
PART 2A OF FORM ADV: FIRM BROCHURE

LNZ CAPITAL LP

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LNZ Capital LP
411 Lafayette Street
6th Floor
New York, NY 10003
212.235.2675
compliance@lnzcapital.com

This brochure (this "Brochure") provides information about the qualifications and business practices of LNZ Capital LP (the "Investment Adviser," "we," "us," and similar terms). If you have any questions about the contents of this Brochure, please contact us at 212.235.2675. 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 Investment Adviser is registered as an investment adviser with the SEC. Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

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

ITEM 2

MATERIAL CHANGES

We initially filed this Brochure on September 14, 2015 and our registration was effective as of October 1, 2015.

While this update to our Brochure contains changes and updates to certain information, we feel that the following are the only material changes since we filed our initial Brochure:

- Our original filing was made in reliance on the "newly-formed adviser" exemption from the prohibition on SEC registration available under SEC Rule 203A-2(c). This updated Brochure is filed as part of an overall amendment of our Form ADV confirming that we are eligible for SEC registration because we now qualify as a "large advisory firm" with more than \$100 million of regulatory assets under management.
- Our advisory business activities are more developed than was the case at the time we filed our initial Brochure. These changes and developments are reflected in Items 4 through 8 and Items 11 through 17 of this update.

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ITEM 4 ADVISORY BUSINESS

A. General Description of Advisory Firm.

1. *LNZ Capital LP*

LNZ Capital LP (the "Investment Adviser" "we," and "us"), is a Delaware limited partnership that was formed in 2014.

We only have one office, which is located in New York.

We are controlled by our principal owner, Reza Hatefi (the "Principal Owner"), who acts as the managing member of our general partner, LNZ Group LLC, a Delaware limited liability company and our general partner (the "Investment Adviser General Partner"). The Investment Adviser General Partner has ultimate responsibility for our management, operations and investment decisions.

B. Description of Advisory Services.

This Brochure generally includes information about us and our relationships with our Clients and affiliates. While much of this Brochure applies to all such Clients and affiliates, certain information included herein applies to specific Clients or affiliates only.

1. *Advisory Services.*

We serve and intend to serve as the investment adviser, with discretionary trading authority for private pooled investment vehicles, the securities of which are offered to investors on a private placement basis (each, a "Fund" and collectively, the "Funds"), as well as certain managed accounts (each, a "Managed Account"). Managed Accounts may be beneficially owned by one or more private pooled investment vehicles that are exempt from registration under the Investment Company Act of 1940.

As used herein, the term "Client" generally refers to each Fund or Managed Account that we may advise in the course of our business.

This Brochure does not constitute an offer to sell or solicitation of an offer to buy any securities. To the extent that the securities of investment vehicles are sold to investors, such securities will be offered and sold on a private placement basis under exemptions promulgated under the Securities Act of 1933 and other applicable state, federal or non-U.S. laws. Significant suitability requirements apply to prospective investors in such vehicles, including requirements that they be "accredited investors" as defined in Regulation D, "qualified purchasers" as defined in the Investment Company Act, or non-"U.S. Persons" as defined in Regulation S. Persons reviewing this Brochure should not construe this as an offer to sell or a solicitation of an offer to buy the securities of any investment vehicles. Any such offer or solicitation will be made only by means of a confidential private placement memorandum.

2. Investment Strategies and Types of Investments.

We pursue an investment strategy on behalf of our Clients investing in publicly-traded equity investments utilizing a long/short equity strategy. We pursue investments on a leveraged basis.

The descriptions set forth in this Brochure of specific advisory services that we offer to our Clients, and investment strategies pursued and investments made by us on behalf of our Clients, should not be understood to limit in any way our investment activities. We may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that we consider appropriate, subject to each Client's investment objectives and guidelines. The investment strategies we pursue are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any Client will be achieved.

C. Availability of Customized Services for Individual Clients.

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

D. Wrap Fee Programs.

We do not currently participate in any Wrap Fee Programs.

E. Assets Under Management.

As of January 29, 2016, we manage approximately \$1.2 billion of regulatory assets under management on a discretionary basis. We do not manage any assets on a non-discretionary basis.

ITEM 5

FEES AND COMPENSATION

A. Advisory Fees and Compensation.

All fees are subject to negotiation and established pursuant to each Client's investment management agreement or other governing documents. Generally, the investment management agreements are terminable upon receipt by either party from the other of prior written notice of termination and after the expiration of the specified notice period and the Client will be entitled to any unearned prepaid portion of any fees to the extent applicable.

Performance Compensation. Generally, at the end of each fiscal year of each Client, the Investment Adviser expects to receive Performance Compensation in an amount equal to 20% of any net realized and unrealized appreciation in the net asset value of each Client, subject to certain adjustments and subject to loss carryforward mechanisms.

B. Payment of Fees.

Fees and compensation paid to the Investment Adviser by Clients will not be deducted from the assets of such Clients, but will be billed in advance or in arrears, depending upon what is set forth in the Client's investment management agreement or other governing documents.

C. Additional Fees and Expenses.

All expenses for Clients are subject to negotiation and established pursuant to each Client's investment management agreement or other governing documents.

D. Prepayment of Fees.

Applicable fees will be paid in advance and billed accordingly per the terms of the Client's investment management agreement.

