

ITEM 1— COVER PAGE

PART 2A OF FORM ADV: FIRM BROCHURE

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This brochure ("Brochure") dated January 19, 2016 provides information about the qualifications and business practices of Rotation Capital Management, LP (the "Investment Adviser" or the "Firm"). If you have any questions about the contents of this Brochure, please contact us at (212) 202-3150, or our Chief Compliance Officer ("CCO"), Marshall Terry at mt@rotationcapital.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority. The Firm is registered as an investment adviser with the SEC under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). Registration as an investment adviser does not imply that the Firm or its employees possess a certain level of skill or training.

Please contact the CCO to obtain a free copy of our Brochure.

Additional information about the Investment Adviser is available on the SEC's website at www.adviserinfo.sec.gov.

ITEM 2— MATERIAL CHANGES

While this update to our Brochure contains changes and updates to certain information, we do not feel that they constitute material changes from the last filing of our Brochure. However, clients and prospective clients should review the Brochure carefully.

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ITEM 4— ADVISORY BUSINESS

A. General Description of Advisory Firm

Rotation Capital Management, LP (the "Investment Adviser" or the "Firm") is a Delaware limited partnership that was organized in September 2013. We only have one office, which is located in New York City.

Mr. Matthew Rothfleisch, CEO is the principal owner of the Investment Adviser.

B. General Description of Advisory Services

The Investment Adviser and/or its affiliates serve as the investment adviser to Rotation Capital Credit Opportunities Fund, Ltd. (the "Master Fund"), Rotation Capital Credit Opportunities Intermediate Fund, Ltd. (the "Intermediate Fund"), Rotation Capital Credit Opportunities Offshore Fund, Ltd. (the "Offshore Fund") and Rotation Capital Credit Opportunities Onshore Partners, LP (the "Onshore Fund", together with the Offshore Fund, the "Feeder Funds", and, together with the Master Fund and the Intermediate Fund, the "Funds").

The Investment Adviser's investment objective is to seek superior risk-adjusted investment results over time, relatively independent of the returns generated by the overall equity market, through investment opportunities that are primarily generated by the various phases of the credit cycle. The Investment Adviser attempts to realize its investment objective by investing principally in the securities of companies undergoing credit-oriented restructuring and reorganizations, including, without limitation, pursuant to Chapter 11 of the U.S. Bankruptcy Code, companies engaged in various types of balance sheet restructuring and companies whose securities trade at levels that the Investment Adviser does not believe reflect their intrinsic value. Please see Item 8 below for additional information with respect to the Investment Adviser's methods of analysis, investment strategies and risks.

Rotation Capital Services, LLC (the "General Partner"), a limited liability company organized under the laws of the state of Delaware and an affiliate of the Investment Adviser, serves as the General Partner of the Onshore Fund. The General Partner has ultimate responsibility for decisions relating to management, investment and operations made on behalf of the Onshore Fund. The General Partner also serves as the manager of the Intermediate Fund.

C. Availability of Customized Services for Individual Clients

Our investment decisions and advice with respect to each Fund will be subject to each Fund's investment objectives and guidelines, as set forth in its respective offering documents.

If, in the future, we determine to offer separately managed accounts ("Managed Accounts"), the investment objectives and guidelines of the Managed Accounts would be determined in conjunction with the applicable client.

D. Regulatory Assets Under Management

The Investment Adviser manages approximately \$248,167,201 in regulatory assets under management as of March 31, 2015 on a discretionary basis. As of December 31, 2015, the Investment Adviser did not manage any assets on a non-discretionary basis.

ITEM 5— FEES AND COMPENSATION

The fees applicable to the Funds are set forth in detail in each respective Fund's offering documents (each, a "PPM"). In the future, the Investment Adviser may, in its discretion, manage other funds or accounts with higher or lower fees, different fee structures, and different expense payment arrangements, than the Funds. To the extent that the Investment Adviser manages separately managed accounts in the future, the fees that will be charged for managing such separately managed accounts are negotiable, and will be described in each client's investment advisory agreement.

A. Management Fee

Pursuant to each Fund's investment management agreement, each Fund will pay to the Investment Adviser a quarterly management fee (pro rated for partial quarters), as of the beginning of each fiscal quarter (the "Management Fee"), equal to the applicable management fee rate, which ranges from 0.3125% (1.25% annualized) to 0.375% (1.5% annualized), multiplied by the balance of each investor's capital account of the applicable class, as of the beginning of the quarter. The Management Fee is calculated and accrued monthly. With respect to the Onshore Fund, the General Partner may, without the consent of the investors, cause the Management Fee to be charged to and paid by the Master Fund. With respect to the Offshore Fund, the Investment Adviser may, without the consent of the shareholders, cause the Management Fee to be charged to and paid by the Intermediate Fund or the Master Fund.

With respect to the Onshore Fund, the General Partner (and with respect to the Offshore Fund, the Board of Directors), in its sole discretion, may elect to reduce, waive or calculate differently the Management Fee with respect to any investor, including, without limitation, investors that are affiliates or employees of the Investment Adviser, members of the immediate families of such persons, trusts or other entities for their benefit.

The Firm receives performance-based fees, as more fully described in Item 6.

B. Payment of Fees

The Firm deducts Management Fees from the Funds' accounts in advance on a quarterly basis. Management Fees are amortized monthly by the Firm over the fiscal quarter for which such Management Fee is paid.

C. Additional Fees and Expenses

Subject to the following paragraphs, each Fund will bear its own operating and other expenses (as well as its pro rata share of any such expenses incurred by the Master Fund), including, but not limited to, taxes, organizational, offering expenses (other than any fees payable to any placement agent), investment expenses (e.g., expenses that are related to the investment of the Funds' assets, such as brokerage commissions, clearing and settlement charges, interest expense, consulting and other professional fees relating to particular investments or contemplated investments and investment-related travel expenses (which are travel expenses related to the purchase, sale or transmittal of the Funds' investments incurred by the Investment Adviser)), expenses relating to proxy contests, ongoing marketing expenses of each Fund, officers and other

employees (including marketing-related travel expenses) and premiums for directors' and officers' liability insurance (if any), fees and expenses relating to software tools, programs or other technology utilized in managing the Funds, research and market data including any computer hardware and telephone lines incorporated into the cost of obtaining such research and market data, administrative expenses (including fees and expenses of the administrator), bank sourcing and other investment banking fees, legal expenses, internal and external accounting and valuation expenses, audit and tax preparation expenses, custodial fees, the Management Fee, expenses related to preparing and making regulatory and compliance filings associated with the Funds and their respective investment activities (including, without limitation, filing preparation and fees, software and systems in connection with such filings and expenses of service providers such as consultants and advisers), expenses incurred in a wind up of the Funds and other expenses associated with the operation of the Funds and extraordinary expenses.

To the extent that expenses to be borne by any of the Funds are paid by the Investment Adviser, the respective Fund, as appropriate, will reimburse the Investment Adviser for such expenses. Such fees and expenses generally are apportioned pro rata among all capital accounts in accordance with the applicable partnership percentages, unless the General Partner determines that such fees or expenses should be allocated to a particular investor or investors (e.g., Investor-Related Taxes).

Notwithstanding anything to the contrary herein, on a monthly basis, the Fund will not bear the cost of expenses (as well as its pro rata share of any such expenses incurred by the Master Fund) that are Specified Expenses (as defined below) in an amount in excess of 1/12 of 0.75% (0.75% annualized) of the beginning monthly aggregate balances of the capital accounts of all investors (the "Expenses Cap"); provided, however, if the aggregate balances of the capital accounts of all investors is less than \$75,000,000 during such year, the Fund will bear all expenses and Specified Expenses will not be subject to the Expenses Cap. Specified Expenses in excess of the Expenses Cap will be borne by the Investment Adviser either, in the Investment Adviser's discretion, as an offset of the Management Fee to the Investment Adviser or a payment by the Investment Adviser. The Expenses Cap is calculated monthly on realized and accrued Specified Expenses. For the avoidance of doubt, any organizational and offering expenses that are Specified Expenses will be subject to the Expenses Cap on such amounts that are amortized in the applicable month.

"Specified Expenses" means administrative expenses (including fees and expenses of the administrator); capitalized and amortized organizational-related marketing and offering expenses; routine legal expenses; audit and tax preparation expenses; internal and external accounting and valuation expenses; computer hardware and telephone lines incorporated into the cost of obtaining research and market data; and website creation and maintenance; provided that in no event will Specified Expenses include extraordinary expenses (including, without limitation, extraordinary legal expenses and indemnification expenses) or investment expenses (e.g., expenses that are related to the investment of the Funds' assets). Certain goods, services, costs and expenses may be provided through "soft dollars" generated by the Fund as described herein. The use of commissions or "soft dollars" to pay for research products or services will fall within the safe harbor created by Section 28(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). (See "Brokerage Commissions; Turnover".)

Each Fund and client pays its expenses directly or reimburses the Investment Adviser or its affiliates, as instructed, for expenses paid on its behalf. The direct expenses incurred by each Fund and client vary depending on the nature of the operations and activities of such entity and are described in detail in each Fund's PPM or client's investment management agreement.

The Investment Adviser will pay compensation costs of its employees, rent and other overhead expenses of the Investment Adviser.

Funds and clients incur brokerage and other transaction-related costs. Item 12 describes the factors that the Investment Adviser may consider in selecting broker-dealers to execute Funds' and clients' transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

D. Prepayment of Fees

Generally, each client pays the Investment Adviser a fee for investment management services in advance based on the net asset value of each client. In the event that a client's net asset value is reduced in connection with a withdrawal or redemption by an investor of such client, the Investment Adviser will pay such client an amount equal to the pro rata portion of the Management Fee, based on the actual number of days remaining in such quarter, and such client will distribute such amount to the investor.

E. Additional Compensation and Conflicts of Interest

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

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

The Investment Adviser and its affiliates may accept performance-based fees or allocations from clients in an amount ranging from 15% to 20% of the net capital appreciation, and performance-based fees or allocations may be charged to clients in varying amounts. The variation of performance compensation structures among the Investment Adviser's clients may create an incentive for the Investment Adviser to direct the best investment ideas to, or to allocate or sequence trades in favor of, clients that pay or allocate a relatively greater percentage of performance compensation.

With respect to the Onshore Fund, generally, at the end of each fiscal year of the Onshore Fund, the Onshore Fund will reallocate from each capital account of each investor to the capital account of the General Partner an incentive allocation, equal to the result of the applicable incentive allocation rate multiplied by the amount of the net capital appreciation allocated to each capital account of such investor for such fiscal year after reduction by an amount equal to the amount of the Management Fee debited to such capital account for such fiscal year; provided, however, that the net capital appreciation upon which the calculation of the incentive allocation is based will be reduced to the extent of any balance in such capital account's loss recovery account. The incentive allocation, with respect to the Onshore Fund, will be calculated and accrued monthly. The incentive allocation will also be made with respect to net capital appreciation attributable to amounts withdrawn and to amounts transferred (provided that such transfer results in a change in the beneficial ownership of the interest transferred) and in connection with the termination of the Onshore Fund.

With respect to the Offshore Fund, generally, at the end of each fiscal year of the Intermediate Fund, the Intermediate Fund will reallocate from the net asset value of each series of Intermediate Fund shares to the net asset value of the shares held by the Firm an incentive allocation equal to the result of the applicable incentive allocation rate multiplied by the amount of the net realized and unrealized appreciation in the net asset value of the Intermediate Fund shares depending on the particular series and class of shares. In each case, the net asset value will be calculated without taking into account any investor-related taxes, and prior to any accruals for, or the reallocation of, the incentive allocation and adjusted for any redemptions and after reduction by an amount equal to the Management Fee; provided, however, that an incentive allocation will be made only with respect to the excess of the adjusted net asset value of a series over its prior high net asset value of such series. The incentive allocation, with respect to the Offshore Fund, will be calculated and accrued monthly.

