

**SANDALWOOD SECURITIES, INC.**  
**(“Sandalwood”)**

**Form ADV, Part 2A**  
**(the “Brochure”)**

March 26, 2013

101 Eisenhower Parkway  
Roseland, NJ 07068  
973-233-8800  
[www.SandalwoodSecurities.com](http://www.SandalwoodSecurities.com)

This brochure provides information about the qualifications and business practices of Sandalwood Securities, Inc. If you have any questions about the contents of this brochure, please contact us at 973-233-8800. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about Sandalwood also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Sandalwood may refer to itself as a “registered investment adviser” or “RIA”. You should be aware that registration with the SEC or a state securities authority does not imply a certain level of skill or training.

## **MATERIAL CHANGES**

This section of the Brochure summarizes only material changes since the last annual update of this Brochure on March 30, 2012. Please review these changes carefully.

Sandalwood now acts as sub-adviser to an investment company that is registered under the Investment Company Act of 1940, as amended, and is an eligible investment vehicle for retail customers. Changes that reflect this new investment advisory activity have been made throughout the Brochure.

As indicated in the section of this Brochure entitled “Other Financial Industry Activities and Affiliations,” Sandalwood and the General Partners to the Funds have filed to perfect the no-action relief provided by Commodity Futures Trading Commission Letter No. 12-38 with respect to certain of the Funds. This temporary relief is available for funds of funds that may not have the necessary information to perform the direct calculations required to determine whether the funds of funds satisfy the requirements of the de minimis exemption provided by Commodity Futures Trading Commission Rule 4.13(a)(3). Sandalwood, with respect to the applicable segregated portfolios of the Offshore Fund, and the General Partners, with respect to the applicable Partnerships and other U.S. private funds, had previously relied upon Commodity Futures Trading Commission Rule 4.13(a)(4), which was eliminated in 2012 pursuant to certain rule changes.

Aside from these changes, there have been no material changes to Sandalwood’s affairs.

## TABLE OF CONTENTS

	Page
MATERIAL CHANGES .....	ii
ADVISORY BUSINESS .....	1
FEEs AND COMPENSATION .....	3
PERFORMANCE-BASED FEEs AND SIDE-BY-SIDE MANAGEMENT.....	5
TYPES OF CLIENTS .....	6
METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....	7
DISCIPLINARY INFORMATION.....	20
OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS.....	21
CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING.....	22
BROKERAGE PRACTICES.....	24
REVIEW OF ACCOUNTS .....	25
CLIENT REFERRALS AND OTHER COMPENSATION .....	26
CUSTODY .....	27
INVESTMENT DISCRETION .....	28
VOTING CLIENT SECURITIES .....	29
FINANCIAL INFORMATION .....	30

## **ADVISORY BUSINESS**

### **Firm Overview**

Sandalwood Securities, Inc. (“Sandalwood”) is an investment adviser registered with the U.S. Securities and Exchange Commission (the “SEC”). Sandalwood was formed in May 1990 as a New Jersey corporation. Martin J. Gross is the president and controlling shareholder of Sandalwood.

### **Types of Services Offered**

Sandalwood’s primary investment advisory activity is the provision of investment management services to various affiliated limited partnerships or limited liability companies (the “Partnerships”) as well as an offshore investment vehicle that serves in part as a feeder fund to each of the Partnerships (the “Offshore Fund” and together with the Partnerships, the “Funds”). The Funds operate as unregistered funds of funds. Sandalwood provides advisory services to the Funds pursuant to a management agreement with each Fund (each, a “Management Agreement”). Under each Management Agreement, Sandalwood performs certain services on behalf of the relevant Fund, including: (i) providing advice in connection with the selection, monitoring, termination and replacement of portfolio managers and funds; (ii) communicating with limited partners and prospective limited partners of the Fund, and preparing reports to limited partners; and (iii) performing such other duties as may be delegated from time to time by the Fund’s general partner. Sandalwood does not currently advise individual investors or managed accounts and does not expect to do so in the future. Each Management Agreement may be terminated at any time by either party upon 30 days’ notice.

In addition, Sandalwood serves as sub-adviser to a fund (the “Mutual Fund”) registered under the Investment Company Act of 1940, as amended (the “Investment Company Act”). Sandalwood’s primary responsibility as sub-adviser to the Mutual Fund is to provide advice to the Mutual Fund’s investment manager in connection with the selection, monitoring, termination and replacement of the underlying sub-advisers. Sandalwood serves as sub-adviser to the Mutual Fund pursuant to an investment sub-advisory agreement with the investment manager. The sub-advisory agreement runs for an initial period of two years, and continues automatically for successive annual periods provided it is specifically approved by the Mutual Fund’s Board of Trustees. The sub-advisory agreement may also be terminated by Sandalwood, by a vote of a majority of the Mutual Fund’s Board of Trustees, by a vote of a majority of the outstanding voting securities of the Mutual Fund, or by the Mutual Fund’s investment manager, in each case upon 60 days’ notice.

Sandalwood predominantly focuses upon multi-strategy credit, including distressed and long/short credit, as well as event driven investing. As a result, Sandalwood has developed specialized insight into multi-strategy credit and event driven investing. Sandalwood’s experience managing funds of funds has yielded long-standing relationships with prime brokers, capital introduction groups, peer groups and seasoned hedge fund managers as well as extensive experience in, and a repeatable process for, selecting managers. Sandalwood is also capable of securing capacity with some of the most experienced and sought after managers in the hedge fund industry, who are often closed to new capital.

For additional information about the investment strategies of the Funds and Sandalwood’s process for selecting and monitoring portfolio managers and underlying funds,

please see the section of this Brochure entitled “Methods of Analysis, Investment Strategies and Risk of Loss.”

As of February 28, 2013, Sandalwood had \$959.0 million in discretionary assets under management and no non-discretionary assets under management.

## **FEES AND COMPENSATION**

### **Management Fees**

Each Fund (or class or series thereof, as applicable) pays to its General Partner (if a Partnership) or to Sandalwood (in the case of the Offshore Fund) a fixed advisory fee (the “Management Fee”) based on the Management Fee established with respect to the class of interests or shares, as applicable, comprising such Fund. The Management Fee is calculated on a class by class basis or capital account by capital account basis, as applicable and is payable in arrears as of the last day of each month, (prorated for partial months). The Management Fee is generally 1-1.50% per annum of the net asset value in that class or capital account, as of the end of such month and is automatically deducted from an investor’s capital account. However, different Management Fees may be paid in respect of certain classes or series of a Fund, as set forth in the relevant offering documents for such class or series. In addition, Sandalwood or a General Partner each reserves the right, in their discretion, to reduce the Management Fee payable by any investor in a Fund without any obligation to obtain the consent of or provide notice to any other investor in such Fund.

With respect to the Partnerships, Sandalwood receives a portion of the Management Fee that would otherwise have been paid by a Fund to its General Partner. The exact amount of the fee is determined by each General Partner in its sole discretion based upon the services performed by Sandalwood. Sandalwood, as the investment manager of the Partnerships in which the Offshore Fund invests, and each General Partner have agreed to waive all fees otherwise payable to them by the Partnerships in respect of any investment made by the Offshore Fund in any of the Partnerships. Instead, Management Fees attributable to investors who invest in the Offshore Fund, are paid to Sandalwood by the Offshore Fund.