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

We and our affiliates accept performance-based compensation from every Client. As a result, we and our affiliates do not face certain conflicts of interest that may arise when an investment adviser accepts performance-based fees from some Clients, but not from other Clients.

ITEM 7
TYPES OF CLIENTS

We intend to provide investment advice to Funds and Managed Accounts (which may be beneficially owned by private pooled investment vehicles), as described above.

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 we offer to Clients, and investment strategies pursued and investments made by us on behalf of our Clients, should not be understood to limit in any way our investment activities. We may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that we consider appropriate, subject to each Client's investment objectives and guidelines. The investment strategies we pursue are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any Client will be achieved.

The Investment Adviser pursues a sector-focused long/short investment strategy that employs a fundamental and valuation driven approach, seeking to capture relative value discrepancies within sectors or in a group of similar sectors or sub-sectors. The Investment Adviser's general expectation is that it will invest in a diversified group of sectors and sub-sectors in which it has extensive knowledge or specialization.

The Investment Adviser has and will continue to build an extensive knowledge of sectors or sub-sectors, and the associated stocks and peer group, allowing for identification of relative value opportunities. Besides valuation, these opportunities could exist because of overhangs, complexity, structural issues, regulatory issues, earnings deviations versus consensus, execution credibility, or recent relative performance arbitrage. The Investment Adviser employs extensive proprietary models, both company-specific and at the industry level, to determine financial estimates and assess the financial health of its investments, and take advantage of dislocations versus consensus estimates and individual company forecasts. The Investment Adviser then seeks to recognize the opportunity, assess the risk/reward with a focus on the potential downside, and identify the upside drivers. Investment ideas can be both longs and/or shorts, and represent the Investment Adviser's best ideas in the various sectors and sub-sectors.

B. Material, Significant or Unusual Risks Relating to Investment Strategies.

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the Clients advised by us. These risk factors include only those risks we believe to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by us.

Risks of Investments Generally. The Investment Adviser causes its Clients to invest in and actively trade securities and other financial instruments using investment techniques with certain risk characteristics, including, without limitation, risks arising from the volatility of the global fixed income and equity markets and the potential illiquidity of securities and other financial instruments and the risk of loss from counterparty defaults. No guarantee or representation is made that a Client's investment objective will be achieved.

General Economic and Market Conditions. The Investment Adviser expects to cause its Clients to trade globally in and across different markets. Clients' activities will therefore be affected by general economic and market conditions in various markets, such as the relevant interest rates, availability of credit, credit defaults, inflation rates, commodity

prices, economic uncertainty, changes in laws (including laws relating to taxation of such Clients' investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of the prices and the liquidity of the Clients' investments. Volatility or illiquidity could impair a Client's profitability or result in losses. The Investment Adviser may cause a Client to maintain substantial trading positions that can be adversely affected by the level of volatility in the financial markets. Economic slowdowns or downturns could lead to financial losses in a Client's portfolio securities and a Client's net assets. In addition, many of a Client's investments may be similarly subject to the same economic conditions, which could adversely impact the Client's investment return. Debt and equity securities are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence and investor perceptions of issuers change. These investor perceptions are based on various and unpredictable factors, including expectations regarding government, economic, monetary and fiscal policies, inflation and interest rates, economic expansion or contraction, and global or regional political, economic or banking crises. Decreases in the market value of the investments that the Investment Adviser causes a Client to make will adversely affect the investment returns of such Client.

Long/Short. The success of the Investment Adviser's long/short investment strategy depends upon the Investment Adviser's ability to identify and purchase securities that are undervalued and identify and sell short securities that are overvalued. The identification of investment opportunities in the implementation of the Investment Adviser's long/short investment strategies is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. In the event that the perceived opportunities underlying a Client's positions were to fail to converge toward, or were to diverge further from values expected by the Investment Adviser, the Client may incur a loss. In the event of market disruptions, significant losses can be incurred which may force the Investment Adviser to close out one or more Client positions. Furthermore, the valuation models used to determine whether a position presents an attractive opportunity consistent with the Investment Adviser's long/short strategies may become outdated and inaccurate as market conditions change.

Short-Selling. The Investment Adviser causes its Clients to engage in short-selling. Short-selling involves selling securities which are not owned and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short-selling allows the investor to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which the Investment Adviser may cause a Client to may engage in short sales will depend 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 Client of buying those securities to cover the short position. There can be no assurance that the Investment Adviser will be able to maintain the Client's ability to borrow securities sold short. In such cases, the Client 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 Client 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 Investment Adviser secures for its Client a "good borrow" of the securities sold short at the time of execution, the lending institution may recall the lent security at any time, thereby forcing the Investment Adviser to cause its Client to purchase the security at the then-prevailing market price, which may be higher than the price at which such security was originally sold short by the Client.

Long-Term. The success of our Clients' long-term investment strategy depends upon the Investment Adviser's ability to identify and purchase securities that are undervalued and hold such investments so as to maximize value on a long-term basis. In pursuing any long-term strategy, Clients may forego value in the short-term or temporary investments in order to be able to avail themselves of additional and/or longer-term opportunities in the future. Consequently, the Investment Adviser may not capture maximum available value for Clients in the short-term, which may be disadvantageous in certain circumstances.

Short-Term Market Considerations. The Investment Adviser's trading decisions may be made on the basis of short-term market considerations, and the portfolio turnover rate could result in significant trading related expenses.