Consistent with its fiduciary duty to its clients, the Investment Adviser allocates investment opportunities equitably among its clients taking into account such factors as relative amounts of capital available for new investments, relative exposure to market trends, and the investment programs and portfolio positions of the clients for which participation is appropriate.

Fund investors should review the respective Fund's PPM for detailed information with respect to performance-based fees.

ITEM 7— TYPES OF CLIENTS

As further described in Item 4 of this Brochure, the Firm provides investment advisory services to pooled investment vehicles which generally operate as exempt investment companies under the Investment Company Act.

The Firm may, from time to time, offer one or more investors and/or other third-party investors the opportunity to co-invest with the Funds in particular investments. The Firm is not obligated to arrange co-investment opportunities, and no investor will be obligated to participate in such an opportunity. The Firm may in the future provide investment advice to Managed Accounts for institutional and other investors.

ITEM 8— METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

A. Methods of Analysis and Investment Strategies

The descriptions set forth in this Brochure of specific advisory services that the Investment Adviser offers to clients, and investment strategies pursued and investments made by the Investment Adviser on behalf of its clients, should not be understood to limit in any way the Investment Adviser's investment activities. The Investment Adviser may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that the Investment Adviser considers appropriate, subject to each client's investment objectives and guidelines. The investment strategies the Investment Adviser pursues are speculative and entail substantial risks. There can be no assurance that the investment objectives of any client will be achieved.

Investment Objective

The Investment Adviser's investment objective is to seek superior risk-adjusted investment results over time, relatively independent of the returns generated by the overall equity market, through investment opportunities that are primarily generated by the various phases of the credit cycle. The Investment Adviser attempts to realize its investment objective by investing principally in the securities of companies undergoing credit-oriented restructuring and reorganizations, including, without limitation, pursuant to Chapter 11 of the U.S. Bankruptcy Code, companies engaged in various types of balance sheet restructuring and companies whose securities trade at levels that the Investment Adviser does not believe reflect their intrinsic value.

Investment Strategies

The Investment Adviser employs strategies involving derivatives, such as options, swaps, convertible securities, forward contracts and futures contracts, which may present more favorable risk/reward relationships. It also may use hedging techniques (including, without limitation, futures contracts, forward contracts and options on the foregoing) in an attempt to promote principal safety and return stability.

General

The Investment Adviser seeks to maintain a diversified portfolio through investing in diverse strategies that encompass various trading techniques, product groups and risk factors. The Investment Adviser seeks to construct a portfolio with low correlation among its strategies and to the broader markets in general and intends to position itself to profit from large scale movements in the broader markets. The Investment Adviser will generally use quantitative and fundamental methods along with market information analysis to make directional and distributional investments. The Onshore Fund may also participate in the origination of loans, and may offer to the other Funds, or other parties participations in or sales of loans that the Onshore Fund has originated.

The Investment Adviser invests in securities that are subject to corporate events such as restructurings, refinancings, liquidations, litigations, bankruptcy or other insolvency proceedings,

debt or equity exchange offers, spin-offs, recapitalizations, asset transfers, mergers, consolidations, acquisitions or tender offers for debt or equity. The Investment Adviser also invests in other types of special situation and value-oriented opportunities, including, without limitation, capital structure arbitrage, pair trading and short selling, and longer-term investments in both public and private securities.

The Investment Adviser generally bases its investment decisions on internally generated research and, from time to time, on research obtained from outside sources. It attempts to take a mathematical and analytical approach to investing by evaluating the upside/downside potential as well as, in the case of securities subject to extraordinary corporate activity, the probability of completion of each transaction in order to calculate the expected return. The Investment Adviser then measures that return against its estimation of the return required to compensate for the amount of risk in the investment. The Investment Adviser attempts to minimize the portfolio's loss exposure in each specific situation by having position size determined by downside potential and portfolio diversification.

B. Risk Factors

Listed below are some of the risks that will be associated with investment in the Funds. The following explanation of certain risks is not exhaustive, but rather highlights some of the more significant risks involved in the Funds' investment strategies. Please note, not all risks are applicable to the Funds; there are important differences in how these risks may affect each Fund. For a complete explanation of the relevant investment strategies and their associated risks specific to each Fund, investors should review the relevant Offering Documents or investment management agreement, which may contain additional explanations of strategies, risks and other related details not discussed below.

Limited Operating History. Each of the Funds is a newly formed entity, and the Investment Adviser and its investment professionals have a limited operating history upon which prospective Investors can evaluate their anticipated performance. There can be no assurance that the Funds or the Investment Adviser will achieve results comparable to those that the investment professionals have achieved in the past.

Dependence on the Investment Adviser. The success of the Funds is dependent upon the ability of the Investment Adviser to manage the Funds and effectively implement the Funds' investment programs. The Funds' governing documents do not permit the investors to participate in the management and affairs of the Funds. If the Funds or any of the other accounts managed by the Investment Adviser were to incur substantial losses or were subject to an unusually high level of redemptions or withdrawals, the revenues of the Investment Adviser may decline substantially. Such losses and/or withdrawals may impair the Investment Adviser's ability to provide the same level of service to the Funds as it has in the past and continue operations. The loss of the services of the Investment Adviser could have a material adverse effect on the Funds and the investors' investments therein.

Valuation of Assets and Liabilities. The administrator calculates the value of the assets of the Funds and the Investment Adviser reviews such calculations, all of which is done in consultation with, and subject to the approval of, the General Partner and the Board of Directors,

and in accordance with the partnership agreement. The valuation of any asset or liability involves inherent uncertainty. The value of a security determined by the administrator may differ materially from the value that could have been realized in an actual sale or transfer for a variety of reasons, including the timing of the transaction and liquidity in the market. Uncertainties as to the valuation of portfolio positions could have an impact on the net asset value of the Funds if the judgments of the General Partner or the Board of Directors regarding the appropriate valuation should prove to be incorrect.

ASC 820 — Fair Value Measurements and Disclosures; Potential GAAP vs. Valuation Policy Reporting Difference. The Funds' assets and liabilities are valued by the administrator. However, for purposes of preparing the Funds' annual audited financial statements, which are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), certain of the Funds' assets and liabilities may be valued in a manner that, while consistent with GAAP, is different from the manner in which such assets are valued by the administrator.

Specifically, for purposes of GAAP-compliant financial reporting, the Funds are required to follow a specific framework for measuring the fair value of their assets and liabilities, and are required to provide certain additional disclosures regarding the use of fair value measurements in their audited financial statements. Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, formerly known as FAS 157 ("ASC 820"), defines and establishes a framework for measuring fair value under GAAP and expands financial statement disclosure requirements relating to fair value measurements. Other valuation-related requirements are contained in other provisions of GAAP, and sections of the codification. Additional FASB ASCs and updates and additional provisions of GAAP that may be adopted in the future may also impose additional, or different, specific requirements as to the valuation of assets and liabilities for purposes of GAAP-compliant financial reporting.

Accordingly, to the extent that GAAP would require any of the Funds' assets or liabilities to be valued in a manner that differs from the administrator's valuation policies, such assets or liabilities will be valued (x) in accordance with GAAP, solely for purposes of preparing the Funds' GAAP-compliant annual audited financial statements, and (y) in accordance with the valuation policies set forth herein (without regard to any GAAP requirements relating to the determination of fair value) for all other purposes, including, without limitation, for purposes of allocating gains and losses among the investors, which, as described in this Confidential Memorandum, is relevant to, among other things, the determination of net asset value per Share, the calculation of the Management Fee and the Incentive Allocation, and the amounts payable by the Funds in respect of a withdrawal by or distribution to an investor.

Generally, accounting rules (including ASC 820) applicable to investment funds and various assets in which they invest are evolving. Such changes may adversely affect the Funds. For example, the evolution of rules governing the determination of the fair market value of assets to the extent such rules become more stringent would tend to increase the cost and/or reduce the availability of third-party determinations of fair market value. This may, in turn, increase the costs associated with selling assets or affect their liquidity due to inability to obtain a third-party determination of fair market value.

ASC 740 — Accounting Changes; Effect on Net Asset Value. Pursuant to FASB ASC 740, formerly known as FIN 48 ("ASC 740"), which provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in financial statements, the Funds are required to determine whether a tax position, based on its technical merits, meets a more-likely-than-not recognition threshold that the position will be sustained upon examination. As a result of such a determination, the Funds may be required to recognize a contingent tax liability in their net asset value calculations if the related tax position meets the recognition criterion in ASC 740 and, conversely, may be required to unrecognize a contingent tax liability in their net asset value calculations if the related tax position does not meet the recognition criterion in ASC 740. In addition, the net asset value of the Funds may be adjusted if an uncertain tax position is settled. Since ASC 740 has only recently been adopted, the Funds may be required to recognize in their financial statements contingent liabilities that under prior custom and practice in the industry would not have been recognized. Such contingent liabilities may also relate to time periods that predate an investor's investment in the Funds. Recognition and measurement of each tax position, including any tax position for which there is a lack of authority and audit experience, is determined by the General Partner, in its sole discretion, based on discussions with the Investment Adviser, tax advisers and the auditor and based on the facts and circumstances known at the time. There can be no assurance that any such determination will not change over time. Adjustments made to the net asset value of the Funds in connection with the recognition or unrecognition of contingent tax liabilities may have a material positive or negative effect on certain investors and prospective investors, depending on the circumstances.

Access to Nonpublic Information. From time to time, the Funds, through the principals, employees or agents of the Investment Adviser, may be represented on the boards of directors or creditors' committees, or serve as observers to the boards of directors, of certain of the companies in which the Funds make investments. In addition, the Investment Adviser may have access to nonpublic information regarding issuers of securities that are investments or potential investments of the Funds. While such representation or access to nonpublic information is important to the investment strategy and may enhance the Adviser's ability to manage the Funds' investments, it may also have the effect of impairing the ability of the Funds to purchase or sell the related investments when, and upon the terms, the Funds might otherwise desire, including as a result of applicable securities laws or standstill provisions in nondisclosure agreements entered into by Investment Adviser or the Funds in connection with obtaining such representation or access.

Currency Exchange Exposure. The Funds may invest in securities denominated in currencies other than the U.S. Dollar. The Funds, however, value the securities in U.S. Dollars. The Funds may or may not seek to hedge their non-U.S. currency exposure by entering into currency hedging transactions. There can be no guarantee that securities suitable for hedging currency or market shifts will be available at the time when the Funds wish to use them, or that hedging techniques employed by the Funds will be effective. Furthermore, certain currency market risks may not be fully hedged or hedged at all. To the extent unhedged, the value of the Funds' positions denominated in currencies other than the U.S. Dollar will fluctuate with U.S. Dollar exchange rates as well as with the price changes of the investments in the various local markets and currencies.

Litigation Risk. Some of the tactics that the Investment Adviser may use may involve litigation. The Funds could be a party to lawsuits either initiated by them, or by a company in which the Funds invest, other shareholders of such company, or U.S. federal, state and non-U.S. governmental bodies. There can be no assurance that any such litigation, once begun, would be resolved in favor of the Funds.

Discretion of the Investment Adviser; New Strategies and Techniques. While the Investment Adviser will generally seek to employ the representative investment strategies and techniques discussed herein, the Investment Adviser (subject to the policies and control of the General Partner) has considerable discretion in the types of securities the Funds may trade and has the right to modify the investment strategies and techniques of the Funds without the consent of investors. New investment strategies and techniques may not be thoroughly tested in the market before being employed and may have operational or theoretical shortcomings which could result in unsuccessful trades and, ultimately, losses to the Funds. In addition, any new investment strategy or technique developed by the Funds may be more speculative than earlier investment strategies and techniques and may involve material and as-yet-unanticipated risks that could increase the risk of an investment in the Funds.

Capital Structure Arbitrage. The success of the Funds' capital structure arbitrage strategy depends upon the Investment Adviser's ability to identify and exploit the relationships between movements in different securities within an issuer's capital structure (including, bank debt, convertible and non-convertible senior and subordinated debt and preferred and common stock). Identification and exploitation of these opportunities involve uncertainty. There can be no assurance that the Investment Adviser will be able to locate investment opportunities or to correctly exploit price discrepancies. A reduction in the pricing inefficiency of the markets in which the Funds will seek to invest will reduce the scope for the Funds' investment strategies. In the event that the perceived mispricings underlying the Funds' positions fail to materialize, these investment strategies could be unsuccessful or result in losses.