With respect to the Mutual Fund, Sandalwood is entitled to receive, on a monthly basis, a sub-advisory fee that represents a portion of the advisory fee received by the Mutual Fund’s investment manager less certain expenses, including monthly average fees paid to the other sub-advisers. For both the Mutual Fund and any other mutual funds for which Sandalwood may, in the future, provide similar services, this sub-advisory fee is negotiable and is required to be approved by a majority of the non-interested members of the applicable mutual fund’s board of trustees pursuant to the requirements of the Investment Company Act.

Sandalwood may, in certain circumstances and with respect to certain investors in the Funds, charge a performance allocation, as discussed in the section of this Brochure entitled “Performance-Based Fees and Side-by-Side Fee Management.”

### **Other Expenses**

Investment related expenses, including commissions, interest expense and other trading and custody expenses, which are associated with a Fund or Series, as applicable, will be allocated to such Fund or Series, pro rata to the capital of each and allocated pro rata among participating investors. In addition, each Fund pays its own overhead and operating expenses including, without limitation, organizational costs, custody and fund administration expenses, accounting, tax preparation and audit expenses and legal fees.

Each Fund also reimburses Sandalwood for a pro rata portion of Sandalwood’s overhead and administrative expenses, including salaries and employee benefit expenses, regulatory

compliance costs, rent, telephone, insurance premiums and similar expenses. Many of the Funds also pay Sandalwood a non-accountable expense allowance of \$3,500 a year.

The sub-advisory fee received by Sandalwood with respect to the Mutual Fund does not include the fee retained by the investment manager or the fees and other expenses deducted from the assets of the Mutual Fund. In addition, both the Mutual Fund and the Funds incur transaction costs when they buy and sell securities.

## **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

While Sandalwood does not generally charge a performance allocation, Sandalwood may agree to alternative fee structures with certain investors in the Funds. Pursuant to this, investors in one class of one of the Funds have agreed to reallocate to the capital account of the Fund's general partner, at the end of each fiscal year, a certain percentage of any net gain allocated to such limited partners' capital accounts. Sandalwood may, in the future, create additional classes in other Funds that charge a performance allocation. Any such performance-based compensation charged by Sandalwood will comply with Rule 205-3 of the Investment Advisers Act of 1940, as amended (the "Advisers Act").

In addition to the above, investors in a Fund will bear a pro rata share of the fees and expenses of each Underlying Manager (as defined below) in which such Fund invests, including any performance allocations of such Underlying Manager. Underlying Managers generally charge annual performance allocations of 20% of the increase in net asset value (including income and realized and unrealized gains, net of loss and expenses).

While Sandalwood is not incentivized to favor one client over another in selecting Underlying Funds, circumstances may arise in which an Underlying Manager may have limited capacity and be unable to accommodate the full amount that Sandalwood would like to invest for the account of each of its Funds. In such circumstances, Sandalwood's investment committee will make investment decisions intended to equitably allocate the opportunity across the appropriate funds based upon, among other things, (i) the desired target allocation for each fund, (ii) rebalancing considerations, (iii) the investment strategy of each Fund, and (iv) liquidity considerations and the amount each fund has available to invest at the particular time.

As discussed in the section of this Brochure entitled "Advisory Business," Sandalwood also serves as sub-adviser to the Mutual Fund, and is responsible for providing advice to the Mutual Fund's investment manager regarding the selection, monitoring, termination and replacement of the underlying sub-advisers. Because the underlying sub-advisers to the Mutual Fund engage in direct investment of the Mutual Fund's assets (as opposed to the fund of funds structure utilized by the Funds), there will be no issues in allocating limited capacity between the Mutual Fund and the Funds. Additionally, there is limited overlap in the underlying sub-advisers used for the Mutual Fund compared to the underlying managers used by the Funds due to the fact that the Funds only permit quarterly, or in some cases annual, withdrawals, while the Mutual Fund permits daily redemptions. As such, the investment strategies employed for the Funds are generally not appropriate for the Mutual Fund.



## **TYPES OF CLIENTS**

Sandalwood serves as investment adviser to the Funds and investment sub-adviser to the Mutual Fund, and currently has no other clients in addition to the Funds and the Mutual Fund. The eligibility and minimum investment requirements for the Mutual Fund are set forth in the Mutual Fund's current registration statement on file with the SEC (the "Registration Statement"), which can be viewed online at [www.sandalwoodfund.com](http://www.sandalwoodfund.com).

Prospective investors of a Fund must meet certain eligibility and minimum investment requirements, as set forth in such Fund's private placement memorandum (along with any relevant supplements thereto, such Fund's "PPM"). Investors are required to make various representations and warranties to a Fund, including representations regarding their eligibility to invest in the Fund, as a condition to the acceptance of their subscriptions. Investors who have invested in the Funds include high net worth individuals and families, pension plans, trusts, foundations, corporations and partnerships.

The Funds and the Mutual Fund are pooled investment vehicles. The Funds are privately placed, while the Mutual Fund may be offered to retail investors pursuant to its registration status under the Investment Company Act and the Securities Act of 1933, as amended (the "Securities Act"). This Brochure may be provided to current or prospective investors in a Fund, together with the Fund's PPM, subscription, partnership and other related documents (the Fund's "Governing Documents"), prior to or in connection with such person's consideration or execution of an investment in a Fund, and may subsequently be provided in Sandalwood's discretion or, annually, at the request of an investor in the Fund(s) (each an "Investor"). Investors in the Mutual Fund are provided with the prospectus of the Mutual Fund, but may request a copy of the Brochure or access the Brochure on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Investors in the Funds and the Mutual Fund and other recipients should be aware that while the Brochure may include information about the Funds and the Mutual Fund, as necessary or appropriate, it should not be considered to represent a complete discussion of the features, risks or conflicts associated with any Fund or the Mutual Fund. More complete information about each Fund is included in the Fund's PPM, which may be provided to current and eligible prospective investors only by Sandalwood or another authorized party. More complete information about the Mutual Fund is included in the Registration Statement.

**In no event should this Brochure be considered to be an offer of interests in a Fund of the Mutual Fund or relied upon in determining to invest. It is also not an offer of, or agreement to provide, advisory services directly to any recipient.** Rather, this Brochure is designed solely to provide information about Sandalwood for the purpose of compliance with certain obligations under the Advisers Act and, as such, responds to relevant regulatory requirements under the Advisers Act, which may differ from the information provided in a PPM or the Registration Statement. To the extent that there is any conflict between discussions herein and similar or related discussions in any PPM or the Registration Statement, the PPM or the Registration Statement shall govern.

## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **The Funds**

#### **Investment Strategies of the Funds**

Sandalwood and its affiliates offer a range of multi-strategy Funds and utilize separate Funds or series of Funds (each, a “Series”) to pursue a variety of investment strategies. In general, each Fund or Series has a different investment strategy and investors may choose the Fund or Funds whose strategies best match the investor’s preferences. Each Fund or Series is operated as a fund of funds, whereby Sandalwood allocates the assets of a Fund to a group of unaffiliated portfolio managers and hedge funds selected by Sandalwood (each, an “Underlying Manager”). While the investment strategies vary from fund to fund, as a firm, Sandalwood specializes in credit strategies and event driven strategies. The Underlying Managers invest in a wide variety of securities and financial instruments including, but not limited to, various debt securities including senior secured bank debt, heavily collateralized loans and securities and investment in high-yield and distressed debt securities, convertible debt, equity of reorganized companies, convertible and capital structure arbitrage, derivatives, bank loans, mezzanine loans, mortgage loans and other asset backed securities, event-driven investing and long/short investing in U.S. equities. Sandalwood selects Underlying Managers on the basis of various criteria, including, but not limited to, a detailed evaluation of each such Underlying Manager’s past performance, current investment strategy, amount of assets under management, research capabilities and other factors.