Counterparty Risk. The Investment Adviser expects to cause its Clients to establish relationships to obtain financing, derivative execution, derivative intermediation and prime brokerage services that permit the Investment Adviser to trade on behalf of its Clients in any variety of markets or asset classes over time. However, there can be no assurance that Clients will be able to establish or maintain such relationships. An inability to establish or maintain such relationships could limit the Investment Adviser's trading activities, create losses, preclude its Clients from engaging in certain transactions or prevent its Clients 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 a Client's business due to the Client's reliance on such counterparties.

The Investment Adviser may cause its Clients to effect transactions in the "over-the-counter" or "OTC" derivatives markets. The stability and liquidity of OTC derivatives transactions depends in large part on the creditworthiness of the parties to the transactions. In the OTC markets, the Investment Adviser causes its Clients to enter into contracts directly with dealer counterparties, which may expose such Clients to the risk that a counterparty will not settle a transaction in accordance with its terms because of a solvency or liquidity problem with the counterparty. Delays in settlement may also result from disputes over the terms of the contract (whether or not bona fide). In addition, Clients may have a concentrated risk in a particular counterparty, which may mean that if such counterparty were to become insolvent or have a liquidity problem, losses would be greater than if the Investment Adviser had caused such Clients to enter into contracts with multiple counterparties. Certain OTC derivative contracts require that Clients post collateral.

If there is a default by a counterparty, under most normal circumstances Clients 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 Client's portfolio being less than if the Investment Adviser had not caused such Client to enter 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 a Client's securities from such counterparty or the payment of claims therefor may be significantly delayed and the Investment Adviser may recover substantially less on behalf of the Client than the full value of the securities entrusted to such counterparty. In addition, there are a number of proposed rules that, if they were to go into effect, may impact the laws that apply to insolvency proceeding and may impact whether a Client may terminate its agreement with an insolvent counterparty.

Collateral that the Investment Adviser causes a Client to post to its counterparties that is not segregated with a third-party custodian may not have the benefit of customer-protected "segregation" of such funds. In the event that a counterparty were to become insolvent, such a Client may become subject to the risk that it may not receive the return of its collateral or that the collateral may take some time to return.

In addition, the Investment Adviser may cause a Client to 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 a Client's 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 a Client and its assets.

Central Clearing. In order to mitigate counterparty risk and systemic risk in general, various U.S. and international regulatory initiatives are underway to require certain derivatives to be cleared through a clearinghouse. In the United States, clearing requirements were part of the Dodd-Frank Act. The Commodity Futures Trading Commission ("CFTC") imposed its first clearing mandate on December 13, 2012 affecting certain interest rate and credit default swaps. It is expected that the CFTC and the SEC will introduce clearing requirements for other derivatives in the future. Trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearinghouse, the futures commission merchant ("FCM"), as well as possible SEC- or CFTC-mandated margin requirements. The Investment Adviser's Clients are not in direct privity with the clearinghouse, but instead act through a member of the clearinghouse, an FCM, which acts as a quasi-agent, guaranteeing the obligations of the Client to the clearinghouse. This regime is modeled in large part after the U.S. futures clearing regime. Clearing through FCMs has in certain cases led to losses caused by operational failure or fraud.

As products become more standardized in order to be cleared, standardized derivatives may mean that the Investment Adviser may not be able to hedge its Clients' risks or express an investment view as well as it would using customizable derivatives available in the over-the-counter markets. Compared to the OTC derivatives market, Clients may be subject to more onerous and more frequent (daily or even intraday) margin calls from both the clearinghouse and the FCM. Virtually all of the margin models that are utilized by the clearinghouses are dynamic, meaning that, unlike many of a Client's bilateral swap contracts where the amount of initial margin posted on the contract is typically static throughout of the life of the contract, the amount of the initial margin that is required to be posted in respect of a cleared contract will fluctuate, sometimes significantly, throughout the life of the contract.

The dynamic nature of the margin models utilized by the clearinghouses and the fact that the margin models might be changed at any time may subject the Client to an unexpected increase in collateral obligations by clearinghouses during a volatile market environment which could have a detrimental effect on the Client. Clearinghouses also limit collateral that they will accept to cash, U.S. treasuries and, in some cases, other highly rated sovereign and private debt instruments, which may require a Client to borrow eligible securities from a dealer to meet margin calls and raise the costs of cleared trades to the Client. In addition, clearinghouses may not allow the Investment Adviser to portfolio margin (or cross margin) its Clients' positions, which may increase the amount of overall margin that the Client needs to post. While clearinghouse margin models are dynamic and may change daily, they are also different from the margin models applied by OTC derivative dealers. The OTC derivative dealers generally have a model that is supported by a team of individuals that analyze the credit risk of each fund and fund manager by reviewing, among other variables, strategy, performance, key portfolio managers, sophistication of technology and operations, traditional volatility, types of products, and lock-up periods. The model used by the dealers to apply margin is tailored for the risk of each fund and fund manager. In contrast, the clearinghouse margin model is applied across all types of counterparties and there is no analysis of individual counterparty risks. This may mean that the clearinghouse margin model may be less fluid. It may mean that it is also more expensive overall for the Client than if specific factors of the Client were considered.