Lack of Control. The Funds may invest in debt instruments and equity securities of companies that they do not control, which the Funds may acquire through market transactions or through purchases of securities directly from the issuer or other shareholders. Such securities will be subject to the risk that the issuer may make business, financial or management decisions with which the Funds do not agree or that the majority stakeholders or the management of the issuer may take risks or otherwise act in a manner that does not serve the Funds' interests. In addition, the Funds may share control over certain investments with co-investors, which may make it more difficult for the Funds to implement their investment approaches or exit the investments when they otherwise would. The occurrence of any of the foregoing could have a material adverse effect on the Funds and investors' investments therein.

Loan Investments. The Funds' success in the area of loan investing will depend, in part, on their ability to obtain loans on advantageous terms. In purchasing loans, the Funds will compete with a broad spectrum of investors and institutions. Increased competition for, or a diminution in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to investors.

Leveraged Loans. "Leveraged loans" are loans made to companies with a below investment-grade rating from any nationally recognized rating agency. Such loans may

be performing poorly when the Funds acquire them. There is no assurance that the Investment Adviser will correctly evaluate the value of the assets collateralizing such loans or the prospects for distribution on or repayment of such loans. The Funds may lose their entire investment or may be required to accept cash, property or securities with a value less than the Funds' original investment and/or may be required to accept payment over an extended period of time.

Hung Loans. The term "hung loan" commonly refers to a loan that has been made (or has been committed to be made), and the lender is not able to syndicate the loan on the originally anticipated terms. Hung loans are illiquid and lack readily ascertainable market values; there is no assurance that the price to be paid for hung loans by the Funds will reflect a discounted price that should allow the Funds to achieve a positive return on such loans or avoid losses. Since the price of the loans to be purchased is expected to continue to be significantly impacted by, in addition to the specific circumstances relating to each loan (*e.g.*, in the case of a loan relating to a leveraged buyout ("LBO"), the financial condition of the target), global and macro-economic conditions (*e.g.*, monetary policy, changes to currency exchange rates, governmental intervention or changes to existing laws, international geopolitical events, *etc.*) as well as other systemic factors, it is possible that loans purchased by the Funds will suffer significant impairments in value as a result of events not predicted by the Funds. The Funds may also face difficulties in disposing of or leveraging such loans, or in doing so without incurring losses. The markets in which hung loans are purchased and sold have been volatile and are likely to continue to be volatile in the future.

Bank Loans. Bank loans are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of the Funds to directly enforce their rights with respect to participations. Successful claims by third parties arising from these and other risks will be borne by the Funds.

As secondary market trading volumes increase, new loans are frequently adopting standardized documentation to facilitate loan trading, which may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue. Because of the provision to holders of such loans of confidential information relating to the borrower, the unique and customized nature of the loan agreement, and the private syndication of the loan, loans are not as easily purchased or sold as a publicly traded security, and historically the trading volume in the loan market has been small relative to the high-yield debt market.

Second Lien Loans. The Funds may invest in loans that are secured by a second lien on assets. Second lien loans have been a developed market for a relatively short period of time, and there is limited historical data on the performance of second lien loans in adverse economic circumstances. In addition, second lien loan products are subject to intercreditor arrangements with the holders of first lien indebtedness, pursuant to which the second lien

holders have waived many of the rights of a secured creditor, and some rights of unsecured creditors, including rights in bankruptcy that can materially affect recoveries. While there is broad market acceptance of some second lien intercreditor terms, no clear market standard has developed for certain other material intercreditor terms for second lien loan products. This variation in key intercreditor terms may result in dissimilar recoveries across otherwise similarly situated second lien loans in insolvency or distressed situations. While uncertainty of recovery in an insolvency or distressed situation is inherent in all debt instruments, second lien loan products carry more risks than certain other debt products. Beginning in August 2007, the market for many loan products, including second lien loans, contracted significantly which made virtually all leveraged loan products, particularly second lien loan products, less liquid or illiquid. Many participants ceased underwriting and purchasing certain second lien loan products. There can be no assurance that the market for second lien loans will not contract further.

Bridge Loans. It is a common practice for financial institutions to commit to providing bridge loans to facilitate acquisitions, including LBOs, where they serve as advisers to the purchaser. Bridge loans are frequently made because, for timing or market reasons, longer-term financing is not available at the time the funds are needed, which is often at the time of the closing of an acquisition. In the past, these commitments were not frequently drawn upon due to the availability of other sources of financing; however, due to market conditions affecting the availability of these other sources of financing (principally high-yield bond transactions), bridge loan commitments have been and may be drawn upon more regularly. Since these commitments were not regularly drawn upon in the past, there is little history for investors to rely upon in evaluating investments in bridge loans. Bridge loans often have shorter maturities. Borrower and lenders typically agree to shorter maturities based on the anticipation that the bridge loans will be replaced with other forms of financing within such shorter time period. However, the source and timing of such replacement financing may be uncertain and can be affected by, among other things, market conditions and the financial condition of the borrower at the maturity date of the bridge. If the borrower is unable to obtain replacement financing and repay the bridge loan at maturity, the terms of the bridge loan may provide for the bridge loan to be converted to a longer term loan. If bridge loans are not repaid (or cannot be disposed of on favorable terms) on the dates projected by the Investment Adviser, there may be an adverse effect upon the ability of the Investment Adviser to manage the assets of the Funds in accordance with their models and projections or an adverse effect upon the Funds' performance and ability to make distributions.

Debtor-in-Possession ("DIP") Loans. Loans to companies that have filed for protection under Chapter 11 of the U.S. Bankruptcy Code, as amended, are most often asset-based, revolving working-capital facilities put into place at the outset of a Chapter 11 case to provide the debtor with both immediate cash and the ongoing working capital that will be required during the reorganization process. While such loans are generally less risky than many other types of loans as a result of their seniority in the debtor's capital structure and because their terms have been approved by a U.S. federal bankruptcy court order, it is possible that the debtor's reorganization efforts may fail and

the proceeds of the ensuing liquidation of the DIP lender's collateral might be insufficient to repay in full the DIP loan.

Fraud Associated with Loans. Of paramount concern in loan investments is the possibility of material misrepresentation or omission on the part of the borrower or loan seller. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of the Funds to perfect or effectuate a lien on the collateral securing the loan. The Funds will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to the Funds may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Loan Origination. As noted above under "Investment Program," if the Funds are not successful in offering participations in, assignments or sales of the loans that they originate to third parties, the Funds will be forced to hold such excess until such time as it can be disposed. This may result in the Funds being "overweighted" with respect to a particular borrower.

Convertible Securities. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified 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 will 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 governed 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 withdraw 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 is called for withdrawal, the Funds will be required 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 achieve their investment objectives.

Event-Driven and Risk Arbitrage Strategies. The Funds may purchase securities at prices slightly below the anticipated value of the cash, securities or other consideration to be paid or exchanged for such securities in a proposed merger, exchange offer, tender offer, spin-off or other similar transaction. Such purchase price may be substantially in excess of the market price of the securities prior to the announcement of the merger, exchange offer, tender offer, spin-off or other similar transaction. If the proposed merger, exchange offer, tender offer, spin-off or other similar transaction later appears likely not to be consummated or in fact is not consummated or is delayed, the market price of the securities purchased by the Funds may decline sharply and result in losses to the Funds. Losses may result even if the proposed transaction is consummated. In addition, the Funds may sell short securities to be issued in a merger or exchange offer in the expectation that the short position will be covered by delivery of such securities when issued. If the merger or exchange offer is not consummated, the Funds may be forced to cover their short positions at a price that is higher than its short sale price, resulting in a loss.

The Funds may also purchase securities above the price offered in a takeover bid, if the Investment Adviser determines that the offer price is likely to be increased, either by the original bidder or by another party. However, if no transaction ultimately is consummated, it is likely that a substantial loss will result.

The Funds may sell the securities of a target company short if the Investment Adviser determines that it is probable that a proposed transaction will not be consummated. If the transaction (or another transaction, such as a "defensive" merger or a "friendly" tender offer) is consummated and the price of the target company's securities increases, the Funds may be forced to cover their short positions at prices that are higher than the short sale prices, resulting in losses.

The consummation of mergers, exchange offers, tender offers, spin-offs and other similar transactions can be prevented or delayed by a variety of factors. Offerors in exchange offers and tender offers customarily reserve the right to cancel such offers for many reasons, including an insufficient response from shareholders of the target company. An exchange offer or a tender offer by one company for the securities of another may be opposed by the management or shareholders of the target company on the grounds that the consideration offered is inadequate or for other reasons, and this opposition may result in regulatory action and/or litigation which delays or prevents consummation of the transaction, or the management of the target company may pursue defensive strategies, such as seeking a "friendly" merger with, or tender offer by, a company other than the offeror. Even if the transaction has been agreed upon by the management of the companies involved, its consummation may be prevented by the intervention of a governmental authority, litigation brought by a shareholder or, in the case of a merger, the failure to receive the necessary shareholder approvals, market conditions resulting in material changes in securities prices, and other circumstances, including,

without limitation, the failure to meet certain conditions customarily specified in acquisition agreements. Even if the defensive activities of a target company or the actions of governmental authorities fail to defeat a transaction, they may result in significant delays, during which time the Funds' capital will be committed to the transaction and the Funds may incur interest charges on any funds borrowed by the Funds in connection with the transaction.

An exchange offer or a tender offer will often be made for less than all of the outstanding securities of an issuer, with the provision that, if a greater number is tendered, securities will be accepted *pro rata*. Thus, after the completion of a tender offer, and at a time when the market price of the securities has declined below the Funds' cost, the Funds may have returned to it, and be forced to sell at a loss, a portion of the securities they tendered.

Corporate events are affected by numerous factors, including, not only market movements, but also regulatory intervention, investors' consent and changes in interest rates and economic outlook, which can have a particularly adverse effect on even the most safe risk arbitrage investments. In its event driven and Risk Arbitrage strategies, the Funds are particularly subject to the risk of major unexpected losses. There is no effective means of hedging the risk of such losses.

Fraudulent Conveyances and Preferences. Various U.S. federal and state laws enacted for the protection of creditors may apply to the investments made by the Funds by virtue of the Funds' role as a creditor with respect to such investments made by the Funds. For example, if a U.S. federal or state court adjudicating a lawsuit brought by an unpaid creditor or representative of creditors of a borrower were to find that the borrower did not receive fair consideration or reasonably equivalent value for incurring indebtedness evidenced by an investment made by the Funds and the grant of any security interest or other lien securing such investment made by the Funds, and, after giving effect to the incurring of such indebtedness, the borrower was insolvent (or certain other circumstances applied), then such court could invalidate, in whole or in part, such indebtedness and such security interest or other lien as fraudulent conveyances, subordinate such indebtedness to existing or future creditors of the borrower or recover amounts previously paid by the borrower (including to the Funds) in satisfaction of such indebtedness or proceeds of such security interest or other lien previously applied in satisfaction of such indebtedness. In addition, in the event of the bankruptcy of an issuer under the U.S. Bankruptcy Code, payments made to the Funds in relation to its investments in such issuer could be subject to avoidance as a "preference" if made within a certain period of time before insolvency, depending on a number of factors. Similar doctrines may apply under the laws of other jurisdictions, and the measure of insolvency for purposes of the foregoing will vary depending on the law of the jurisdiction which is being applied. Generally, a borrower would be considered insolvent at a particular time if the sum of its debts was greater than the fair value of all of its property or if the present fair saleable value of its assets was less than the amount that would be required to pay its probable liabilities on its existing debts as they became absolute and matured. If payments made by the borrower are voidable, whether as fraudulent conveyances or preferences, such payments generally can be recaptured either from the initial recipient (such as the Funds) or from subsequent transferees of such payments

Recent Developments in the Residential Mortgage Market. The Funds may invest in residential mortgage loans. General trends in consumer borrowing and mortgage lending over the past decade may have increased the sensitivity of the mortgage market to changes in economic conditions. Many mortgage lenders loosened their credit criteria, including by increasing lending to first time homebuyers and borrowers with lower credit scores, by making loans made with low or no document income verification or without regard to ability to pay (including after a rate reset), and by making loans with higher loan-to-value ratios. In addition, certain borrowers may have financed their equity contributions with "piggy-back" junior lien loans, resulting in little to no equity contributed by the borrower with respect to their mortgage loan financing. As property values generally increased, consumers borrowed against the increasing equity in their homes to cover other expenses, such as investments in home remodeling and education costs, resulting in an increase in debt service as a percentage of income. Increasing property values also encouraged borrowers to obtain mortgage loans to finance investment properties, which generally have a higher tendency to become delinquent and to default than mortgage loans made to finance primary residences. In connection with the origination of low or no documentation loans, lenders may have been willing to make such loans by relying primarily on the value or expected value of the property rather than on the creditworthiness of the borrower. These trends in the mortgage loan industry and in consumer behavior have increased the likelihood of defaults, delinquencies, foreclosures and losses on mortgage loan portfolios and losses in the mortgage market.