Sandalwood engages in a due diligence process to review the quality of each Underlying Manager prior to its initial investment and will conduct “follow-up” due diligence on a periodic basis. Sandalwood requests from each such Underlying Manager the applicable offering documents and may request such additional information as it deems necessary. The due diligence process may include (i) performing background investigations of the principals, (ii) consulting with references, (iii) conducting in-person or telephonic meetings with managers, (iv) requesting periodic performance and holdings updates (which may be either sector or security specific), (v) and reviewing such other information as Sandalwood may request. Sandalwood generally requests that each Underlying Manager in which it invests provide (a) monthly valuations; (b) periodic exposure reports; and (c) quarterly investor letters. Certain other specific components of Sandalwood’s due diligence process with regard to the “valuation of investments” and “portfolio compliance” are described herein. The President is responsible for ensuring that the due diligence process is performed with regard to each Underlying Manager.

In selecting and monitoring managers, Sandalwood will make a detailed evaluation of each Underlying Manager’s past performance, current investment strategy, assets under management, research capabilities, management’s experience and other factors. **Although a superior performance record is usually a prerequisite to the selection of any Underlying Manager, prospective investors are advised that there can be no assurances that an Underlying Manager’s future performance will be comparable to the Underlying Manager’s past performance. Investors in a Fund could lose money as a result of their investment.**

## **Risks of the Funds**

Each Fund is subject to certain risks as set forth in detail in such Fund's PPM. These risks are summarized below.

### **Risks Applicable to All Funds:**

#### Importance of Management

The General Partner or Board of Directors of a Fund, as applicable, either directly or via Sandalwood (such Fund's "Management") has complete discretion in investing a Fund's assets through the selection of Underlying Managers. Such Fund's success depends, to a great extent, on Management's ability to select successful Underlying Managers and the manner in which the Fund's assets are allocated among the Underlying Managers selected.

#### Lack of Direct Control

A Fund's Management does not make trading decisions itself, but rather entrusts all trading decisions to the Underlying Managers. In so doing, such Fund is dependent upon the integrity, skill and judgment of its Underlying Managers. Although a Fund's Management endeavors to conduct reasonable due diligence before investing with an Underlying Manager, there can be no assurance that any level of diligence will be sufficient to protect against fraud. However, by actively monitoring the Underlying Managers, Management may be able to promptly detect any problems which may arise.

A Fund's Management will endeavor to select Underlying Managers based upon a detailed evaluation of such Underlying Manager's past performance. **However, there can be no assurances that an Underlying Manager's future results will be as successful as his past performance. Moreover, even where an Underlying Manager has achieved excellent results over an extended period, because of cyclical movements and volatility, period to period results may differ materially. Accordingly, each Fund's Management believes that an investment in such Fund is suitable only for those investors who intend to make a long-term investment in the Fund.**

Some of the Underlying Managers to whom a Fund may allocate capital may be or consist of only one principal. If that individual dies or becomes incapacitated, the Fund might be adversely affected.

#### Investors May Not Participate in Management

Investors in a Fund will have no authority to make decisions or to participate in the management of or exercise business discretion with respect to such Fund. The authority to make all business decisions (including, most importantly, the selection of Underlying Managers), is entrusted to the complete discretion of such Fund's Management.

#### Absence of Regulation

Each Fund qualifies for an exemption from the requirement of registering as an investment company under the Investment Company Act. As a result, certain protections of the Investment Company Act will not be afforded to the Funds or its investors.

### Performance Fees Payable to Underlying Managers; Layering of Fees

The fee arrangements with Underlying Managers generally provide that the Underlying Manager will receive a minimum fee calculated as a percentage of assets under management and the Underlying Manager may also benefit from appreciation, including unrealized appreciation, in the value of the account or fund being managed, but may not be penalized for realized losses or decreases in the value of the account or fund. Generally, the Underlying Managers' compensation is determined separately for each year, but when possible, agreements are obtained to carry forward losses to subsequent years in determining incentive fees or allocations for such years. Such incentive arrangements may give the Underlying Managers an incentive to make purchases that are unduly risky or more speculative than would be the case in the absence of such incentive arrangements. Also, incentive fees or allocations may be paid or made to Underlying Managers that show a net profit, even though a Fund, as a whole, incurs a net loss. In most cases, the performance allocation to the Underlying Manager is equal to 20% of the net gain for each accounting period.

In addition to the fees or allocations that are paid or made to the Underlying Managers, a Fund's Management receives an annual fee equal to one and one-half (1.5%) percent per annum of the net asset value of the applicable Fund class or series. Such fees are paid on a monthly basis regardless of the profitability of a Fund's operations. The separate fees payable to a Fund's Management will result in a layering of fees which will reduce the yield which investors will derive from such Fund's investments.

All of the compensation described in this section will ultimately be calculated based on the valuation of portfolio assets established by the Underlying Managers. In valuing such assets, the Underlying Managers will have broad discretion to establish "fair value" based upon representative bids received from dealers, recent sales of similar securities, and pricing models. The Underlying Managers must exercise judgment in establishing values and even if done in good faith, such values may turn out to have been inaccurate.

### Short Selling

Short selling involves selling securities which may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Since the borrowed securities must be replaced by purchases at market prices in order to close out the short position, any appreciation in the price of the borrowed securities would result in a loss.

### Hedging

A Fund's Underlying Managers may engage in a variety of hedging transactions. There is a risk that price movements on the instrument used to create the hedge may not correspond to price movements in the security against which the Underlying Manager is using the instruments.

### Purchases of Securities and Other Obligations of Financially Distressed Companies

Underlying Managers may purchase primarily equity and debt securities and other obligations of companies that are experiencing significant financial or business distress, 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. Under such circumstances, the returns generated from a

Fund's investments may not compensate the investors in such Fund adequately for the risks assumed.

In the event that an Underlying Manager acquires loans and other assets that are distressed or non performing, it may be necessary for the Underlying Manager to restructure the obligation, or foreclose on a mortgage or security interest and sell the collateral in order to realize value. There are a variety of risks associated with such strategy including (i) an inability to successfully restructure the loan or other obligation, (ii) even if restructured, the obligor's financial condition may continue to worsen, leading to a new default on the restructured obligation, (iii) litigation risks, and (iv) bankruptcy risks, including unpredictability, delays and costs associated with a bankruptcy.

The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial distress is high and it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments also may be adversely affected by bankruptcy and other laws.

The market prices of such securities are also subject to abrupt and erratic market movements and above-average price volatility, and the spread between the bid and asked prices of such securities may be greater than those prevailing in other securities markets. It may be necessary for some of the assets acquired by an Underlying Manager to be held for a significant period of time in order to realize a profit. The investment thesis for acquiring such assets is that they are trading at distressed levels that do not accurately reflect the risk or intrinsic value of the asset and that they will recover a significant portion of their value as conditions in the credit markets normalize. However, conditions may continue to worsen before they improve, if they ever improve.

Securities issued by distressed companies may have a limited trading market, resulting in limited liquidity and may be difficult to value.