Also, each clearinghouse only covers a limited range of products and the Investment Adviser may have to spread its Clients' derivative portfolios across multiple clearinghouses, which in turn reduces the benefits of netting that derivatives users rely on to mitigate counterparty risk.

Although standardized clearing for derivatives is intended to reduce risk (for instance, they may reduce the counterparty risk to the dealers to which a Client would be exposed under OTC derivatives), it does not eliminate risk. Rather, standardized clearing transfers risk of default from the over-the-counter derivatives dealer to the central clearinghouse, which may increase systemic risk, potentially more so than a failure by an OTC derivatives counterparty. The failure of a clearinghouse could have a significant impact on the financial system. Even if a clearinghouse does not fail, large losses could force significant capital calls on member firms during a financial crisis, which could lead member firms to default, worsening the crisis. Because these clearinghouses are still developing and the related bankruptcy process is untested, it is difficult to speculate what the actual risks would be to a Client related to the default of a clearinghouse. While the futures model worked well during the Lehman crisis in 2008, there has been no testing whether the model is scalable so that it would apply to derivatives more generally. In addition, there is no one international standard for clearinghouses; existing clearinghouses have different waterfalls that apply upon the insolvency of a clearinghouse or a clearinghouse member and it is possible that a Client could be in a worse position if a clearinghouse were to fail than had the Investment Adviser executed a trade on such Client's behalf with a traditional derivatives counterparty. Also, a clearinghouse will likely require that a Client relinquish control of its transactions if the clearinghouse were to become insolvent, and, therefore, the Investment Adviser would not be able to cause a Client to terminate and close out of a defaulting clearinghouse's positions, but would become subject to regulators' control over those positions. In such a circumstance, the Investment Adviser may not be able to take actions that it deems appropriate to lessen the impact of such clearinghouse default. Clearinghouses tend to trade in particular products in order to achieve economy of scale. This heightens the concentration risk for Clients, which

might not be easily hedged. In such case, the Investment Adviser may only be able to protect its Clients from clearinghouse risk by exiting the market entirely, potentially foregoing an entire segment of beneficial transactions.

Applicable regulations may also require the Investment Adviser to make public a Client's information regarding its swaps volume, position size and/or trades, which could detrimentally impact the Investment Adviser's ability to achieve its Clients' investment objectives.

Competition; Availability of Investments. Certain markets in which the Investment Adviser may cause its Clients to 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.

Exposure to Material Non-Public Information. From time to time, the Investment Adviser may receive material non-public information with respect to an issuer of publicly traded securities. In such circumstances, the Investment Adviser may be prohibited, by law, policy or contract, for a period of time from causing a Client to (i) unwind a position in such issuer, (ii) establish an initial position or take any greater position in such issuer, (iii) pursue other investment opportunities related to such issuer, and (iv) invest in securities of other issuers for which the Investment Adviser deems itself and its Clients restricted by virtue of the Investment Adviser's involvement in such issuer of publicly traded securities.

Currency Exchange Exposure. The Investment Adviser may cause its Clients to invest in securities denominated in non-U.S. currencies, the prices of which are determined with reference to currencies other than the U.S. dollar. The Investment Adviser, however, values its Clients' securities in U.S. dollars. The Investment Adviser may or may not seek to hedge its Clients' non-U.S. currency exposure by entering into currency hedging transactions, such as treasury locks, forward contracts, futures contracts and cross-currency swaps. There can be no guarantee that securities suitable for hedging currency or market shifts will be available at the time when the Investment Adviser wishes to use them, or that hedging techniques employed by the Investment Adviser will be effective. Furthermore, certain currency market risks may not be fully hedged or hedged at all. To the extent unhedged, the value of a Client's positions in non-U.S. investments 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. Such fluctuations may result in a loss to any affected Clients.

Furthermore, Clients may incur costs in connection with conversions between various currencies. Non-U.S. currency exchange dealers realize a profit based on the difference between the prices at which they are buying and selling various currencies. Thus, a dealer normally will offer to sell currency to a Client at one rate, while offering a lesser rate of exchange should the Investment Adviser desire immediately to cause its Client to resell that currency to the dealer. The Investment Adviser will cause its Clients to conduct currency exchange transactions either on a spot (*i.e.*, cash) basis at the spot rate prevailing in the currency exchange market, or through entering into forward or options contracts to purchase or sell non-U.S. currencies. It is anticipated that most of a Client's currency exchange transactions will occur at the time non-U.S. dollar denominated investments are purchased and sold and will be executed through a Client's prime brokers or a local broker or custodian acting for the Client.

The Investment Adviser may seek to protect the value of some portion or all of its Clients' portfolio holdings against currency fluctuations by engaging in hedging transactions, but there can be no assurance that such hedging transactions will be effective. The Investment Adviser may cause its Clients to enter into forward contracts on currencies, as well as purchase put or call options on currencies, in U.S. or non-U.S. markets. There can be no guarantee that instruments suitable for hedging currency risk will be available at the time when the Investment Adviser wishes to cause its Clients use them or will be able to be liquidated when the Investment Adviser wishes to do so.

Volatility Risk. The Investment Adviser's investment program may involve the purchase and sale of relatively volatile securities and/or investments in volatile markets. Fluctuations or prolonged changes in the volatility of such securities and/or markets can adversely affect the value of investments held by Clients.