Recessive economic trends in the United States continue to be primary indicators of defaults and delinquencies. Continued unfavorable economic conditions could increase the likelihood of delinquencies and defaults and negatively affect the value of the Funds' portfolios. A general unavailability of credit also affects the overall economy in ways that could result in increased delinquencies and defaults on residential mortgage loans (and losses to the loans held by the Funds).

Co-Investments with Affiliates and Third Parties. The Funds may co-invest with affiliates and third parties through joint ventures or other entities. Such investments may involve risk including the possibility that a co-venturer or investor may at any time have economic or business interests or goals which are inconsistent with those of the Funds, or may be in a position to take action contrary to the Funds' investment objectives. Such co-investments may have the effect of limiting the size of the Funds' investments in such opportunities. In addition, although such co-investment opportunities may arise as a result of the Funds' activities, the Investment Adviser may choose to offer such co-investment opportunities to outside parties rather than making larger investments on behalf of the Funds in such opportunities or offering such opportunities to the investors.

In addition, the Funds may co-invest in private transactions with other affiliated funds, through collectively owned SPVs and otherwise. Assets of co-investing affiliated funds (including the Funds) may become exposed to the risk of claims involving one or more other co-investing funds, e.g., a third party to a transaction may require the co-investing funds to agree to joint and several liability, or certain types of trades may be pooled together in a common SPV without segregation of liabilities arising from different trades even though not all participating Funds participate in all trades entered into by the SPV. The Investment Adviser intends to mitigate

such risks as it deems appropriate from time to time, such as through cross-indemnification arrangements, but there can be no guarantee that such risks can be mitigated in full.

Regulatory Developments Regarding Servicing of Mortgage Loans may Adversely Affect the Funds. The Dodd-Frank Act includes extensive changes to the laws regulating financial services firms, which included the creation of the Consumer Financial Protection Bureau (the "CFPB") within the Federal Reserve to regulate consumer financial services and products.

The CFPB, the U.S. Treasury Department, several regulatory bodies and state attorneys general have recently increased scrutiny of mortgage servicers and have imposed, or are seeking to impose, requirements on servicers to substantially revise their servicing practices, including the establishment of national servicing standards that would be applicable to all residential mortgage servicers. For example, such regulatory action may require servicers to make several enhancements to their servicing operations, including implementation of a single point of contact model for borrowers throughout the loss mitigation and foreclosure processes; adoption of measures designed to ensure that foreclosure activity is halted once a borrower has been approved for a modification unless the borrower fails to make payments under the modified loan; implementation of enhanced controls over third-party vendors that provide default servicing support services; and retention of an independent consultant to conduct a review of all foreclosure actions pending, or that have occurred within a specified period.

The U.S. Federal Housing Finance Agency ("FHFA") has also directed both Fannie Mae and Freddie Mac to align their guidelines for servicing delinquent mortgages they own or guarantee. The updated framework mandated by the FHFA will establish uniform servicing requirements as well as monetary incentives for servicers that perform well and penalties for those that do not.

The Dodd-Frank Act's creation of the CFPB will also directly impact the regulation of residential mortgage lending and servicing in a number of ways. The CFPB has rulemaking authority with respect to many of the federal consumer protection laws applicable to mortgage servicers, including the Truth in Lending Act ("TILA") and the Real Estate Settlement Procedures Act ("RESPA"), as well as supervision, examination and enforcement authority over the consumer financial products and services offered by certain financial institutions. The CFPB published two notices of proposed rulemakings implementing the Dodd-Frank Act's amendments to TILA and the RESPA, which proposed rulemakings are part of this effort towards such national servicing standard. It is unclear what effect, if any, these changes will have on the performance of mortgage loan servicing generally.

The Dodd-Frank Act also contains the Mortgage Reform and Anti-Predatory Lending Act (the "Mortgage Act"). The Mortgage Act imposes a number of additional requirements on servicers of residential mortgage loans by amending certain existing provisions, adding new sections to TILA and RESPA and increasing penalties for noncompliance therewith. Many of these provisions in the Mortgage Act will not be effective until regulations are issued. When fully implemented, the Mortgage Act will prevent servicers of residential mortgage loans from taking certain actions that could lead to increased servicing costs.

Reliance on Corporate Management and Financial Reporting. Many of the strategies implemented by the Funds rely on the financial information made available by the issuers in which the Funds invest. The Investment Adviser usually has no ability to independently verify the financial information disseminated by the thousands of issuers in which the Funds invest and is dependent upon the integrity of both the management of these issuers and the financial reporting process in general. Recent events have demonstrated the material losses which investors such as the Funds and indirectly, the Funds can incur as a result of corporate mismanagement, fraud and accounting irregularities.

Competition; Availability of Investments. Certain markets in which the Funds may invest are extremely competitive for attractive investment opportunities. As a result, there can be no assurance that the Investment Adviser will be able to identify or successfully pursue attractive investment opportunities in such environments.

Importance of Valuation Models. The Investment Adviser's strategies are based on valuation models which it has developed over time. Numerous firms commit substantial resources to the updating and maintenance of existing models as well as to the ongoing development of new models and algorithms. As market dynamics shift over time, a previously highly successful model may become outdated, perhaps without the Investment Adviser recognizing that fact before substantial losses are incurred. There can be no assurance that the Investment Adviser will be successful in maintaining effective valuation models.

Risks Associated with High-Yield Securities. The Funds may invest in high-yield securities. These securities are typically below investment grade or unrated and 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. High-yield securities that are below investment grade or unrated face ongoing uncertainties and exposure to adverse business, financial or economic conditions that 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. As a result (and as noted above), the market prices of such securities can be subject to abrupt and erratic market movements and changes in liquidity and above-average price volatility, and the spread between the bid and asked prices of such securities may be greater than those prevailing in other securities markets. 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 a major 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. Finally, if the Funds invest in bonds of issuers that do not have publicly traded equity securities, it will be more difficult to hedge the risks associated with such investments.

Credit Risk. One of the fundamental risks associated with the Funds' investments is credit risk, which is the risk that an issuer or borrower will be unable to make principal and interest payments on its outstanding debt obligations when due or otherwise defaults on its

obligations to the Funds and/or that the guarantors or other sources of credit support for such persons do not satisfy their obligations. The Funds' return to investors would be adversely impacted if an issuer of debt securities or a borrower under a loan in which the Funds invest becomes unable to make such payments when due. Although the Funds may make investments that the Investment Adviser believes are secured by specific collateral the value of which may initially exceed the principal amount of such investments or the Funds' fair value of such investments, there can be no assurance that the liquidation of any such collateral would satisfy the borrower's obligation in the event of non-payment of scheduled interest or principal payments with respect to such investment, or that such collateral could be readily liquidated. In addition, in the event of bankruptcy of a borrower, the Funds could experience delays or limitations with respect to their ability to enforce rights against and realize the benefits of the collateral securing an investment. Under certain circumstances, collateral securing an investment may be released without the consent of the Funds or the Funds' expected rights to such collateral could, under certain circumstances, be voided or disregarded. The Funds' investments in secured debt may be unperfected for a variety of reasons, including the failure to make required filings by lenders and, as a result, the Funds may not have priority over other creditors as anticipated. Furthermore, the Funds' rights to payment and their security interests, if any, may be subordinated to the payment rights and security interests of the senior lender. Certain of these investments may have an interest-only payment schedule, with the principal amount remaining outstanding and at risk until the maturity of the investment. In addition, certain instruments may provide for payments-in-kind payments, which have a similar effect of deferring current cash payments. In both cases, a company's ability to repay the principal of an investment may be dependent upon a liquidity event or the long-term success of the company, the likelihood of which is uncertain. With respect to the Funds' investments in any number of credit products, if the borrower or issuer breaches any of the covenants or restrictions under the indenture governing notes or the credit agreement that governs loans of such issuer or borrower, it could result in a default under the applicable indebtedness as well as the indebtedness held by the Funds. Such default may allow the creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. This could result in an impairment or loss of the Funds' investment or result in a prepayment (in whole or in part) of the Funds' investment. As it relates to all of the foregoing risks and related considerations discussed above, it should also be noted that the Funds may also invest in leveraged loans, high-yield securities, marketable and non-marketable common and preferred equity securities and other unsecured investments, each of which involves a higher degree of risk than senior secured loans.

Risks Associated with Non-Performing Loans. It is anticipated that certain loans purchased by the Funds will be non-performing and possibly in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. Although the Investment Adviser frequently deals with large, individual non-performing loans, the Investment Adviser has limited experience with acquiring and servicing portfolios of relatively small to medium-sized non-performing loans. There can be no assurance as to the amount and timing of payments, if any, with respect to the loans. By their nature, these investments will involve a high degree of risk. Commercial and industrial loans in workout and/or restructuring modes or under the U.S. Bankruptcy Code and the bankruptcy or insolvency laws of other jurisdictions are subject to additional potential liabilities, which may exceed the value of the Funds' original investment. For example, borrowers often resist foreclosure by asserting numerous claims, counterclaims and

defenses against the holder of real estate loans, including lender liability claims and defenses, in an effort to delay or prevent foreclosure. Under certain circumstances, lenders who have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In addition, under certain circumstances, payments to the Funds and distributions by the Funds to participating investors may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment. In addition to being lengthy and expensive, foreclosure and bankruptcy proceedings may disrupt ongoing leasing and management of the underlying real property.

Investments in Bridge Financings. From time to time, the Funds may lend to portfolio investments on a short-term, unsecured basis or otherwise invest on an interim basis in portfolio investments in anticipation of a future issuance of equity or long-term debt securities or other refinancing or syndication. Such bridge loans would typically be convertible into a more permanent, long-term security; however, for reasons not always in the Funds' control, such long-term securities issuance or other refinancing or syndication may not occur and such bridge loans and interim investments may remain outstanding. In such event, the interest rate on such loans or the terms of such interim investments may not adequately reflect the risk associated with the position taken by the Funds.

Debt Securities Generally. Debt securities of all types of issuers may have speculative characteristics, regardless of whether they are rated. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal in accordance with the terms of the obligations.

Dealer Market Making. The value of the Funds' fixed-income investments will be affected by general fixed income market conditions, such as the volatility and liquidity of the fixed income market, which are affected by the ability of dealers to "make a market" in fixed-income investments. In recent years, the market for bonds has significantly increased while dealer inventories have significantly decreased, relative to market size. This reduction in dealer inventories may be attributable to regulatory changes, such as capital requirements, and is expected to continue. As dealers' inventories decrease, so does their ability to make a market (and, therefore, create liquidity) in the fixed income market. Especially during periods of rising interest rates, this could result in greater volatility and illiquidity in the fixed income market, which could impair the Funds' profitability or result in losses.