#### Calculation of Gain and Loss

The determination of net gain and net loss for any accounting period includes unrealized gains and losses. As a result of subsequent market movements, actual gains and losses may differ materially from the unrealized gains and losses reflected in a Fund's financial statements at the end of any accounting period.

Moreover, Sandalwood must generally rely on the valuation of portfolio assets established by Underlying Managers with little or no ability to verify those valuations. Many of the investments held by underlying funds will not be traded on an exchange and will have a limited market for resale. In valuing such instruments, the Underlying Managers will have broad discretion to establish "fair value" based upon representative bids received from dealers, recent sales of similar securities, and pricing models. The Underlying Managers must exercise judgment in establishing values and, even if done in good faith, such values may turn out to have been inaccurate.

#### Liquidity and Transferability of Fund Interests

An investment in a Fund involves limited liquidity and Fund interests are not freely transferable. There is no market for the securities issued by a Fund ("Interests") and none is expected to develop. Investors thus may not be able to liquidate their investment in the event of

any emergency, or for any other reason. In addition, Interests may not be readily accepted as collateral for a loan.

A Fund's ability to satisfy withdrawal requests is largely contingent on its ability to withdraw assets from the Underlying Managers in which it invests. The process of withdrawing from such Underlying Managers may be both lengthy and costly due to any withdrawal restrictions imposed by such Underlying Managers.

None of the Interests are registered under the Securities Act or under state securities laws. Interests, therefore, cannot be transferred unless they are subsequently registered under such Act and laws or an exemption from such registration is available.

#### Due Diligence in Underlying Manager Selection Process

Each Fund will conduct due diligence which a Fund's Management believes is adequate to select Underlying Managers in which to invest the Fund's assets. However, due diligence may not uncover problems associated with a particular Underlying Manager. A Fund may rely upon representations made by the Underlying Managers and/or investment consultants which, if misleading, incomplete, or false, may result in the selection of Underlying Managers which might otherwise have been eliminated from consideration. No amount of diligence can eliminate the possibility that one or more Underlying Manager(s) may engage in improper or fraudulent conduct, including unauthorized changes in investment strategy, misappropriation of assets and unsupportable valuations of portfolio securities.

#### Market Risks

The profitability of a significant portion of a Fund's investment program may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that an Underlying Manager will be able to predict those price movements accurately.

#### Non-U.S. Investments

An Underlying Manager may invest in non-U.S. securities denominated in non-U.S. currencies and/or traded outside of the United States. Such investments require consideration of certain risks typically not associated with investing in U.S. securities or property, including trade balances and imbalances and related economic policies, unfavorable currency exchange rate fluctuations, impositions of exchange control regulation, withholding taxes, limitations on the removal of funds or other assets, policies of governments with respect to possible nationalization of their industries, and economic or political instability in foreign nations.

There may be less publicly available information about certain foreign companies than there would be in the case of comparable companies in the United States. Certain foreign companies may not be subject to accounting, auditing, and financial reporting standards and requirements comparable to or as uniform as those of United States companies. Securities markets outside the United States generally have substantially less volume than U.S. markets, and many securities traded on these foreign markets are less liquid and their prices are more volatile than their U.S. counterparts. In addition, settlement of trades in some non-U.S. markets is much slower and more susceptible to failure than in U.S. markets.

A portion of an Underlying Manager's assets may be invested in securities denominated in currencies other than the U.S. dollar and in other assets, the price of which is determined with reference to non-U.S. currencies. Any such Underlying Manager, however, would likely value its securities and other assets in U.S. dollars. To the extent that the Underlying Manager's assets are unhedged, the value of these assets will fluctuate with U.S. dollar exchange rates as well as with price changes of the Underlying Manager's investments in the various local markets and currencies. Thus, an increase in the value of the U.S. dollar compared to the other currencies in which the assets of the Underlying Manager are invested would reduce the effect of increases and magnify the U.S. dollar equivalent of the effect of decreases in the prices of the securities invested in by a fund in non-U.S. markets.

An Underlying Manager may utilize currency forward contracts and options thereon to hedge against currency fluctuations. Forward and "cash" trading is not standardized and is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. Forward markets can experience long periods of illiquidity, resulting in major losses. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. In respect of such trading, a fund is subject to the risk of counterparty failure or refusal to perform contractual obligations.

#### General Economic Conditions

The success of any investment activity is affected by general economic conditions, which may affect the level and volatility of interest rates and the extent and timing of investor participation in the markets for both equities and interest-sensitive securities. Unexpected volatility or illiquidity in the markets in which a Fund (directly or indirectly) holds positions could impair such Fund's ability to carry on its business or cause it to incur losses.

#### Possible Adverse Tax Consequences

The primary objective of a Fund is to achieve economic gain on investments made with the Fund's capital, not to minimize taxes payable by investors. A tax-exempt entity should note, in particular, that certain strategies employed by Underlying Managers could result in a portion of the entity's share of a Fund's income and gain being subjected to the special tax imposed on the entity's unrelated business taxable income.

Changes or modifications in existing judicial decisions or in the current positions of the Internal Revenue Service ("IRS") and the passage of new legislation, could substantially reduce, eliminate or modify a Fund's tax treatment. A Fund may occasionally take tax positions which may be subject to challenge by the IRS. If the IRS successfully challenges such a position, there may be substantial retroactive taxes, plus interest and possibly penalties.

#### Volatility of Financial Markets; Risks of Certain Investment Strategies

Recently, the financial markets have been exceptionally volatile. While the trading strategy of certain Underlying Managers may seek to exploit such volatility, continued volatility could disrupt the investment strategy of such Underlying Managers, decrease the value of a Fund's portfolio and adversely impact its profitability. If an Underlying Manager's evaluation of an investment opportunity should prove incorrect, a Fund could experience losses as a result of a decline in the market value of securities in which an Underlying Manager holds a long position,

or an increase in the value of securities in which an Underlying Manager holds a short position. The risk management techniques that may be utilized by Underlying Managers will not provide any assurance that a Fund will not be exposed to a risk of significant investment losses. An Underlying Manager's investment programs may utilize such investment techniques as margin transactions, short sales, leverage, and options on securities and futures, potentially exposing a Fund to greater losses than it would otherwise be subject.

#### Special Investment and Trading Risks

Special risks may be associated with a Fund's investments in hedge funds that invest in the debt securities, rescue financings and post-reorganization securities of financially troubled companies. Such securities may offer higher yields than higher rated securities, but generally involve greater volatility of price and risk of principal and income, including the possibility of default by, or bankruptcy of, the issuers of the securities. In addition, the markets for such securities may be limited. Such transactions are not subject to exchange rules.

#### Interest Rate Risk

Because some Underlying Managers may invest in fixed rate bonds, such investments will be subject to interest rate risk. An increase in interest rates will generally result in a reduction in the value of the bonds and thus a Fund may sustain a significant loss.

#### Credit Risk

An issuer or obligor may default in the payment of principal and/or interest on an instrument. Financial strength and solvency of an issuer or obligor are the primary factors influencing credit risk. In addition, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of an instrument and securities or loans may be subject to downgrade by a rating agency. Even if a bond is not in default, a downgrade could have a significant negative impact on the value and liquidity of the bond.

#### Commissions

Portfolio transactions are allocated to brokers by each Underlying Manager or, in the case of an Underling Manager who is also a broker-dealer, may be executed in-house. Underlying Managers may select brokers in consideration of such brokers' provision or payment of the costs of property and services which are of benefit to them, although such services may not directly relate to any transactions which benefit the Fund.