Significant Positions in Securities; Regulatory Requirements. In the event that a Client acquires a significant stake in certain issuers of securities and such stake exceeds certain percentage or value limits, such Client may be subject to regulation and regulatory oversight that may impose notification and filing requirements or other administrative burdens on the Client and the Investment Adviser. Any such requirements may impose additional costs on the Client and may delay the acquisition or disposition of the securities or the Investment Adviser's ability to respond in a timely manner to changes in the markets with respect to such securities.

In addition, "position limits" may be imposed by various regulators that may limit the Investment Adviser's ability to effect desired trades. Position limits are the maximum amounts of gross, net long or net short positions that any one person or entity may own or control in a particular issuer's securities. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. To the extent that a Client's position limits were aggregated with an affiliate's position limits, the effect on the Client and resulting restriction on its investment activities may be significant. If at any time positions managed by the Investment Adviser were to exceed applicable position limits, the Investment Adviser would be required to liquidate positions, which might include positions of Clients, to the extent necessary to come within those limits. Further, to avoid exceeding any position limits, the Investment Adviser might have to forego or modify certain of its contemplated Client trades.

In addition, if the Investment Adviser, acting alone or as part of a group, acquires beneficial ownership of more than 10% of a certain class of securities of a public company or places a director on the board of directors of such a company, under Section 16 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Client may be subject to certain additional reporting requirements and may be required to disgorge certain short-swing profits arising from purchases and sales of such securities. Furthermore, in such circumstances the Client will be prohibited from entering into a short position in such issuer's securities, and therefore limited in its ability to hedge such investments. Similar restrictions and requirements may apply in non-U.S. jurisdictions.

Litigation Risk. Some of the tactics that the Investment Adviser may use involve litigation. Clients could be a party to lawsuits either initiated by it, or by a company in which a Client invests, 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 any Client.

Leverage; Interest Rates; Margin. The use of leverage has attendant risks and can substantially increase the adverse impact to which our Clients' investment portfolio may be subject. The use of leverage will allow us to cause our Clients to make additional investments, thereby increasing our Clients' exposure to assets, such that their total assets may be greater than their capital. However, leverage will also magnify the volatility of changes in the value of our Clients' portfolios. The effect of our use of leverage on behalf of our Clients in a market that moves adversely to their investments could result in substantial losses to our Clients, which would be greater than if our Clients were not leveraged. In addition, any leverage used by our Clients is subject to the risk that changes in the general level of interest rates may adversely affect expenses and operating results.

In general, any use by our Clients of short-term margin borrowings results in certain additional risks. For example, should the securities pledged to brokers to secure the portfolio's margin accounts decline in value, the portfolio could be subject to a "margin call", pursuant to which the portfolio must either deposit additional funds with the broker, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden precipitous drop in the value of the portfolio's assets, the portfolio might not be able to liquidate assets quickly enough to pay off their margin debt.

In the futures and forward markets, margin deposits are typically low relative to the value of the futures contracts purchased or sold. Such low margin deposits are indicative of the fact that any futures or forward contract trading is typically accompanied by a high degree of leverage. Low margin deposits mean that a relatively small price movement in a contract may result in immediate and substantial losses to the investor.

To the extent that we cause our Clients to purchase an option in the U.S., there is no margin requirement because the option premium is paid for in full. The premiums for certain options traded on non-U.S. exchanges may be paid for on margin. Whether any margin deposit will be required for over-the-counter options and other over-the-counter instruments, will depend on the credit determinations and specific agreements of the parties to the transaction, which are individually negotiated.

Diversification and Concentration. We may select investments that are concentrated in a limited number or types of securities. In addition, our Clients' portfolios may become 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 our Clients to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in such securities.

Lack of Control. We cause our Clients to invest in securities of companies that neither they nor we control, which we may cause our Clients to acquire through market transactions or through purchases of securities directly from the issuer. Such securities will be subject to the risk that the issuer may make business, financial or management decisions with which our Clients 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 our Clients' interests.

Hedging Transactions. We cause our Clients to have both long and short positions and expect that each position will be evaluated as an independent profit generator. We are not required to, and may not attempt to, hedge market risks or other risks inherent in our Clients' positions. In addition, we may not anticipate a particular risk so as to hedge against it.

We may cause our Clients, however, to utilize a variety of financial instruments (including options and derivatives), both for investment purposes and (to the extent desired) for risk management purposes in order to: (i) protect against possible changes in the market value of our Clients' investment portfolio resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect the unrealized gains in the value of our Clients' investment portfolios; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in our Clients' portfolios; (v) hedge the interest rate or currency exchange rate on any of our Clients' liabilities or assets; (vi) protect against any increase in the price of any securities that we anticipate causing our Clients to purchase at a later date; or (vii) for any other reason that we deem appropriate.

The success of our hedging is subject to our ability to correctly assess the degree of correlation between the performance of the instruments used to hedge and the performance of the investments in the portfolios being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the instances when we hedge portfolio positions for our Clients is also subject to our ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While we may cause our Clients to enter into certain hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for our Clients than if we had not caused them to engage in any such hedging transactions. For a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent our Clients from achieving the intended hedge or expose our Clients to risk of loss. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of our Clients' portfolio holdings.