Interest Rate Risk. Changes in interest rates can affect the value of the Funds' investments in fixed-income instruments. Increases in interest rates may cause the value of the Funds' debt investments to decline. The Funds may experience increased interest rate risk to the extent they invest, if at all, in lower-rated instruments, debt instruments with longer maturities, debt instruments paying no interest (such as zero-coupon debt instruments) or debt instruments paying non-cash interest in the form of other debt instruments.

Prepayment Risk. The frequency at which prepayments (including voluntary prepayments by the obligors and accelerations due to defaults) occur on debt instruments

will be affected by a variety of factors including the prevailing level of interest rates and spreads as well as economic, demographic, tax, social, legal and other factors. Generally, obligors tend to prepay their fixed rate obligations when prevailing interest rates fall below the coupon rates on their obligations. Similarly, floating rate issuers and borrowers tend to prepay their obligations when spreads narrow.

In general, "premium" securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since many fixed rate obligations will be discount instruments when interest rates and/or spreads are high, and will be premium instruments when interest rates and/or spreads are low, such debt instruments may be adversely affected by changes in prepayments in any interest rate environment.

The adverse effects of prepayments may impact the Funds' portfolios in two ways. First, particular investments may experience outright losses, as in the case of an interest-only instrument in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that the Investment Adviser may have constructed for these investments, resulting in a loss to the Funds' overall portfolios. In particular, prepayments (at par) may limit the potential upside of many instruments to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

Zero-Coupon and Deferred Interest Bonds. Zero-coupon bonds and deferred interest bonds are debt obligations issued at a significant discount from face value. The original discount approximates the total amount of interest the bonds will accrue and compound over the period until maturity or the first interest accrual date at a rate of interest reflecting the market rate of the security at the time of issuance. While zero-coupon bonds do not require the periodic payment of interest, deferred interest bonds generally provide for a period of delay before the regular payment of interest begins. Such investments experience greater volatility in market value due to changes in interest rates than debt obligations that provide for regular payments of interest.

High-Yield Bonds or Instruments. Bonds or other fixed-income securities that are "higher yielding" (including non-investment grade) debt securities are generally not exchange traded and, as a result, these securities trade in the over-the-counter marketplace, which is less transparent and has wider bid/ask spreads than the exchange-traded marketplace. High-yield securities 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. High-yield securities are generally more volatile and may or may not be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured by substantially all of the issuer's assets. High-yield securities may also not be protected by financial covenants or limitations on additional indebtedness. 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 may be highly leveraged and may not have available to them more traditional methods of financing. In addition, the Funds may invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments.

The Funds may invest in obligations of issuers that are generally trading at significantly higher yields than had been historically typical of the applicable issuer's obligations. Such investments may include debt obligations that have a heightened probability of being in covenant or payment default in the future or that are currently in default and are generally considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments. Typically, such workout or bankruptcy proceedings result only in partial recovery of cash payments or an exchange of the defaulted security for other debt or equity securities of the issuer or its affiliates, which may, in turn, be illiquid or speculative.

Corporate Debt. Bonds, notes and debentures issued by corporations may pay fixed, variable or floating rates of interest, and may include zero-coupon obligations. Corporate debt instruments may be subject to credit ratings downgrades. Other instruments may have the lowest quality ratings or may be unrated. In addition, the Funds may be paid interest in kind in connection with their investments in corporate debt and related financial instruments (e.g., the principal owed to the Funds in connection with a debt investment may be increased by the amount of interest due on such debt investment). Such investments may experience greater market value volatility than debt obligations that provide for regular payments of interest in cash and, in the event of a default, the Funds may experience substantial losses.

Mezzanine Debt. Mezzanine debt is typically junior to the obligations of a company to senior creditors, trade creditors and employees. The ability of the Funds to influence a company's affairs, especially during periods of financial distress or following an insolvency, will be substantially less than that of senior creditors. Mezzanine debt instruments are often issued in connection with leveraged acquisitions or recapitalizations in which the issuers incur a substantially higher amount of indebtedness than the level at which they had previously operated. Default rates for mezzanine debt instruments have historically been higher than for investment-grade instruments. In the event of the insolvency of a portfolio company of the Funds or similar event, the Funds' debt investment therein will be subject to fraudulent conveyance, subordination and preference laws.

Stressed Debt. Stressed issuers are issuers that are not yet deemed distressed or bankrupt and whose debt securities are trading at a discount to par, but not yet at distressed levels. An example would be an issuer that is in technical default of its credit agreement, or undergoing strategic or operational changes, which results in market pricing uncertainty. The market prices of stressed and distressed instruments are highly

volatile, and the spread between the bid and the ask prices of such instruments is often unusually wide.

Non-Performing Nature of Debt. Certain debt instruments may be non-performing or in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to such debt instruments.

Troubled Origination. When financial institutions or other entities that are insolvent or in serious financial difficulty originate debt, the standards by which such instruments were originated, the recourse to the selling institution, or the standards by which such instruments are being serviced or operated may be adversely affected.

Sovereign Debt. Several factors may affect (i) the ability of a government, its agencies, instrumentalities or its central bank to make payments on the debt it has issued ("Sovereign Debt"), including securities that the Investment Adviser believes are likely to be included in restructurings of the external debt obligations of the issuer in question, (ii) the market value of such debt and (iii) the inclusion of Sovereign Debt in future restructurings, including such issuer's (x) balance of trade and access to international financing, (y) cost of servicing such obligations, which may be affected by changes in international interest rates, and (z) level of international currency reserves, which may affect the amount of non-U.S. exchange available for external debt payments. Significant ongoing uncertainties and exposure to adverse conditions may undermine the issuer's ability to make timely payment of interest and principal, and issuers may default on their Sovereign Debt.

Equitable Subordination. Under common law principles that in some cases form the basis for lender liability claims, if a lender (i) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called "equitable subordination"). If the Funds engage in such conduct, the Funds may be subject to claims from creditors of an obligor that debt held by the Funds should be equitably subordinated.

Investments in Distressed Securities. Investment in a security or obligation issued by a company that is either in default or in high risk of default ("Distressed Securities") involves significant risk. The Funds may invest in "below investment grade" securities and obligations of U.S. and non-U.S. issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems or extraordinary liabilities, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Investments of this type may involve substantial financial and business risks that can result in substantial, or at times even total losses. Among the risks inherent in investments in troubled entities is the fact that it frequently may be

difficult to obtain information as to the true condition of such issuers. Such investments also may be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies' securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to the Funds' investment in any instrument, and a significant portion of the obligations and securities in which the Funds invest may be less than investment grade.

Any one or all of the issuers of the securities in which the Funds may invest may be unsuccessful or not show any return for a considerable period of time. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the Investment Adviser will correctly evaluate the value of the assets collateralizing the Funds' loans or the prospects for a successful reorganization or similar action. Unless the Funds' loans are most senior, in any reorganization or liquidation proceeding relating to a company in which the Funds invest, the Funds may lose their entire investment or may be required to accept cash or securities with a value less than the Funds' original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Funds' investments may not compensate investors adequately for the risks assumed.

Such types of securities require active monitoring and may, at times, require participation in bankruptcy or reorganization proceedings. To the extent that the Investment Adviser becomes involved in such proceedings, the Funds may have a more active participation in the affairs of the issuer than that assumed generally by an investor. The Funds, however, do not generally make investments for the purpose of exercising day-to-day management of any issuer's affairs.

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the Funds of the security in respect to which such distribution was made.

In certain transactions, the Funds may not be "hedged" against market fluctuations, or, in liquidation situations, may not accurately value the assets of the company being liquidated. This can result in losses, even if the proposed transaction is consummated.

Special Situations. The Funds may invest in companies undergoing work-outs, liquidations, reorganizations, bankruptcies or other fundamental changes or similar transactions. In any investment opportunity involving any such type of special situation, there exists the risk that the contemplated transaction either will be unsuccessful, will take considerable time or will result in a distribution of cash or new securities the value of which will be less than the purchase price to the Funds of the securities or other financial instruments in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, the Funds

may be required to sell their investments at a loss. The consummation of such transactions can be prevented or delayed by a variety of factors, including but not limited to: (i) intervention of a regulatory agency; (ii) market conditions resulting in material changes in securities prices; (iii) compliance with any applicable securities laws; and (iv) the inability to obtain adequate financing. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which the Funds intend to invest, there is a potential risk of loss by the Funds of their entire investment in such companies. In connection with such transactions (or otherwise), the Funds may purchase securities on a when-issued basis, which means that delivery and payment take place sometime after the date of the commitment to purchase and is often conditioned upon the occurrence of a subsequent event, such as approval and consummation of a reorganization or debt restructuring. The purchase price or interest rate receivable with respect to a when-issued security can be fixed when the Funds enter into the commitment. Such securities are subject to changes in market value prior to their delivery.

Bankruptcy Claims. Bankruptcy claims, which are amounts owed to creditors of companies that are debtors in pending bankruptcy cases, typically are illiquid and generally do not pay interest. The markets in U.S. bankruptcy claims are generally not regulated by U.S. federal securities laws or the SEC. Because bankruptcy claims are frequently unsecured, holders of such claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding. In addition, the debt of companies in financial reorganization may be adversely affected by an erosion of the issuer's fundamental values. Accordingly, there can be no guarantee that the debtor will ever be able to satisfy the obligation on a bankruptcy claim.

Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to appear and be heard, there can be no assurance that a bankruptcy court would not approve actions that may be contrary to the interests of the Funds. Furthermore, there are instances where creditors lose their priority or are recharacterized as equity if, for example, they have exercised excessive control management or engaged in misconduct that harms other creditors. In those cases where the Funds, by virtue of such action, are found to exercise "domination and control" of a debtor, the Funds may lose their priority if the debtor can demonstrate that its business was adversely impacted or other creditors and equity holders were harmed by the Funds.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This 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.

U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for the purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that the Funds' influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class. In addition, certain administrative costs

and claims that have priority by law over the claims of certain creditors (for example, claims for taxes) may be quite high.

The Funds intend to invest some of their assets in securities of issuers domiciled, or assets located, globally. Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, 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.

The Investment Adviser, on behalf of the Funds, may elect to serve on creditors' committees, equity holders' committees or other groups to ensure preservation or enhancement of the Funds' positions as a creditor or equity holder. A member of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents. The Investment Adviser may resign from that committee or group for any reason, including, for example, if the Investment Adviser concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to the Funds. In such case, the Funds may not realize the benefits, if any, of participation on the committee or group. In addition, if a Fund is represented on a committee or group, it may be restricted or prohibited under applicable law from disposing of or increasing their investments in such company while it continues to be represented on such committee or group.

The Funds may 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. Additionally, the claim may be disallowed or subordinated if the bankruptcy court determines that the seller engaged in inequitable conduct that harmed other creditors.

Reorganizations can be contentious and adversarial, and it is by no means unusual for participants to use the threat of, as well as actual, litigation as a negotiating technique. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by the Fund.

Municipal Securities. Various factors may adversely affect the value and yield of municipal securities. These factors include political or legislative changes and uncertainties related to the tax status of municipal securities or the rights of investors in these securities. To the extent that the Funds invest heavily in a particular state's municipal securities, the Funds will be more vulnerable to factors affecting that state. The Funds' investments in revenue securities, where principal and interest payments are made from the revenue of a specific project or facility, and not general tax revenues, may have increased risks. Factors affecting the project or facility, such as local business or economic conditions, could have a significant impact on the project's ability to make payments of principal and interest on these securities.