No Fund has adopted a policy with respect to portfolio turnover to be followed by Underlying Managers.

#### Business, Legal, Tax and other Regulatory Risks

Legal, tax, and regulatory changes, as well as judicial decisions, could adversely affect Sandalwood, a General Partner or a Fund. The regulatory environment for private investment funds continues to evolve, and changes in the regulation of private investment funds may adversely affect the value of a Fund's investments and the ability of a Fund to implement its investment strategy (including the use of leverage). The financial services industry generally and the activities of private investment funds (such as hedge funds) and their investment advisers, in



particular, have been the subject of increasing legislative and regulatory scrutiny. Such scrutiny may increase Sandalwood's, a General Partner's or a Fund's legal, compliance, administrative and other related burdens and costs. In addition, securities and futures markets are subject to extensive statutes, regulations and margin requirements. Various U.S. federal and state regulators are authorized to take extraordinary actions in the event of market emergencies. Alternative U.S. or non-U.S. rules or legislation regulating a Fund may be adopted, and the possible scope of any rules or legislation is unknown. The effects of any regulatory changes or developments on a Fund may affect the manner in which it is managed and may be substantial and adverse.

#### Futures Contracts

A Fund may invest a portion of its assets with Underlying Managers that invest in commodity interests, such as commodity futures and options. Commodity futures prices and commodity options can be highly volatile. Price movements of futures contracts and options are influenced by, among other things, changing supply and demand relationships, domestic and foreign governmental programs and policies and national and international political and economic events. Moreover, commodity exchanges generally limit fluctuations in commodity futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." During a single trading day, no trades may be executed at prices beyond the daily limit. Once the price of a futures contract for a particular commodity has increased or decreased by an amount equal to the daily limit, positions in the commodity can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. A Fund also is subject to the risk of the failure of any of the exchanges on which such positions trade or of their clearinghouses.

#### Illiquid Portfolio Securities

To the extent that Underlying Managers have deemed a portion of their assets as illiquid and such assets have been "side-pocketed" such that no gain or loss on the investment is allocated to the asset until the asset has been sold or has otherwise become readily marketable, a Fund's Management may be unable to determine the market price of those assets. In such event, the a Fund's Management may rely on the Underlying Managers' valuation of such assets. To the extent that side pocketed investments are valued at cost, the values assigned to such investments may not accurately reflect the amount that could be realized if such investments were sold. Therefore, at the time an investor invests in a Fund, that Fund's net asset value may not accurately reflect the true value of side pocketed investments because such investments are being valued at cost. Similarly, the withdrawal proceeds an investor receives upon withdrawal from the a Fund may be higher or lower than the true value of such investor's interest because the investments of some Underlying Managers are being carried at cost.

#### Reserve for Contingent Liabilities

Under certain circumstances, a Fund's Management may find it necessary upon withdrawal by an investor to set up a reserve for contingent liabilities and to withhold a certain portion of the investor's capital account. Similar provisions may be contained in the partnership agreements for limited partnerships in which a Fund may invest. These provisions could be activated if a Fund or one of the Underlying Managers were involved in litigation or became subject to an audit by the IRS.

### Expenses Related to Withdrawals

Withdrawals from a Fund may be subject, in the discretion of a Fund's Management, to the imposition of charges to reimburse the Fund for direct expenses actually incurred in connection with the withdrawal, including any fees or expenses imposed by Underlying Managers in connection with the liquidation of or closing out positions which are necessary in order to fund the withdrawal.

### Counterparty Risk

The institutions (such as brokerage firms and banks) with which a Fund may do business, or to whom instruments may be entrusted for custodial purposes, could encounter financial difficulties. This could impair the operational capabilities or the capital position of a Fund or an entity in which it has invested. Despite its efforts to limit its transactions to well-capitalized and established banks and brokerage firms, a Fund cannot control the institutions selected by the Underlying Managers.

### **Risks Applicable to Certain Funds:**

#### Leverage

Underlying Managers may, in the sole discretion of such Underlying Manager, borrow without limitation and may utilize various lines of credit, repurchase agreements and other forms of leverage. Also, with respect to certain Funds, a General Partner is authorized to leverage a Fund or Series' assets when it believes it would be desirable to do so in order to enhance returns or obtain liquidity. While leverage presents opportunities for increasing the total returns, it has the effect of potentially increasing losses as well. Any event which adversely affects the value of an investment by an Underlying Manager would be magnified to the extent the Underlying Manager is leveraged. The cumulative effect of the use of leverage by an Underlying Manager in a market that moves adversely to such Underlying Manager's investments could result in a substantial loss to the Underlying Manager, which would be greater than if the Underlying Manager was not leveraged. In addition, borrowings will typically be secured by the Underlying Manager's or the relevant Fund's or Series' securities and other assets. In addition, the amount of the borrowings and the interest rates on those borrowings, which will fluctuate, may have an effect on the relevant Fund's or Series' profitability. If an Underlying Manager's losses were to exceed the amount of capital invested, an investor could lose its entire investment.

#### Event Driven Investing; Merger Arbitrage

A Fund may utilize Underlying Managers that invest in merger arbitrage or other high risk investments. The ability to profit from these investments may often depend upon factors that are intrinsic to the particular issuer, rather than the market as a whole. Appreciation in the value of such securities may be contingent upon the occurrence of certain events, such as a successful reorganization or merger, not the actual value of the company. If the expected event does not occur, the hedge fund may incur a loss on the position.

#### Arbitrage Risk

Some Underlying Managers may engage in arbitrage strategies, particularly convertible arbitrage and capital structure arbitrage. Arbitrage strategies involving related assets carry the risk that the value of the related assets will not track or affect each other in the manner anticipated

by the Underlying Manager. Arbitrage strategies generally assume the price of related assets will converge to some historic or quantitative relationship, and that price discrepancies from this relationship will disappear. In the event the price discrepancies do not disappear or if the price discrepancies increase, the Underlying Manager could lose money on an arbitrage trade.

### Asset-Backed Securities

The Underlying Managers may invest in asset-backed securities (“ABS”), such as residential mortgage-backed securities, commercial mortgage-backed securities and collateralized debt obligations, or synthetic securities (including credit default swap transactions)) with respect to which the reference obligations are ABS (“CDS Transactions”). ABS are securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from, among others, (a) a specified pool of financial assets, either a fixed pool or a revolving pool, that by their terms convert into cash within a finite time period, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to the holders of such securities or (b) real estate mortgage loans, either a fixed pool or a revolving pool, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities. ABS backed by real estate mortgage loans do not entitle the holders thereof to share in the appreciation in value of or in the profits generated by the related real estate assets.

ABS include but are not limited to securities for which the underlying collateral consists of assets such as home equity loans, leases, residential mortgage loans, commercial mortgage loans, auto finance receivables, credit card receivables and other debt obligations. Sponsors of issuers of ABS are primarily banks and finance companies, captive finance subsidiaries of non-financial corporations or specialized originators such as credit card lenders.

ABS carry coupons that can be fixed or floating. The spread will vary depending on the credit quality of the underlying collateral, the degree and nature of credit enhancement and the degree of variability in the cash flows emanating from the securitized assets. In the event that spreads on ABS widen after acquisition by an Underlying Manager, the market value of such ABS is likely to decline and, in the case of a substantial spread widening, could decline by a substantial amount.