Supply and Demand Risk. The Investment Adviser may cause its Clients to invest in companies whose revenues or expenses are exposed to changes in commodity prices may be impacted by the levels of supply and demand for any type of commodities. These companies could be adversely affected by changes in the supply of or demand for commodities which consequently may affect the value of Client investments. The volume of production of commodities generally, which may be available for transportation, storage, processing or distribution could be affected by a variety of factors, including depletion of resources, depressed commodity prices, catastrophic events, labor relations, increased environmental or other governmental regulation, equipment malfunctions and maintenance difficulties, import volumes, international politics, policies of OPEC, and increased competition from alternative energy sources. Alternatively, a decline in demand for commodities could result from factors such as adverse economic conditions (especially in key energy-consuming countries), increased taxation, increased environmental or other governmental regulation, increased fuel economy, increased energy conservation or use of alternative energy sources, or increased commodity prices.

Regulatory Risks Relating to Specific Sectors. Many sectors in which the Investment Adviser causes its Clients to invest are heavily regulated. Some securities the

Investment Adviser causes its Clients to hold are of companies operating in sectors that are subject to significant regulation of nearly every aspect of their operations by federal, state and local governmental agencies. Examples of governmental regulations which impact such companies include, without limitation, regulation of the construction, maintenance and operation of facilities, environmental regulation, worker safety regulation, labor regulation, trade regulation and the regulation of the prices charged for products and services. Compliance with these regulations is enforced by numerous governmental agencies and authorities through administrative, civil and criminal penalties. Stricter laws or regulations or stricter enforcement policies with respect to existing regulations would likely increase the costs of regulatory compliance and could have an adverse effect on the financial performance of such heavily regulated companies.

For example, in most countries and localities, the utility industry is regulated by governmental entities, which can increase costs and delays for new projects and make it difficult to pass increased costs on to consumers. In certain areas, deregulation of utilities has resulted in increased competition and reduced profitability for certain companies, and increased the risk that a particular company will become bankrupt or fail completely.

Catastrophic Event Risk. Clients may be subject to the risk of loss arising from exposure that it may incur, indirectly, due to the occurrence of various events, including, without limitation, hurricanes, earthquakes, and other natural disasters, terrorism and other catastrophic events. These risks of loss can be substantial and could have a material adverse effect on Clients. Many sectors that the Investment Adviser intends to cause its Clients to invest in include securities of companies which are subject to many inherent dangers. These dangers give rise to risks of substantial losses as a result of the following: loss or destruction of commodity reserves; damage to or destruction of property, facilities and equipment; pollution and environmental damage; and personal injury or loss of life. Any occurrence of such catastrophic events could bring about a limitation, suspension or discontinuation of the operations of such companies Clients have invested in.

Risks Relating to Methods of Analysis

Fundamental Analysis. Our investment process is based on fundamental analysis. Data on which fundamental analysis relies may be inaccurate or may be generally available to other market participants. To the extent that any such data are inaccurate or that other market participants have developed, based on such data, trading strategies similar to our Clients' trading strategies, we may not be able to realize our Clients' investment goals. In addition, fundamental market information is subject to interpretation. To the extent that we misinterpret the meaning of certain data, our Clients may incur losses.

Quantitative Model Risk and Risk Management Dangers. There can be no assurance that the models used by the Investment Adviser will continue to be viable. The use of a model that is not viable or not completely viable could, at any time, have a material adverse effect on the performance of Client portfolios. There can be no assurance that any Client will achieve its investment objectives or that the models (even if completely or partially viable) will continue to further or ultimately be capable of furthering the Client's investment objectives.

In addition, given that the systems can execute trades autonomously, undesired results may only be detected after the fact, perhaps after a significant number of transactions have occurred.

Risk management techniques are based in part on the observation of historical market behavior, which may not predict market divergences that are larger than historical indicators. Also, information used to manage risks may not be accurate, complete or current, and such information may be subject to misinterpretation. In the complex environment in which the Investment Adviser operates, effective risk management depends upon many factors, not all of which may be properly identified, and effective assessment, analysis, process creation, control or treatment of risks could be difficult to implement.

At times the Investment Adviser may manually override or shut down the operations of a quantitative model. This would generally be done in an effort to mitigate the damage from a deteriorating or malfunctioning model or a model that is reacting negatively to unforeseen market conditions. Such an override or intervention could result in greater losses than would be the case if there had been no intervention and/or could result in the model being overridden or inactive at a time when the model would have achieved gains for the portfolio.

Proprietary Trading Methods. Because the trading methods employed by the Investment Adviser on behalf of its Clients are proprietary to the Investment Adviser, an investor will not be able to determine any details of such methods or whether they are being followed.

Obsolescence Risk. Client strategies are unlikely to be successful unless the assumptions underlying the Investment Adviser's models are realistic and either remain realistic and relevant in the future or are adjusted to account for changes in the overall market environment. If such assumptions are inaccurate or become inaccurate and are not promptly adjusted, it is likely that profitable trading signals will not be generated. If and to the extent that the models do not reflect certain factors, and the Investment Adviser does not successfully address such omission through its testing and evaluation and modify the models accordingly, declines in positive performance and losses may result.

The Investment Adviser will continue to test, evaluate and add new models, as a result of which the existing models may be modified from time to time. Any modification of the models or strategies will not be subject to any requirement that investors receive notice of the change or that they consent to it. There can be no assurance as to the effects (positive or negative) of any modification on Clients' performance.