Use of Leverage; Financing of the Funds. The Investment Adviser expects to use leverage in managing the Funds' portfolios. It is expected that the Funds will, in the sole discretion of the Investment Adviser, lever its investment positions by borrowing funds from securities broker-dealers, banks or others. Such leverage increases both the possibilities for profit and the risk of loss. The use of leverage increases the possibility that a systematic underperformance of assets versus their hedges in the markets in which the Investment Adviser invests will result in material, perhaps even total, losses to investors, notwithstanding the Funds' diversification across and within trading strategies, their tendency to be hedged against a variety of risks or their historical performance during periods of market stress. Borrowings (and, in some cases, guarantees of performance of the Funds' obligations) will usually be from (or, in the case of guarantees, by) securities brokers and dealers, are typically repayable on demand, and will typically be secured by the Funds' securities and other assets. Margin requirements, in the absence of specific agreements, are generally subject to change or revocation by the lender upon very limited notice and for any or no reason. Under such circumstances, such lender may demand an increase in the collateral, including requiring collateral equal to the full amount of the borrowings (*i.e.*, completely revoking marginability), that secures the Funds' obligations and if the Funds were unable to provide additional collateral, the broker-dealer could liquidate assets held in the account to satisfy the Funds' obligations to the broker-dealer. Liquidation in that manner could have extremely adverse consequences. In addition, the amount of the Funds' borrowings and the interest rates on those borrowings, which will fluctuate, will have a significant effect on the Funds' profitability. The Funds will also be leveraged to the extent that it engages in futures transactions, swaps, options and short sales.

Hedging Transactions. The Funds may utilize securities for risk management purposes in order to: (i) protect against possible changes in the market value of the Funds' investment portfolios resulting from fluctuations in the markets and changes in interest rates; (ii) protect the Funds' unrealized gains in the value of their investment portfolios; (iii) facilitate the sale of any securities; (iv) enhance or preserve returns, spreads or gains on any security in the Funds' portfolios; (v) hedge against a directional trade; (vi) hedge the interest rate, credit or currency exchange rate on any of the Funds' securities; (vii) protect against any increase in the price of any securities the Funds anticipate purchasing at a later date; or (viii) act for any other reason that the Investment Adviser deems appropriate. The Funds will not be required to hedge any particular risk in connection with a particular transaction or their portfolios generally. The Investment Adviser may be unable to anticipate the occurrence of a particular risk and, therefore, may be unable to attempt to hedge against it. While the Funds may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Funds than if they had not engaged in any such hedging transaction. Moreover, the portfolios may be exposed to certain risks that cannot be hedged.

Equity Securities Generally. The value of equity securities of public and private, listed and unlisted companies and equity derivatives generally varies 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 the Investment Adviser'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 restricted securities for public resale.

Derivative Instruments Generally. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk. Derivatives traded over-the-counter may not have an authoritative source of valuation and the models used to value such derivatives are subject to change. Special risks may apply in the future that cannot be determined at this time with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available. The regulatory and tax environment for derivative instruments in which the Funds may participate is evolving, and changes in the regulation or taxation of such securities may have a material adverse effect on the Funds.

Call Options. The seller (writer) of a call option which is covered (*i.e.*, the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security less the premium received, and gives up the opportunity for gain on the underlying security above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The securities necessary to satisfy the exercise of an uncovered call option may be unavailable for purchase, except at much higher prices, thereby reducing or eliminating the value of the premium. Purchasing securities to cover the exercise of an uncovered call option can cause the price of the securities to increase, thereby exacerbating the loss. The buyer of a call option assumes the risk of losing its entire premium investment in the call option.

Put Options. The seller (writer) of a put option which is covered (*i.e.*, the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sales price (in establishing the short position) of the underlying security plus the premium received, and gives up the opportunity for gain on the underlying security if the market price falls below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option.

Index or Index Options. The value of an index or index option fluctuates with changes in the market values of the securities included in the index. Because the value of an index or index option depends upon movements in the level of the index rather than the price of a particular security, whether the Funds will realize appreciation or depreciation from the purchase or writing of options on indices depends upon movements in the level of instrument prices in the security market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular securities.

Index Futures. The price of index futures contracts may not correlate perfectly with the movement in the underlying index because of certain market distortions. First,

all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, participants may close futures contracts through offsetting transactions that would distort the normal relationship between the index and futures markets. Second, from the point of view of speculators, the deposit requirements in the futures market are less onerous than margin requirements in the securities market. Therefore, increased participation by speculators in the futures market also may cause price distortions. Successful use of index futures contracts by the Funds also is subject to the Investment Adviser's ability to correctly predict movements in the direction of the market.

Swaps. Whether the Funds' use of swap agreements or swaptions will be successful will depend on the Investment Adviser's ability to select appropriate transactions for the Funds. Swap agreements and options on swap agreements ("swaptions") can be individually negotiated and structured to include exposure to a variety of different types of investments, asset classes or market factors. Depending on their structure, swap agreements may increase or decrease the holder's exposure to, for example, equity securities, long-term or short-term interest rates, non-U.S. currency values, credit spreads or other factors. Swap agreements can take many different forms and are known by a variety of names. Swap transactions may be highly illiquid and may increase or decrease the volatility of the Funds' portfolio. 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. The Funds will also bear the risk of loss related to swap agreements, for example, for breaches of such agreements or the failure of the Funds to post or maintain required collateral. It is possible that developments in the swap markets, including potential government regulation, could adversely affect the Funds' ability to terminate swap transactions or to realize amounts to be received under such transactions.

Credit Default Swaps. Credit default swaps can be used to implement the Investment Adviser's view that a particular credit, or group of credits, will experience credit improvement or deterioration. In the case of expected credit improvement, the Funds may sell credit default protection in which they receive a premium to take on the risk. In such an instance, the obligation of the Funds to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. The Funds may also buy credit default protection with respect to a referenced entity if, in the Investment Adviser's judgment, there is a high likelihood of credit deterioration. In such instance, the Funds will pay a premium regardless of whether there is a credit event. 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, creating the risk that the newer markets will be less liquid, and making it potentially more difficult to exit or enter into a particular transaction.

Futures Contracts. The value of futures contracts depends upon the price of the securities, such as commodities, underlying them. The prices of futures contracts are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal,

monetary and exchange control programs and policies of governments, as well as national and international political and economic events and policies. In addition, investments in futures contracts are also subject to the risk of the failure of any of the exchanges on which the Funds' positions trade or of their clearing houses or counterparties. Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits". Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Funds from promptly liquidating unfavorable positions and subject the Funds to substantial losses or prevent it from entering into desired trades. Also, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

Non-U.S. Futures Transactions. Foreign futures transactions involve executing and clearing trades on a foreign exchange. This is the case even if the foreign exchange is formally "linked" to a domestic exchange, whereby a trade executed on one exchange liquidates or establishes a position on the other exchange. No domestic organization regulates the activities of a foreign exchange, including the execution, delivery, and clearing of transactions on such an exchange, and no domestic regulator has the power to compel enforcement of the rules of the foreign exchange or the laws of the foreign country. Moreover, such laws or regulations will vary depending on the foreign country in which the transaction occurs. For these reasons, the Funds may not be afforded certain of the protections which apply to domestic transactions, including the right to use domestic alternative dispute resolution procedures. In particular, Funds received from customers to margin foreign futures transactions may not be provided the same protections as Funds received to margin futures transactions on domestic exchanges. In addition, the price of any foreign futures or option contract and, therefore, the potential profit and loss resulting therefrom, may be affected by any fluctuation in the foreign exchange rate between the time the order is placed and the time the foreign futures contract is liquidated or the time the foreign option contract is liquidated or exercised.

Forward Contracts. Banking authorities generally do not regulate trading in forward contracts. The principals who deal in the forward contract market are not required to continue to make markets in such contracts. There have been periods during which certain participants in forward markets have refused to quote prices for forward contracts or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. The imposition of credit controls or price risk limitations by governmental authorities may limit such forward trading to less than that which the Investment Adviser would otherwise recommend, to the possible detriment of the Funds. In their forward trading, the Funds will be subject to the risk of the failure of, or the inability or refusal to perform with

respect to their forward contracts by, the principals with which the Funds trade. Fund assets on deposit with such principals will also generally not be protected by the same segregation requirements imposed on certain regulated brokers in respect of customer funds on deposit with them. The Investment Adviser may order trades for the Funds in such markets through agents. Accordingly, the insolvency or bankruptcy of such parties could also subject the Funds to the risk of loss.

Contracts for Differences. Contracts for differences ("CFDs") are privately negotiated contracts between two parties, buyer and seller, stipulating that the seller will pay to or receive from the buyer the difference between the nominal value of the underlying instrument at the opening of the contract and that instrument's value at the end of the contract. The underlying instrument may be a single security, stock basket or index. A CFD can be set up to take either a short or long position on the underlying instrument. The buyer and seller are both required to post margin, which is adjusted daily. The buyer will also pay to the seller a financing rate on the notional amount of the capital employed by the seller less the margin deposit. A CFD is usually terminated at the buyer's initiative. As is the case with owning any financial instrument, there is the risk of loss associated with buying a CFD. There may be liquidity risk if the underlying instrument is illiquid because the liquidity of a CFD is based on the liquidity of the underlying instrument. A further risk is that adverse movements in the underlying security will require the buyer to post additional margin. CFDs also carry counterparty risk, *i.e.*, the risk that the counterparty to the CFD transaction may be unable or unwilling to make payments or to otherwise honor its financial obligations under the terms of the contract. If the counterparty were to do so, the value of the contract may be reduced. Entry into a CFD transaction may, in certain circumstances, require the payment of an initial margin and adverse market movements against the underlying stock may require the buyer to make additional margin payments. CFDs may be considered illiquid. To the extent that there is an imperfect correlation between the return on the Funds' obligation to its counterparty under the CFDs and the return on related assets in its portfolio, the CFD transaction may increase the Funds' financial risk.

Failure to Enter into Offsetting Trade. To the extent the Funds invest in a futures contract or option long, unless an offsetting trade is made, the Funds would be required to take physical delivery of the commodity underlying the future or option. To the extent the Investment Adviser fails to enter into such offsetting trade prior to the expiration of the contract, the Funds may suffer a loss since neither the Funds nor the Investment Adviser has the operational capacity to accept physical delivery of commodities.

Highly Volatile Instruments. The prices of securities and derivative instruments, including options, are highly volatile. Price movements of securities, forward contracts and other derivative contracts in which the Funds' assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies and financial instrument options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction

because of, among other things, interest rate fluctuations. The Funds also are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses.

Repurchase and Reverse Repurchase Agreements. In a reverse repurchase transaction, the Funds "buy" securities issued from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid by the Funds, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by the Funds involve certain risks. For example, if the seller of securities to the Funds under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, the Funds will seek to dispose of such securities, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, the Funds' ability to dispose of the underlying securities may be restricted. It is possible, in a bankruptcy or liquidation scenario, that the Funds may not be able to substantiate their interests in the underlying securities. Finally, if a seller defaults on its obligation to repurchase securities under a reverse repurchase agreement, the Funds may suffer a loss to the extent that they are forced to liquidate their positions in the market, and proceeds from the sale of the underlying securities are less than the repurchase price agreed to by the defaulting seller. Similar elements of risk arise in the event of the bankruptcy or insolvency of the buyer.

Private Equity Investments.

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

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

Highly-Leveraged Companies. Investments in private equity of highly-leveraged companies involve a high degree of risk. The use of leverage may increase the exposure of such companies to adverse economic factors such as downturns in the economy or deterioration in the conditions of such companies or their respective industries. In the event any such company cannot generate adequate cash flow to meet debt service, the Funds may suffer a partial or total loss of capital invested in the company, which,

depending on the size of the Funds' investments, could adversely affect the return on the capital of the Funds.

Spread or Arbitrage Trading Risks. One component of the Funds' trading operations involves spreads and arbitrage trades between two or more positions. To the extent the price relationships between such positions remain constant, no gain or loss on the positions will be recognized; to the extent that the price differential changes unfavorably, the high degree of leverage applied will increase the Funds' losses.