Holders of ABS bear various risks, including credit risk, liquidity risk, interest rate risk, market risk, operations risk, structural risk and legal risk. The structure of an ABS and the terms of the investors’ interest in the collateral can vary widely depending on the type of collateral, the desires of investors and the use of credit enhancements. Although the basic elements of all ABS are similar, individual transactions can differ markedly in both structure and execution. Important determinants of the risk associated with issuing or holding the securities include the process by which principal and interest payments are allocated and distributed to investors, how credit losses affect the issuing vehicle and the return to investors in such ABS, whether collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the asset-backed instrument) any remaining balance in the accounts may revert to the issuing entity and the extent to which the entity that is the actual source of the collateral assets is obligated to provide support to the issuing vehicle or to the investors in such ABS.

ABS often use various forms of credit enhancements to transform the risk-return profile of the underlying collateral and to attempt to minimize the exposure of ABS to credit losses on the underlying collateral, including over-collateralization, senior-subordinate structures, reserve accounts and third-party credit enhancements. The rating of a third-party credit enhancement

provider may affect the ratings of the ABS. If an ABS trust enters into any third-party credit enhancement arrangement, the rating agencies that rate the trust's ABS will consider the provisions of the arrangement and the rating of any third-party credit enhancement provider. If a rating agency downgrades the debt rating of any third-party credit enhancement provider, it is also likely to downgrade the rating of the ABS. Any downgrade in the rating of the ABS could have severe adverse consequences on their liquidity or market value.

All or most of the ABS that an Underlying Manager may invest in are subordinate in right of payment and rank junior to other securities that are secured by or represent an ownership interest in the same pool of assets. In addition, many of the transactions have structural features that divert payments of interest and/or principal to more senior classes when the delinquency or loss experience of the pool exceeds certain levels. As a result, such securities have a higher risk of loss as a result of delinquencies or losses on the underlying assets. Often ABS are structured to reallocate the risks entailed in the underlying collateral (particularly credit risk) into security tranches that match the desires of investors. For example, senior subordinated security structures give holders of senior tranches greater credit risk protection (albeit at lower yields) than holders of subordinated tranches. Under this structure, at least two classes of ABS are issued, with the senior class having a priority claim on the cash flows from the underlying pool of assets. The subordinated class must absorb credit losses on the collateral before losses can be allocated to the senior portion.

In addition, concentrations of ABS of a particular type, as well as concentrations of ABS issued or guaranteed by affiliated obligors, serviced by the same servicer or backed by underlying collateral located in a specific geographic region, may subject an Underlying Manager to additional risks.

Prepayment risk on ABS arises from the uncertainty of the timing of payments of principal on the underlying securitized assets. The assets underlying a particular ABS may be paid more quickly than anticipated, resulting in payments of principal on the related ABS sooner than expected. Alternatively, amortization may take place more slowly than anticipated, resulting in payments of principal on the related ABS later than expected. In addition, a particular ABS may, by its terms, be subject to redemption prior to its maturity, resulting in a full or partial payment of principal in respect of such ABS. Similarly, defaults on the underlying securitized assets may lead to sales or liquidations and result in a prepayment of such ABS.

If an Underlying Manager purchases a security at a premium, a prepayment rate that is faster than expected may result in a lower than expected yield to maturity on such security. Alternatively, if the Underlying Manager purchases a security at a discount, slower than expected prepayments may result in a lower than expected yield to maturity on such security.

ABS backed by consumer receivables such as student loans, automobile loans and leases and credit card receivables are subject to risks related to changes in various federal and state laws and regulations aimed at protecting consumers.

Changes to federal or state bankruptcy or debtor relief laws could also impede collection efforts or alter timing and amount of collections, which may result in acceleration of or reduction in payment on the ABS. If an obligor sought protection under federal or state bankruptcy or debtor relief laws, a court could reduce or discharge completely the obligor's obligations to repay amounts due on its receivable.

The return on ABS could be reduced by shortfalls due to military action or terrorism. The Servicemembers Civil Relief Act and similar state laws may provide relief in terms of interest rate reductions or deferrals to members of the military on active duty who have entered into an obligation before entering into military service.

Underlying Managers may also enter into CDS Transactions with respect to which the reference obligations are ABS that are subordinate in right of payment and rank junior to other securities that are secured by or represent an ownership interest in the same pool of assets. In addition, many of the ABS that an Underlying Manager may invest in may have been issued in transactions that have structural features that divert payments of interest and/or principal to more senior classes when the delinquency or loss experience of the pool exceeds certain levels. As a result, such securities have a higher risk of loss as a result of delinquencies or losses on the underlying assets.

### Options Trading

Some of the Underlying Managers may engage in options trading as a part of their investment program. Options trading increases the possibilities of gain and the risk of loss. Although expected to represent a small portion of a Fund's capital, the use of option transactions may increase the adverse impact to which its portfolio may be subject if the Underlying Managers' evaluation of the various factors involved in particular securities transactions is incorrect.

### Purchasing Initial Public Offerings

Underlying Managers may purchase securities of companies in initial public offerings of any equity security ("new issues") or shortly thereafter. Special risks associated with these securities may include a limited number of interests available for trading, unseasoned trading, lack of investor knowledge of the company, and limited operating history. These factors may contribute to substantial price volatility for the interests of these companies and, thus, a Fund's interests. The limited number of interests available for trading in some initial public offerings may make it more difficult for an Underlying Manager to buy or sell significant amounts of interests without an unfavorable impact on prevailing market prices. In addition, some companies in initial public offerings are involved in relatively new industries or lines of business, which may not be widely understood by investors. Some of these companies may be undercapitalized or regarded as developmental stage companies, without revenues or operating income, or the near-term prospects of achieving them.

### Value Investing

A Fund may utilize Underlying Managers and Underlying Funds that engage in value investing. The success of a value investment strategy depends on an Underlying Manager's ability to identify and exploit perceived inefficiencies in the pricing of securities, financial products, or markets. Identification and exploitation of such discrepancies involve uncertainty. There can be no assurance that an Underlying Manager will be able to locate investment opportunities or to exploit pricing inefficiencies in the securities markets. A reduction in the pricing inefficiency of the markets in which an Underlying Manager seeks to invest will reduce the scope for an Underlying Manager's investment strategies. In the event that the perceived mispricings underlying an Underlying Fund's positions were to fail to converge toward, or were to diverge further from, relationships expected by an Underlying Manager, the Underlying Fund (and consequently, the Fund) may incur losses. An Underlying Manager's value investment

strategy may result in high portfolio turnover and, consequently, high transaction costs. In addition, a value strategy is designed to be uncorrelated with respect to the movements in equity markets and risk-free interest rates. Depending upon the investment strategies employed and market conditions, unforeseen events involving such matters as political crises, or changes in currency exchange rates or interest rates, forced redemptions of securities, or general lack of market liquidity may have a material adverse effect on the Underlying Fund (and consequently, the Fund).

#### Limited Operating History

Certain Funds have a limited operating history. Sandalwood does, however, presently serve as investment manager to other Funds that do have operating histories.

THE FOREGOING LIST OF RISK FACTORS DOES NOT PURPORT TO BE A COMPLETE EXPLANATION OF THE RISKS INVOLVED IN INVESTING IN A FUND. PROSPECTIVE INVESTORS SHOULD READ A FUND'S ENTIRE PPM, PARTICULARLY THE SECTION ENTITLED "RISK FACTORS," BEFORE DETERMINING TO INVEST IN A FUND.