Energy Market Risk. The Investment Adviser causes its Clients to make significant investments in the energy markets through investments in the securities of energy and energy-related companies. Energy markets may be subject to short-term volatility due to a variety of factors, including weather, international political and economic developments, fuel supply and demand, interest rates, currency exchange rates, investment and trading activities in commodities markets, special risks of constructing and operating facilities, breakdowns in the facilities for the production, storage or transport of energy and energy-related products, acts of terrorism, changes in government regulation and sudden changes in fuel prices. The businesses in which a Client invests may be adversely affected by non-U.S. and U.S. federal, state and local laws and regulations including regulations governing energy production,

distribution and sale, as well as environmental, health and safety, taxation, land access and other regulations. Present, as well as future, statutes and regulations could cause additional expenditures, restrictions and delays that could materially and adversely affect the performance of Client portfolios.

Clients faces the risk that the earnings, dividends, and stock prices of energy companies will be greatly affected by changes in the prices and supplies of oil and other energy fuels. Prices and supplies of energy can fluctuate significantly over short and long periods because of a variety of factors, including changes in international politics; policies of the Organization of Petroleum Exporting Countries ("OPEC"); relationships among OPEC members and between OPEC and oil-importing nations; energy conservation; the regulatory environment; government tax policies; and the economic growth and stability of the key energy-consuming countries. Because Client performance depends on a variety of factors affecting energy companies, rather than on the stock markets generally, the performance of a Client's portfolios could decline, even if the performance of either the U.S. or foreign stock markets are positive.

Risks Relating to Non-U.S. Investments and Non-U.S. Jurisdictions

Non-U.S. Exchanges. The Investment Adviser may cause its Clients to trade on exchanges or markets located outside the U.S. Trading on such exchanges or markets is not regulated by the SEC and the CFTC and may, therefore, be subject to more risks than trading on U.S. exchanges, such as the risks of exchange controls, expropriation, burdensome taxation, moratoria and political or diplomatic events. Risks in investments in non-U.S. securities may also include reduced and less reliable information about issuers and markets, less stringent accounting standards, illiquidity of securities and markets, higher brokerage commissions and custody fees.

Non-U.S. Investments. The Investment Adviser expects to cause its Clients to make investments in companies outside the United States. Investing in the securities of companies in non-U.S. countries involves certain considerations not usually associated with investing in securities of U.S. companies or U.S. markets, including: political and economic considerations, such as greater risks of expropriation and nationalization, confiscatory taxation, the potential difficulty of repatriating funds, general social, political and economic instability and adverse diplomatic developments; the possibility of imposition of withholding or other taxes on dividends, interest, capital gain, gross sale or disposition proceeds or other income; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the investment opportunities that the Investment Adviser may be able to pursue on behalf of its Clients. In addition, accounting and financial reporting standards that prevail in such countries generally are not equivalent to U.S. standards and, consequently, less information is available to investors in companies located in such countries than is available to investors in companies located in the U.S. There is also less regulation, generally, of the securities markets in such countries than there is in the U.S. As a result, the Investment Adviser may be unable to structure its Clients' transactions to achieve the intended results or to mitigate all risks associated with such markets. It may also be difficult to enforce a Client's rights in such markets. For example, securities traded on non-U.S. exchanges and the non-U.S. persons that trade these instruments are not subject to the jurisdiction of the SEC or the CFTC, the securities and commodities laws and regulations of

the U.S. Accordingly, the protections accorded to a Client under such laws and regulations are unavailable for transactions on non-U.S. exchanges and with non-U.S. counterparties.

Dependence on Developing Countries. The level of commodity prices can fluctuate widely due to supply and demand disruptions in major producing or consuming regions. In particular, recent growth in industrial production and gross domestic product has made many developing countries, particularly China (as further discussed below), disproportionately large users of commodities and has increased the extent to which commodity prices are dependent on the markets of those developing countries. Political, economic and other developments that affect these developing countries may affect the level of certain commodities and, thus, the value of Client investments. Because certain commodities may be produced in a limited number of countries and may be controlled by a small number of producers, political, economic and supply-related events in those countries could have a disproportionate impact on the prices of commodity futures contracts and other types of financial instruments in which the Investment Adviser will cause Clients to invest. Events affecting the prices of commodities tend to affect prices worldwide, regardless of the location of the event.

Current Economic Conditions in European Countries. Certain European countries, including Greece, Ireland, Italy, Portugal and Spain, are currently experiencing varying degrees of financial distress. Risks from the debt crisis in Europe could result in a disruption of the financial markets, which could have a detrimental impact on global economic conditions. Contagion fears have expanded to Spain and Italy, and credit spreads widened further in European peripheral countries and European banks. There remains considerable uncertainty as to future developments in the European debt crisis and the impact on global financial markets. A significant deterioration of the European debt crisis could result in material reductions in the value of sovereign debt and other asset classes, disruptions in capital markets, widening of credit spreads, loss of investor confidence in the financial services industry, a slowdown in global economic activity, and other adverse developments that could negatively impact the performance of Client portfolios.