Prime Brokers. In relation to the Funds' right to the return of assets equivalent to the Funds' investments to which legal and beneficial title has been transferred to a prime broker, the Funds will rank as one of such prime broker's unsecured creditors and, in the event of the insolvency of the prime broker, the Funds may not be able to recover such equivalent assets in full. There is the possibility that the insolvency of brokerage firms may impair the operational capabilities or the capital position of the Funds. Although the Investment Adviser regularly monitors the financial condition of the prime brokers or broker-dealers it uses, if one or more of the Funds' prime brokers or broker-dealers were to become insolvent or the subject of liquidation proceedings in the United States (either under the Securities Investor Protection Act or the United States Bankruptcy Code), there exists the risk that the recovery of the Funds' securities and other assets from such prime broker or broker-dealer will be delayed or be of a value less than the value of the securities or assets originally entrusted to such prime broker or broker-dealer. In addition, the Funds' cash held with the prime broker will not be segregated from the prime broker's own cash and will be used by the prime broker in the course of its business and the Funds will, therefore, rank as an unsecured creditor in relation thereto. The Funds presently use and expect to continue to use substantial amounts of leverage, which will be provided primarily by their prime brokers.

Illiquid Securities. Certain securities may be illiquid because, for example, they are subject to legal or other restrictions on transfer or there is no liquid market for such securities. Valuation of such securities may be difficult or uncertain because there may be limited information available about the issuers of such securities. The market prices, if any, for such securities tend to be volatile and may not be readily ascertainable, and the Funds may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. The Funds may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. As a result, the Funds may be required to hold such securities despite adverse price movements. Even those markets which the Investment Adviser expects to be liquid can experience periods, possibly extended periods, of illiquidity. Occasions have arisen in the past where previously liquid investments have rapidly become illiquid.

Failure of Futures Commission Merchants. Under the U.S. Commodity Exchange Act, as amended, futures commission merchants are required to maintain customers' assets in a segregated account. To the extent that the Funds engage in futures and options contract trading and the futures commission merchants with whom the Funds maintain accounts fail to so

segregate the Funds' assets, the Funds will be subject to a risk of loss in the event of the bankruptcy of any of its futures commission merchants. In certain circumstances, the Funds might be able to recover, even with respect to property specifically traceable to the Funds, only a pro rata share of all property available for distribution to a bankrupt futures commission merchant's customers.

Short Selling. The success of the Funds' short selling investment strategy depends upon the Investment Adviser's ability to identify and sell short securities that are overvalued. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Funds of buying those securities to cover the short position. There can be no assurance that the Funds will be able to maintain the ability to borrow securities sold short. In such cases, the Funds can be "bought in" (*i.e.*, forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Short strategies can also be implemented synthetically through various instruments and be used with respect to indices or in the over-the-counter market and with respect to futures and other instruments. In some cases of synthetic short sales, there is no floating supply of an underlying instrument with which to cover or close out a short position and the Funds may be entirely dependent on the willingness of over-the-counter market makers to quote prices at which the synthetic short position may be unwound. There can be no assurance that such market makers will be willing to make such quotes. Short strategies can also be implemented on a leveraged basis. Lastly, even though the Funds secure a "good borrow" of the securities sold short at the time of execution, the lending institution may recall the lent securities at any time, thereby forcing the Funds to purchase the securities at the then-prevailing market price, which may be higher than the price at which such securities were originally sold short by the Funds.

Unlisted Securities. Unlisted securities may involve higher risks than listed securities. Because of the absence of any trading market for unlisted securities, it may take longer to liquidate, or it may not be possible to liquidate, positions in unlisted securities than would be the case for publicly traded securities. Companies whose securities are not publicly traded may not be subject to public disclosure and other investor protection requirements applicable to publicly traded securities.

Global Economic and Market Conditions. The Investment Adviser may invest in securities and currencies traded in various markets throughout the world, including emerging or developing markets, some of which are highly controlled by governmental authorities, if it believes that market conditions present opportunities for attractive returns. Such investments require consideration of certain risks typically not associated with investing in currencies or securities of developed markets. Such risks include, among other things, trade balances and imbalances and related economic policies, unfavorable currency exchange rate fluctuations, imposition of exchange control regulation by governments, limitations on the removal of funds or other assets of the Funds, imposition of withholding or other taxes on dividends, interest, capital gains or other income, policies of governments with respect to possible nationalization of their industries or other diplomatic developments that could affect investments in such countries, political difficulties, including expropriation of assets, confiscatory taxation imposition of

withholding or other taxes on dividends, interest, capital gains or other income and social, economic or political instability in non-U.S. nations. These factors may affect the level and volatility of securities prices and the liquidity of the Funds' investments. Unexpected volatility or illiquidity could impair the Funds' profitability or result in losses.

Non-U.S. Securities. Investments in securities of non-U.S. issuers (including non-U.S. governments) and securities denominated, or whose prices are quoted in non-U.S. currencies pose, to the extent not hedged, currency exchange risks (including blockage, devaluation and non-exchangeability) as well as a range of other potential risks which could include expropriation, confiscatory taxation, the imposition of withholding or other taxes on interest, dividends, capital gains, other income, or gross sales or disposition proceeds, political or social instability, illiquidity, price volatility, and market manipulation. In addition, less information may be available regarding securities of non-U.S. issuers and non-U.S. issuers may not be subject to accounting, auditing, and financial reporting standards and requirements comparable to, or as uniform as, those of U.S. issuers. Transaction costs of investing in non-U.S. securities markets are generally higher than in the United States. There is generally less government supervision and regulation of exchanges, brokers, and issuers than there is in the United States. The Funds might have greater difficulty taking appropriate legal action in non-U.S. courts. Non-U.S. markets also have different clearance and settlement procedures which in some markets have at times failed to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures that could adversely affect the Funds' performance. In addition, the value of non-U.S. securities is often dependent on the ability of the holder to recover portions of the cash flow. For example, bonds from which coupon interest has been withheld acquire value to a holder capable of recovering the withholding. The withholding and withdrawal practices of non-U.S. governments may change from time to time without notice, and the ability of the Funds to guarantee recovery of the cash flow is necessarily uncertain.

Tandem Markets. The Funds may invest broadly across various assets classes such as equities, fixed-income, commodities, foreign currencies, listed securities and over-the-counter instruments globally. However, from time to time, multiple markets can move in tandem against the Funds' positions and in such cases the Funds could suffer substantial losses.

Emerging Markets. In addition to the risks associated with investments outside of the United States, investments in emerging markets (*i.e.*, developing countries) may involve additional risks. Emerging markets generally are not as efficient as those in developed countries. In some cases, a market for the financial instrument may not exist locally, and transactions will need to be made on a neighboring exchange. Volume and liquidity levels in emerging markets are lower than in developed countries. When seeking to sell emerging market financial instruments, little or no market may exist for such instruments. In addition, imposition of exchange regulations, limitations on removal of funds, political instability, corruption and confiscatory taxation are more likely to occur in emerging markets.

Issuers based in emerging markets are not generally subject to uniform accounting and financial reporting standards, practices and requirements comparable to those applicable to issuers based in developed countries, thereby potentially increasing the risk of fraud or other deceptive practices. Furthermore, the quality and reliability of official data published by the

government or securities exchanges in emerging markets may not accurately reflect the actual circumstances being reported.

The issuers of some non-U.S. securities, such as banks and other financial institutions, may be subject to less stringent regulations than would be the case for issuers in developed countries and therefore potentially carry greater risk. Custodial expenses for a portfolio of emerging markets securities generally are higher than for a portfolio of securities of issuers based in developed countries.

Many of the laws that govern private and foreign investment, securities transactions and contractual relationships in non-U.S. countries, particularly in developing countries, are new and largely untested. As a result, the Funds may be subject to a number of unusual risks, including inadequate investor protection, contradictory legislation, incomplete, unclear and changing laws, ignorance or breaches of regulations on the part of other market participants, lack of established or effective avenues for legal redress, lack of standard practices and confidentiality customs characteristic of developed markets, and lack of enforcement of existing regulations.

Diversification and Concentration. The Investment Adviser may select investments that are concentrated in a limited number or types of securities. In addition, the Funds' portfolios may become significantly concentrated in securities related to a single or a limited number of issuers, industries, sectors, strategies, countries or geographic regions. This limited diversification may result in the concentration of risk, which, in turn, could expose the Funds to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in such securities.

Importance of Market Judgment. The Investment Adviser uses quantitative mathematical models in evaluating the economic components of certain prospective trades. However, its relative value strategies are by no means fully systematic, its event driven trading is not exclusively model-driven and many of its distressed securities strategies depend heavily on qualitative analysis. The market judgment and discretion of the Principal and other senior staff are integral to the implementation of the Funds' strategies and success.

Trade Execution Risk. Many of the trading techniques used by the Funds require the rapid and efficient execution of transactions. Inefficient execution can eliminate the small pricing differentials which the Investment Adviser attempts to exploit. The potentially adverse impact of inefficient trade executions is increased by the Funds' high turnover rate.

Lack of Analyst Coverage. The Funds may invest in companies which are not followed by stock or industry analysts and are not leaders in their business sectors. As a result, securities of such companies may be subject to increased sector and market risk.

Start-Up Entities. The Funds may invest a portion of their assets in companies and other investment vehicles that do not have an operating history and may be managed by professionals who have limited or no prior experience managing those types of entities.

Counterparty Risk. The Funds expect to establish relationships to obtain financing, derivative intermediation and prime brokerage services that permit the Funds to trade in any variety of markets or asset classes over time. However, there can be no assurance that the Funds

will be able to establish or maintain such relationships. An inability to establish or maintain such relationships could limit the Funds' trading activities, create losses, preclude the Funds from engaging in certain transactions or prevent the Funds from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships could have a significant impact on the Funds' business due to the Funds' reliance on such counterparties.

The Funds may effect transactions in markets that are not "exchange-based", such as "over-the-counter" or "interdealer" markets. The stability and liquidity of over-the-counter transactions depends in large part on the creditworthiness of the parties to the transactions. 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. The lack of evaluation and oversight of over-the-counter markets 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. Generally, the Funds will not be restricted from dealing with any particular counterparties. The Investment Adviser's evaluation of the creditworthiness of counterparties may not prove sufficient. The lack of a complete and "foolproof" evaluation of the financial capabilities of the Funds' counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Funds.

If there is a default by a counterparty, the Funds under most normal circumstances will have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the net asset value of the Funds being less than if the Funds had not entered into the transaction. Furthermore, there is a risk that any of such counterparties could become insolvent and/or the subject of insolvency proceedings. In such case, the recovery of the Funds' securities from such counterparty or the payment of claims therefor may be significantly delayed and the Funds may recover substantially less than the full value of the securities entrusted to such counterparty.

In addition, the Funds may use counterparties located in jurisdictions outside the United States. Such local counterparties usually are subject to laws and regulations in non-U.S. jurisdictions that are designed to protect customers in the event of their insolvency. However, the practical effect of these laws and their application to the Funds' assets are subject to substantial limitations and uncertainties. Because of the range of possible factual scenarios involving the insolvency of a counterparty and the potentially large number of entities and jurisdictions that may be involved, it is impossible to generalize about the effect of such an insolvency on the Funds and their assets. Investors should assume that the insolvency of any such counterparty would result in significant delays in recovering the Funds' securities from or the payment of claims therefor by such counterparty and losses to the Funds, which could be material.

ITEM 9— DISCIPLINARY INFORMATION

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

ITEM 10— OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

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

The Investment Adviser and its management persons are not registered as, and do not have any application to register as, a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

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

Code of Ethics

The Investment Adviser has adopted a code of ethics (the "Code of Ethics") designed to address and mitigate potential conflicts of interest as required under Rule 204A-1 of the Advisers Act. The Code of Ethics describes the Investment Adviser's high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to, among other items, prohibition of insider trading, restrictions on the acceptance of extravagant gifts and entertainment, the reporting of certain gifts and business entertainment, and personal securities trading procedures. All supervised persons at the Investment Adviser must acknowledge the terms of the Code of Ethics annually.