#### **Investment Strategy and Risks of the Mutual Fund**

The investment strategy and risks of the Mutual Fund are described in detail in the Mutual Fund's current registration statement on file with the SEC, which can be viewed online at [www.sandalwoodfund.com](http://www.sandalwoodfund.com).

### **DISCIPLINARY INFORMATION**

Sandalwood has had no disciplinary events in the last ten years that are required to be disclosed in response to this item.

## **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

An affiliate of Sandalwood serves as the general partner or managing member of each Fund organized as a limited partnership or limited liability company, respectively (each, a “General Partner”). Each General Partner, with respect to the Funds it manages, and Sandalwood, with respect to the segregated portfolios of the Offshore Fund (for which it serves as investment adviser) has either: (i) filed with the National Futures Association a claim for exemption from commodity pool operator registration with the Commodity Futures Trading Commission (“CFTC”) pursuant to CFTC Rule 4.13(a)(3) with respect to the Funds it manages; or (ii) filed to perfect the no-action relief provided by the Division of Swap Dealer and Intermediary Oversight of the CFTC as permitted by CFTC Letter No. 12-38 with respect to the Funds it manages.

Because the General Partners and Sandalwood are affiliated, there exists a potential disincentive for Sandalwood to be replaced, even if such an action is in the best interests of a Fund. Moreover, the fees paid by a General Partner to Sandalwood and expenses required to be reimbursed by a Fund are paid pursuant to agreements negotiated between affiliated parties and therefore have not been established in an arm’s length transaction.

In all cases, a written disclosure document is furnished to investors disclosing the interest of Mr. Gross or a General Partner (or such other entity formed by Mr. Gross) in both the Fund and Sandalwood, as well as the potential conflict arising therefrom.



## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics**

Advisory Persons are, to the extent applicable, subject to the provisions of Sandalwood's Code of Ethics (the "Sandalwood Code"). You may obtain a copy of the Sandalwood Code upon request. Our contact information appears on the cover page of this Brochure. The Sandalwood Code is designed to comply with Advisers Act Rule 204A-1. Additionally, the Sandalwood Code contains provisions that assist Sandalwood with its recordkeeping obligations under the Advisers Act.

Through implementation of the Sandalwood Code, Sandalwood seeks to ensure that personal trading activities of Access Persons do not conflict with the interests of Sandalwood clients. Consequently, Sandalwood has adopted policies and procedures designed to ensure that such trading (i) complies with Sandalwood's legal and fiduciary obligations; (ii) is properly recorded in Sandalwood's books and records and (iii) is subject to the review and oversight of Sandalwood's Chief Compliance Officer (the "CCO"). The Sandalwood Code contains various provisions with respect to the reporting of personal holdings, transactions and/or brokerage statements and confirmations of all "Access Persons" (as defined in the Advisers Act).

In addition to these personal securities transaction reporting obligations, the following is a general synopsis of the provisions that are included in the Sandalwood Code:

- Pre-clearance of IPOs and Limited Offerings. Access Persons must obtain pre-clearance from Sandalwood's CCO prior to investing in an Initial Public Offering ("IPO") or limited offering. Access Persons who are permitted to acquire securities in IPOs and limited offerings must disclose their interests when involved in considering an investment in such securities for a client account.
- Gifts. The Code prohibits the giving or receipt of gifts in violation of Sandalwood's Gift Policy, which generally prohibits giving or receiving gifts of other than a strictly nominal value or in certain other circumstances.
- Conflicts of Interest. Access Persons must provide disinterested advice and disclose relevant conflicts of interest, whether actual or potential. Access Persons represent Sandalwood and should avoid any activity which might reflect poorly on them or Sandalwood.
- Fair Treatment. Access Persons must avoid taking any action which would favor one client account or investor or group of client accounts or investors over another in violation of Sandalwood's fiduciary duties and applicable law.
- Outside Activities. Access Persons are subject to limitations on their outside activities, including directorships.
- Disclosure of Brokerage Accounts. Access Persons must disclose to the CCO any brokerage accounts and may instruct the broker to provide duplicate confirmations to satisfy relevant reporting requirements.

- Reporting Violations. Sandalwood personnel are required to inform the CCO promptly if they believe that a violation of the Code has taken place.
- Waivers: Sandalwood's CCO may waive or modify certain requirements, to the extent permitted by applicable law, in appropriate circumstances (*e.g.*, personal hardship) and will retain records necessary to support any such waiver.
- Prohibition on Self-Clearance or Review. The Sandalwood Code prohibits any individual from pre-clearing his or her own trades, reviewing his or her own reports or approving his or her own exemptions.
- Notifications and Certifications. The CCO provides notice to all Access Persons of their status under the Sandalwood Code and, on an annual basis, distributes the Sandalwood Code to all covered personnel. Additionally, the CCO will deliver copies of the Sandalwood Code upon its amendment. Persons subject to the Sandalwood Code must return to the CCO a certification of receipt. The CCO may determine to hold training sessions with respect to the Sandalwood Code.
- Violations and Sanctions. Persons who violate the Sandalwood Code may be subject to disgorgement of gains, or other penalties up to and including termination of employment. Sanctions may also include: verbal or written warnings and censures and monetary penalties. Funds received as a result of disgorgement or penalties will be disbursed to an appropriate charity at the discretion of Sandalwood's President, unless a particular account is identified as having been harmed by the related violation, in which case payment will be made to that account. In appropriate circumstances, such violations may be reported to relevant authorities.
- Review of Code Reports and Potential Violations. Reports required to be submitted pursuant to the Sandalwood Code are reviewed by the CCO on a periodic basis. Reports of potential violations are directed to the CCO and an appropriate investigation may result. Where a major violation is found by the CCO, a report of the violation will be provided to the President. Such reports will include the CCO's recommendation as to actions to be taken (including potential sanctions). Other violations will be handled by the CCO in an appropriate manner.
- Recordkeeping. The CCO is responsible for maintaining related records, as described above, with respect to the Sandalwood Code.

### **Personal Trading/Cross-Trades**

From time to time, family members, family partnerships and other entities controlled by Mr. Gross or affiliated with Mr. Gross may invest in the Mutual Fund or a Fund, and such affiliates may invest directly with an Underlying Manager.

Often, two or more Funds will invest with the same Underlying Manager(s). Occasionally, a Fund may purchase a security from or sell a security to another Fund. Any such transaction will only be effected at an independent price provided to the Funds' General Partner equal to the fair market value of the security as reported by the Underlying Manager's administrator and/or the Underlying Manager itself.

## **BROKERAGE PRACTICES**

### **Best Execution**

Sandalwood does not currently execute trades in dealer or auction markets (or in any secondary markets). As a result, issues relating to “best execution” will not normally be relevant to Sandalwood’s business. However, in the case that Sandalwood engages in trading that would require it to consider best execution requirements, Sandalwood will consider the full range and quality of a broker’s services in placing brokerage. Sandalwood will consider, among other things, the commission rate, execution capacity, financial responsibility, and the responsiveness of the broker or dealer. If Sandalwood obtains research from any brokers or dealers, it may also consider the value of research provided to the extent such consideration is permitted by law. In general, Sandalwood will be guided by the principle that “best execution represents the best qualitative execution” for the trade. As part of its best execution obligation, Sandalwood will avoid “interpositioning”, or placing a client transaction through a broker-dealer (for a commission) that then, in turn, places the order with a market maker (for which a mark-up/down is charged), when the order could be placed directly with the market maker for no disclosed brokerage commission and with no loss of service.

