal or disciplinary events that are material to a client's or prospective client's evaluation of Three Bays Capital's advisory business or the integrity of Three Bays Capital's management.

Item 10: Other Financial Industry Activities and Affiliations

Three Bays Capital and/or TBC GP have claimed an exemption from registration as a commodity pool operator, pursuant to Rule 4.13(A)(3), and an exemption from registration as a commodity trading advisor, pursuant to Rule 4.14(A)(8), each under the Commodity Exchange Act, as amended.

Three Bays Capital and its partners and employees (the "Staff Members") are not registered, and do not have any application pending to register, with the SEC as a broker-dealer or a registered representative of a broker-dealer.

TBC GP is an affiliate of Three Bays Capital and is the general partner to certain of the Funds. Matthew Sidman is the managing member and principal owner of TBC GP.

Three Bays Capital, from time to time, may select other third party investment advisers to manage a portion of the Funds' assets or may invest in partnerships or joint ventures with other investment advisers, but any such selections will not result in the payment on a net basis of additional management fees, carried interests or performance allocations by the Funds.

Three Bays Capital evaluates any material conflicts of interest presented by any proposed relationship or arrangement it may contemplate with a service provider, broker or similar party that has a material business relationship with the Funds to ensure that the transaction or arrangement is fair and equitable to the investors in the Funds, and on terms that are consistent with arm's length dealings, and Three Bays Capital reviews any such arrangement on an ongoing basis thereafter to ensure continued benefit to the Funds and their investors. Currently, Three Bays Capital does not have, and is not aware of any Staff Member that has, any relationships or arrangements that pose material conflicts of interest.

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

Pursuant to Rule 204A-1 of the Advisers Act, Three Bays Capital has adopted a written code of ethics (the “Code of Ethics”), which is designed to address and avoid potential conflicts of interest and is applicable to all Staff Members. The Code of Ethics may also be applied to any other person designated by the Chief Compliance Officer.

A summary of the Code of Ethics is provided below. A full copy of the Code of Ethics will be made available to investors upon written request.

The Code of Ethics addresses personal trading of “reportable securities” (as such term is defined in Rule 204A-1 of the Advisers Act), receiving and giving gifts and entertainment, engaging in outside activities, making political contributions and payments, making other donations, and the administration and enforcement of the Code of Ethics.

The personal trading policy and procedures place restrictions on personal trading of reportable securities by all Staff Members, including that they disclose to Three Bays Capital on a periodic basis their holdings of, and transactions in, reportable securities. Staff Members may not trade in single name reportable securities, other than to liquidate or reduce such positions with pre-approval. Staff Members are required to obtain pre-approval for all other transactions involving reportable securities.

Three Bays Capital and its affiliates, and their partners, members and employees, may invest on behalf of themselves in reportable securities that would be appropriate for, held by, or may fall within the investment guidelines of the Fund, subject to pre-approval.

Three Bays Capital and its affiliates, and their partners, members and employees, will generally have an investment in the Funds managed by Three Bays Capital, and as a result, have an interest in an investment that may also be recommended to the Funds.

Item 12: Brokerage Practices

Selection of Brokers and Dealers

Three Bays Capital has complete discretion in deciding which securities are bought and sold, the amount and price of those securities, the broker-dealers to be used for a particular transaction, and commissions or markups and markdowns paid.

In selecting broker-dealers to effect portfolio transactions for the Funds, Three Bays Capital considers such factors as 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-dealer; the firm's risk in positioning a block of securities; the quality, comprehensiveness and frequency of related services considered to be of value; and the competitiveness of commission rates in comparison with other broker-dealers satisfying Three Bay Capital's selection criteria. Accordingly, if Three Bays Capital determines in good faith that the amount of commissions charged by a broker-dealer is reasonable in relation to the value of the research and brokerage products or services provided by such broker, the Funds may pay commissions to such broker-dealer in an amount greater than the amount another broker-dealer might charge for effecting the same transaction.

Soft Dollar Benefits

Section 28(e) of the Exchange Act provides a safe harbor that allows an investment adviser to pay more than the lowest available commission in order to obtain research and brokerage products and services (commonly referred to as a "soft dollar" arrangement). That practice involves a conflict of interest, but Section 28(e) of the Exchange Act provides that it does not breach Three Bays Capital's fiduciary duty to the Fund if the products and services consist of "research" or "brokerage" and certain other conditions and requirements are met.

Three Bays Capital will utilize proprietary and third party research and brokerage products and services provided by brokers that provide value to the Funds' investment management activities. Such research and brokerage products and services could include: reports on or other information about particular companies or industries; economic surveys and analyses; recommendations as to specific securities; financial and industry publications; portfolio evaluation services; financial database software and services; computerized news, pricing and statistical services; analytical software; proxy analysis services and systems, quotation services; and other products and services that may enhance Three Bays Capital's investment decision-making.