The Code of Ethics is designed to ensure that the personal securities transactions, activities and interests of the supervised persons of the Investment Adviser will not interfere with (i) making decisions in the best interest of the Funds and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code of Ethics certain securities and transactions have been designated as exempt securities or transactions, based upon a determination that these would materially not interfere with the best interest of the Funds. In addition, the Code of Ethics requires pre-clearance of many transactions. Nonetheless, because the Code of Ethics in some circumstances would permit supervised persons to invest in the same securities as the Funds, there is a possibility that supervised persons may benefit from market activity by the Funds in a security held by an employee. Personal securities transactions are monitored by the Chief Compliance Officer ("CCO") to reasonably detect and mitigate conflicts of interest between the Investment Adviser and the Funds.

The Investment Adviser's insider trading policies prohibit trading for the Funds or themselves, or recommending trading, in securities of a company while in possession of material, non-public information ("Inside Information") about the company, and from disclosing such information to any unauthorized person.

Among other requirements, the Code of Ethics requires supervised persons to:

- Submit to the CCO an initial and an annual report listing their securities holdings and a quarterly report of transactions;
- Pre-clear personal securities transactions, other than those specifically exempted by the Code of Ethics, by the CCO or other appropriate officer of the Firm;
- Provide duplicate copies of trade confirmations and account statements to the CCO for review (unless a specific exemption applies);
- Obtain approval from the CCO prior to investing in Private Placements (limited offerings) and IPOs;
- Comply with the federal securities laws, certifying that they have read and understand the Code of Ethics and reporting any violations of the Code of Ethics to the CCO;
- Not trade either in their personal accounts or on behalf of Funds on the basis of material non-public information; and
- Not inappropriately use their position for a personal benefit.

Supervised persons who violate the Code of Ethics and the Investment Adviser's compliance policies and procedures are subject to disciplinary action including, but not limited to, written warnings, fines and termination of employment.

Investors or prospective investors in the Funds may request a copy of the firm's Code of Ethics by contacting the Investment Adviser's CCO.

Conflicts of Interest Created by Contemporaneous Trading

The Investment Adviser manages investments on behalf of a number of clients. Certain clients have investment programs that are similar to or overlap and may, therefore, participate with each other in investments. It is the policy of the Investment Adviser to allocate investment opportunities among all clients fairly, to the extent practical and in accordance with each client's applicable investment strategies, over a period of time. As described above, the Investment Adviser allocates investment opportunities among the clients equitably, consistent with its allocation policies.

ITEM 12— BROKERAGE PRACTICES

A. Factors Considered in Selecting or Recommending Broker-Dealers

In selecting broker-dealers to effect client trades, the Investment Adviser seeks to obtain best execution. "Best execution" does not mean effecting transactions at the lowest possible commission rate, transaction costs and price, but includes a number of factors, among other factors, the price of a security offered by the broker-dealer, the broker-dealer's full range and quality of their services including, among other things, their facilities, reliability and financial responsibility, execution capability, commission rates, responsiveness to the Investment Adviser, brokerage and research services provided to the Investment Adviser (e.g., research ideas, analysis, and investment strategies), special execution and block positioning capabilities, clearance, and settlement and custodial services. The Investment Adviser is not required to solicit competitive bids and does not have an obligation to seek the lowest available commissions or other transaction costs. Accordingly, the commissions and other transaction costs (which may include dealer markups or markdowns) charged by brokers or dealers in the foregoing circumstances may be higher than those charged by other brokers or dealers that may not offer such products or services. From time to time, brokers may assist the Investment Adviser in raising additional capital from investors. Subject to its obligation to seek best execution, the Investment Adviser may consider referrals of clients and investors to the Funds in determining its selection of brokers. However, the Investment Adviser will not commit to an investor or broker to allocate a particular amount of brokerage in any such situation.

The Investment Adviser periodically reviews the amount and nature of research and brokerage services provided by broker-dealers, as well as the extent to which such services are relied upon, and attempts to allocate a portion of the brokerage business of its clients on the basis of the reviews. Broker-dealers sometimes suggest a level of business they would like to receive in return for the various products and services they provide. Actual brokerage business received by any broker-dealer may be less than the suggested allocation, but can (and often does) exceed the suggested level, because total brokerage is allocated on the basis of all of the considerations described above. In no case will the Investment Adviser make binding commitments as to the level of brokerage commissions it will allocate to a broker-dealer, nor will it commit to pay cash if any informal targets are not met. A broker-dealer is not excluded from receiving business because it has not been identified as providing research products or services. The Investment Adviser maintains policies and procedures to review the quality of executions, including periodic reviews by its investment professionals.

The strategies of the Funds' and clients' investment programs emphasize active management, which will may result in substantial portfolio turnover and may involve significant brokerage commissions, fees and other transaction costs.

B. Research and Other Soft Dollar Benefits

The Investment Adviser does not obtain proprietary and third-party research or products with the use of commission or "soft dollars" (or dealer markups and markdowns arising in connection with riskless principal transactions) for research and research-related services. However, if the

Investment Adviser chooses to use "soft dollars", such use will come within the safe harbor for the use of soft dollars provided under Section 28(e) of the Exchange Act.

C. Brokerage for Client Referrals

The Investment Adviser has entered into agreements on behalf of the Funds with certain brokers-dealers that act as prime brokers on behalf of the Funds. From time to time, the Investment Adviser's personnel may speak at conferences and programs for potential investors interested in investing in hedge funds which are sponsored by those prime brokers. These conferences and programs may be a means by which the Investment Adviser can be introduced to potential investors in the Funds. Currently, neither the Investment Adviser nor the Funds compensate prime brokers for organizing such "capital introduction" events or for any investments ultimately made by prospective investors attending such events (although either may do so in the future). While such events and other services provided by a prime broker may influence the Investment Adviser in deciding whether to use such prime broker in connection with brokerage, financing and other activities of the Funds, the Investment Adviser will not commit to allocate a particular amount of brokerage to a broker-dealer in any such situation.

D. Directed Brokerage

The Investment Adviser does not accept directed brokerage instructions from Fund investors.

E. Order Aggregation

If the Investment Adviser determines that the purchase or sale of a security is appropriate with regard to multiple clients, the Investment Adviser may, but is not obligated to, purchase or sell such a security on behalf of such clients with an aggregated order, for the purpose of reducing transaction costs. When an aggregated order is filled, each participating client will receive the average price, with transaction costs generally allocated *pro rata* based on the size of each client's participation in the order (or allocation in the event of a partial fill) as determined by the Investment Adviser. In the event of a partial fill, allocations may be modified on a basis that the Investment Adviser deems to be appropriate, including, for example, in order avoiding odd lots or *de minimis* allocations. When orders are not aggregated, trades generally will be processed in the order that they are placed with the broker or counterparty selected by the Investment Adviser. As a result, certain trades in the same security for one client (including a client in which the Investment Adviser and its personnel may have a direct or indirect interest) may receive more or less favorable prices or terms than another client, and orders placed later may not be filled entirely or at all, based upon the prevailing market prices at the time of the order or trade. In addition, some opportunities for reduced transaction costs and economies of scale may not be achieved.

F. Trade Errors

The Investment Adviser may on occasion experience errors with respect to trades executed on behalf of its clients. Trade errors can result from a variety of situations, including, for example, when the wrong security is purchased or sold, the correct security is purchased or sold but for the wrong account, or the wrong quantity is purchased or sold (*e.g.*, 1,000 shares instead of 10,000 shares are traded). Trade errors (and similar human errors) may result in losses or gains. The

Investment Adviser will endeavor to detect trade errors prior to settlement and correct and/or mitigate them in an expeditious manner. To the extent an error is caused by counterparty, such as a broker-dealer, the Investment Adviser will strive to recover any losses associated with such error from the counterparty but there is no guaranty the Investment Adviser will be successful. In such case, the client will bear the loss.

Pursuant to the exculpation and indemnification provisions set forth in the Funds' governing documents, the Investment Adviser and its affiliates and personnel will generally not be liable to the Funds for any act or omission, absent willful misconduct, bad faith, gross negligence or actual fraud, and the Funds will generally be required to indemnify such persons against any losses they may incur by reason of any act or omission related to the Funds, absent willful misconduct, bad faith, gross negligence or actual fraud. To the extent that the Investment Adviser determines that it is responsible for a trade error, it will seek to resolve the error on a fair and equitable basis, taking into consideration whether the error resulted from gross negligence on its part, the materiality of the error relative to the overall size of the affected Fund's portfolio, and any recent gains or losses due to its errors. Trade error losses caused by the Investment Adviser generally will be borne by the Funds unless such losses are the result of a violation of the standard outlined above. In making such determinations, the Investment Adviser will have a conflict of interest. Given the large volume of transactions executed by the Investment Adviser on behalf of the Funds, investors should assume that trading errors (and similar errors) will occur and that the Funds will be responsible for any resulting losses, even if such losses result from the negligence (but not gross negligence) of the Investment Adviser's personnel.

ITEM 13— REVIEW OF ACCOUNTS

Account Reviews

The Investment Adviser performs various daily, weekly, monthly, quarterly and periodic reviews of the Funds. Such reviews are conducted by the members of the Investment Adviser's Management, portfolio managers and other associates.

Investor Reports

Investors in the Funds receive a monthly statement from the Fund administrator documenting the performance of their respective Fund. In addition, the Investment Adviser may provide certain investors with information on a more frequent basis if agreed to by the Investment Adviser.

The Investment Adviser will arrange for Fund investors to receive tax reports and audited financial statements with respect to their respective Fund within 120 days of the end of the Fund's fiscal year.

In addition, certain investors may receive additional information and reporting that other investors may not receive, and such information may affect an investor's decision to request a redemption or withdrawal or to invest additional funds.

ITEM 14— CLIENT REFERRALS AND OTHER COMPENSATION

The Investment Adviser does not receive economic benefits from non-clients for providing investment advice or other advisory services.

Neither the Investment Adviser nor any related person directly or indirectly compensates any person who is not a supervised person, for client referrals.

ITEM 15— CUSTODY

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

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

ITEM 16— INVESTMENT DISCRETION

The Investment Adviser has been appointed as the investment manager to the Funds. The Investment Adviser has full discretionary authority with respect to investment decisions, and its advice with respect to the Funds is made in accordance with the investment objectives and guidelines as set forth in the Funds' respective private placement memoranda, as applicable.

The Investment Adviser has discretionary authority to manage the Funds, including authority to make decisions with respect to which securities are bought and sold, the amount and price of those securities, the brokers or dealers to be used for a particular transaction, and commissions or markups and markdowns paid.

ITEM 17— VOTING CLIENT SECURITIES

In compliance with Rule 206(4)-6 of the Advisers Act, the Investment Adviser has adopted proxy voting policies and procedures. The general policy is to vote proxy proposals, amendments, consents or resolutions relating to securities owned by the Funds, including interests in private investment funds, if any (collectively, "Proxies"), in a manner that serves the best interests of the Funds, as determined by the Investment Adviser in its discretion, taking into account the following factors: (i) the impact on the value of the investments; (ii) the anticipated associated costs and benefits; (iii) the continued or increased availability of portfolio information; and (iv) industry and business practices.

In limited circumstances, the Investment Adviser may refrain from voting Proxies where the Investment Adviser believes that voting would be inappropriate, taking into consideration the cost of voting the Proxy and the anticipated benefit to the Funds. Generally, clients may not direct the Investment Adviser's vote in a particular solicitation.

Conflicts of interest may arise between the interest of the Funds on the one hand and the Investment Adviser or its affiliates on the other hand. If the Investment Adviser determines that it may have, or is perceived to have, a conflict of interest when voting Proxies, the Investment Adviser will vote in accordance with its Proxy voting policies and procedures.

In the event the Firm does vote a proxy, a copy of the policy and the proxy voting record relating to a Fund may be obtained by Fund investors by contacting the CCO. Fund investors may obtain a copy of the Investment Adviser's proxy voting policies and procedures upon request.

ITEM 18— FINANCIAL INFORMATION

The Investment Adviser does not have any financial condition reasonably likely to impair its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy proceeding at any time during the past ten years. The Investment Adviser does not require or solicit prepayment of more than \$1,200 in fees per Fund, six months or so in advance and therefore has not included a balance sheet.