Sandalwood has not entered into any agreements, nor does it have any present understandings, with any Underlying Manager that would require the Underlying Manager to use any particular broker to effect trades for the Underlying Manager.

### **Soft Dollars**

Among the factors Sandalwood may consider in seeking best execution is the value of a broker-dealer’s brokerage and research services, including third party research provided by the broker-dealer (*i.e.*, “soft dollar” services), provided these services fall within the safe harbor of Section 28(e) of the 1934 Act (the “Safe Harbor”). Sandalwood does not currently execute any trades that would generate soft dollars. However, to the extent Sandalwood in the future seeks to rely on the Safe Harbor, it will comply with the requirements of relevant SEC interpretive guidance.

## **REVIEW OF ACCOUNTS**

### **Review of Accounts**

Both the Funds and the Mutual Fund are reviewed on an ongoing basis. Periodic reports and statements with respect to the Funds and the Mutual Fund are reviewed periodically by an investment committee (the “Investment Committee”) for compliance with the investment objective and strategies set forth in such fund’s offering document (the “Portfolio Policies”), fund performance, industry weightings, cash and other relevant items. The CCO, as a member of the Investment Committee and as part of the regular meetings of the Investment Committee, will periodically review Sandalwood accounts with the Investment Committee to ensure compliance with the Portfolio Policies.

Generally, the Investment Committee meets on a monthly basis to discuss specific manager and portfolio actions. The Investment Committee is comprised of several members including the President, who serves as the Investment Committee Chairman, the Director of Manager Research, the Director of Operational Due Diligence and the Chief Portfolio Strategist. The Director of Operational Due Diligence has a veto right for operational issues associated with an Underlying Manager.

Sandalwood also engages in initial and periodic ongoing due diligence reviews of each Underlying Manager for the Funds, as described in the section of this Brochure entitled “Methods of Analysis, Investment Strategies and Risk of Loss,” and in initial and periodic ongoing due diligence reviews of each sub-adviser for the Mutual Fund.

### **Reports to Investors**

Each Fund’s financial statements are audited at the end of each fiscal year by an independent certified public accountant and copies of the certified financial statements will be made available to each investor in such Fund, along with appropriate income tax information. Unaudited monthly performance information with respect to a Fund is also provided to investors in such Fund.

Investors in the Mutual Fund receive the reports in the form and content required by the Investment Company Act. The Mutual Fund’s investment manager is responsible for providing these reports.

### **CLIENT REFERRALS AND OTHER COMPENSATION**

Each Fund's PPM reserves the right for such Fund to utilize placement agents to sell its interests. Sandalwood currently maintains relationships with several independent and unaffiliated investment advisers who introduce their clients to Sandalwood. Sandalwood may share a portion of its management fees received with respect to such clients with the referring adviser. All such fee sharing arrangements are fully disclosed to the affected investor.

In addition, Sandalwood has entered into placement agreements with several registered broker dealers. Under the terms of such agreements, the broker dealer is authorized to sell interests in the Sandalwood Funds to investors whom the broker dealer believes are eligible to invest in the particular fund. All selling activity pursuant to any such agreement must be conducted in accordance with relevant private placement rules. Placement agents are compensated through the payment by Sandalwood of a portion of the Management Fees it receives in respect of investors introduced by the Placement Agent. No additional fees are paid by investors as a result of the use of a placement agent. All compensation arrangements are fully disclosed to affected investors.

Such fees are paid in accordance with the requirements of Rule 206(4)-3 of the Advisers Act, and any corresponding state securities laws or requirements and are paid solely from Sandalwood's fees and not from Fund assets. Should Sandalwood, in the future, enter into a referral fee arrangement with a third-party solicitor, that arrangement will comply with any no-action relief under relevant law and relevant information about the arrangement will be included in future amendments to this Brochure. Unless approved by the CCO, Sandalwood may only enter into distribution, placement or referral arrangements with third parties that are properly registered as broker-dealers.

### **CUSTODY**

Because Sandalwood (or an affiliate) serves as general partner of those Funds organized as limited partnerships, Sandalwood is deemed to have “custody” over such Funds within the meaning of Rule 206(4)-2 under the Advisers Act. To comply with this Rule, Sandalwood provides each investor in a Fund audited financial statements as soon as practicable following such Fund’s fiscal year end, but in all events, within 180 days of the end of such year. If you have invested in a Fund and have not received audited financial statements timely, please contact us immediately, unless factors outside of our control preclude us from providing each investor with an audited financial statement within 180 days. For example, if an Underlying Manager does not provide us with audited financial statements within 180 days, we may not be able to provide the Fund’s audited financial statements within 180 days.

Citibank, N.A. currently serves as custodian for most of the Sandalwood Funds, the assets of which are custodied with Citibank, N.A. by registering the ownership of each Underlying Fund with Citibank, N.A. as custodian for the benefit of the applicable Fund.

Pursuant to the requirements of the Investment Company Act, the Mutual Fund has a non-affiliated custodian, and Sandalwood does not have custody of client funds or securities with respect to its role as sub-adviser to the Mutual Fund.

### **INVESTMENT DISCRETION**

Investors in the Funds and the Mutual Fund will have no authority to make decisions or to participate in the management of or exercise business discretion with respect to a Fund or the Mutual Fund, as applicable. The authority to make all business decisions (including, most importantly, the selection of portfolio managers for a Fund and underlying sub-advisers for the Mutual Fund), is entrusted to the complete discretion of Sandalwood (and such Fund's General Partner, in the case of the Partnerships). Accordingly, no person should invest in a Fund or the Mutual Fund unless he or she is willing to entrust all aspects of the management of the Fund to Sandalwood and such Fund's General Partner, in the case of the Partnerships, or the investment manager and Sandalwood, in the case of the Mutual Fund.

Each Fund has entered into a Management Agreement with Sandalwood pursuant to which certain management services are performed by Sandalwood on behalf of the Fund's Management. With respect to the Mutual Fund, Sandalwood has entered into a sub-advisory agreement with the investment manager pursuant to which Sandalwood performs certain advisory services for the Mutual Fund.

### **VOTING CLIENT SECURITIES**

As a manager of funds of funds, Sandalwood typically does not have discretion to vote proxies solicited by issuers held indirectly through an Underlying Manager. In the unusual circumstance where a proxy vote were to be solicited by an Underlying Manager, Sandalwood would vote in what it believes is the best interests of the investors of such Fund, unless Sandalwood believes there is a conflict between its interests and those of investors, in which case, Sandalwood would take appropriate steps to address the conflict.

Similarly, Sandalwood does not anticipate voting proxies with respect to the Mutual Fund, as it is anticipated that the underlying sub-advisers that manage the Mutual Fund's assets on a day-to-day basis will vote all proxies received on the Mutual Fund's behalf. In the unusual event that Sandalwood has proxy voting authority for securities held by the Mutual Fund, Sandalwood would vote such securities for the exclusive benefit, and in the best interest, of the Mutual Fund and its investors, as determined by Sandalwood in good faith.



### **FINANCIAL INFORMATION**

Sandalwood currently has no material financial impairment and has not filed a bankruptcy petition during the previous ten years.