Three Bays Capital believes it is important to its investment decision-making processes to have access to such research and brokerage products and services. In such circumstances, Three Bays Capital will operate within the safe harbor provided by Section 28(e) of the Exchange Act and subject to prevailing guidance provided by the SEC regarding Section 28(e) of the Exchange Act. Nevertheless, the fact that Three Bays Capital is being provided with research and brokerage products and services rather than having to produce or pay for such products and services itself presents a conflict of interest and incentivizes Three Bays Capital to choose brokers providing such products and services. Any research and brokerage products and services obtained through the use of soft dollar benefits will be used for all of the Funds regardless of whether a particular Fund paid for the research.

Investor Introductions

Three Bays Capital may receive introductions to investors through broker-dealers that execute trades on behalf of Three Bays Capital. Three Bays Capital does not believe that it pays any additional fees or higher commissions as a result of these introductions. Three Bays Capital

seeks best execution on all transactions. However, Three Bays Capital may have an incentive to select or use a broker-dealer based on receiving investor referrals from that counterparty.

Trade Errors

Three Bays Capital seeks to detect trade errors and to correct and mitigate them in an expeditious manner. Any gains from trade errors will be kept by the applicable Fund(s) while any losses from trade errors (other than those due to gross negligence, fraud or willful misconduct) will be absorbed by the applicable Fund(s).

Item 13: Review of Accounts

The Funds' portfolios are reviewed on a continuous basis. Three Bays Capital's investment personnel hold investment meetings to discuss investment ideas, investment strategies, economic developments, current events, and other issues related to current portfolio holdings and potential investment opportunities.

Three Bays Capital will provide each investor with the following reports in accordance with the terms of the applicable Fund's Governing Documents: (i) monthly NAV and aggregate portfolio information; (ii) quarterly investor letters; (iii) annual audited financial reports; and (iv) annual tax information necessary to complete any applicable tax returns.

Item 14: Client Referrals and Other Compensation

Three Bays Capital does not directly or indirectly compensate any third party for client referrals. However, Three Bays Capital may receive introductions to investors through broker-dealers that execute trades on behalf of Three Bays Capital. Three Bays Capital does not believe that it pays any additional fees or higher commissions as a result of these introductions. Three Bays Capital seeks best execution on all transactions. However, Three Bays Capital may have an incentive to select or use a broker-dealer based on receiving investor referrals from that counterparty.

Other than the circumstances described above, Three Bays Capital does not receive any economic benefits from non-clients in connection with the provision of investment advice to the Funds.

Item 15: Custody

Three Bays Capital is deemed to have custody of the Funds' assets because of the authority that Three Bays Capital and/or its affiliated entities have over those assets. The Funds' financial statements are subject to an annual audit by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and the audited financial statements are distributed to each investor. The audited financial statements

are prepared in accordance with generally accepted accounting principles and distributed within 120 days of the Funds' fiscal year end.

Item 16: Investment Discretion

In accordance with the terms and conditions of the Funds' Governing Documents and subject to the direction and control of the Funds' general partner and directors, as applicable, Three Bays Capital will generally have discretionary authority to determine, without obtaining specific consent from the Funds or its investors, the securities and the amounts to be bought or sold on behalf of the Funds, and to perform the day-to-day investment operations of the Funds.

Item 17: Voting Client Securities

In accordance with its fiduciary duty to clients and Rule 206(4)-6 of the Advisers Act, Three Bays Capital has adopted and implemented written policies and procedures governing the voting of client securities. The general policy is to vote proxy proposals, amendments, consents or resolutions in a prudent and diligent manner that will serve the Funds' best interest and is in line with the Funds' investment objectives. In certain cases, Three Bays Capital may determine that not voting is in the best interest of the Funds or otherwise appropriate. Investors may not direct Three Bays Capital's vote on behalf of the Funds.

Conflicts of interest may arise between the interests of the Funds on the one hand and Three Bays Capital and Staff Members on the other hand. At a minimum, the Staff Member responsible for instructing the vote by Three Bays Capital on behalf of the Funds will be required to disclose any personal interest or other conflict of interest it has with respect to such proxy. Any conflict of interest will be reviewed and resolved by the Chief Compliance Officer.

A copy of Three Bays Capital's proxy voting policies and procedures will be made available to investors upon written request.

Item 18: Financial Information

A balance sheet is not required to be provided as Three Bays Capital: (i) does not solicit fees more than six months in advance; (ii) does not have a financial condition that is likely to impair its ability to meet contractual commitments to clients; or (iii) has not been subject to any bankruptcy proceeding during the past 10 years.