China's Economic, Governmental and Related Considerations. Client investments in commodities, equity, equity-linked and other financial instruments may be affected by the economic activity and governmental situation in China. In many cases, governments retain a high degree of control over the economy and may take actions having sudden and widespread effects. The possibility of nationalization, expropriation or confiscatory taxation, foreign exchange control, political changes, government regulation, social instability or diplomatic developments could adversely affect the economies of emerging markets, such as China's, and, in turn, the value and volatility of Client investments. Other risks associated with emerging economies, such as China, include high inflation and interest rates and political and social uncertainties. The Investment Adviser's operations and its Clients' financial results could be adversely affected by adjustments in China's state plans, political, economic and social conditions, changes in the policies of the Chinese government such as changes in laws and regulations (or the interpretation thereof), measures which may be introduced to control inflation, changes in the rate or method of taxation, imposition of additional restrictions on currency conversion and the imposition of additional import restrictions.

C. Risks Associated With Particular Types of Securities.

Micro-, Small- and Medium-Capitalization Companies. The Investment Adviser may cause its Clients to invest in securities of micro- and smaller-capitalization companies.

Such securities involve higher risks in some respects than do investments in securities of larger "blue-chip" companies. For example, prices of securities of micro- and small-capitalization and even medium-capitalization companies are often more volatile than prices of securities of large-capitalization companies and may not be based on standard pricing models that are applicable to securities of large-capitalization companies. Furthermore, the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) may be higher than for larger, "blue-chip" companies. Finally, due to thin trading in the securities of some micro- and small-capitalization companies, an investment in those companies may be less liquid than large-capitalization companies.

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, Clients may suffer losses if the Investment Adviser causes them to invest 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 Clients have not hedged against such a general move. Clients 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.

Initial Public Offerings. Investments in initial public offerings (or shortly thereafter) may involve higher risks than investments issued in secondary public offerings or purchases on a secondary market due to a variety of factors, including, without limitation, the limited number of shares available for trading, unseasoned trading, lack of investor knowledge of the issuer and limited operating history of the issuer. 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. These factors may contribute to substantial price volatility for such securities and, thus, for the value of our Clients' portfolios (and the interests of any investors in our Clients, to the extent applicable).

Preferred Stock. Investments in preferred stock involve risks related to priority in the event of bankruptcy, insolvency or liquidation of the issuing company and how dividends are declared. Preferred stock ranks junior to debt securities in an issuer's capital structure and, accordingly, is subordinate to all debt in bankruptcy. Preferred stock generally has a preference as to dividends. Such dividends are generally paid in cash (or additional shares of preferred stock) at a defined rate, but unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer's board of directors. Dividends on preferred stock may be cumulative, meaning that, in the event the issuer fails to make one or more dividend payments on the preferred stock, no dividends may be paid on the issuer's common stock until all unpaid preferred stock dividends have been paid. Preferred stock may also be subject to optional or mandatory redemption provisions.

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 is 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 we may cause our Clients to participate is evolving, and changes in the regulation or taxation of such securities may have a material adverse effect on our Clients.

Call Options. There are risks associated with the sale and purchase of call options. The seller (writer) of a call option which is covered (*e.g.*, 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 offset by the gain by the premium received if the option expires out of the money, 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 buyer of a call option assumes the risk of losing the premium if the option expires out of the money.

Put Options. There are risks associated with the sale and purchase of put options. The seller (writer) of a put option which is covered (*e.g.*, 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 sale price of the short position of the underlying security offset by the premium if the option expires out of the money, and thus the gain in the premium, and the option seller gives up the opportunity for gain on the underlying security 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 to zero. The buyer of a put option assumes the risk of losing the premium if the option expires out of the money.

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 our Clients 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, shareholders 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. Our successful use of index futures contracts on behalf of our Clients is also subject to our ability to correctly predict movements in the direction of the market.

Futures Contracts. We may cause our Clients to invest in futures contracts or options thereon. Futures positions may be illiquid because, for example, many commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits". Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Futures contract prices on various commodities or financial instruments occasionally have moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent us from causing our Clients to promptly liquidate unfavorable positions and subject our Clients to substantial losses. In addition, our Clients may not be able to execute futures contract trades at favorable prices if trading volume in such contracts is low. It is also possible that an exchange or a regulator may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract or order that trading in a particular contract be conducted for liquidation only.

Forward Trading. Forward contracts and options thereon, unlike futures contracts, are generally not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market that we cause our Clients to trade in due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward (and futures) trading to less than that which we would otherwise recommend, to the possible detriment of our Clients. Market illiquidity or disruption could result in major losses to our Clients.

Swap Agreements. We may cause our Clients to enter into swap agreements. These agreements are individually negotiated and can be 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 our Clients' exposure to, for example, equity securities. Swap agreements can take many different forms and are known by a variety of names. Our Clients are not limited to any particular form of swap agreement if consistent with our Clients' investment objectives. Whether our use of swap agreements on behalf of our Clients will be successful depends on our ability to select appropriate transactions for our Clients. Swap transactions may be highly illiquid and may increase or decrease the volatility of our Clients' portfolios. Moreover, our Clients 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 their counterparties. Our Clients also bear the risk of loss related to swap agreements, for example, for breaches of such agreements or the failure of our

Clients to post or maintain required collateral. Many swap markets are relatively new and still developing. It is possible that developments in the swap markets, including potential government regulation, could adversely affect our ability to cause our Clients to terminate existing swap transactions or to realize amounts to be received under such transactions.

Other Derivative Instruments. We may cause our Clients to enter into swaps and other derivative instruments. We may cause them to take advantage of opportunities with respect to certain other derivative instruments that are not currently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objectives of our Clients and that we believe to be legally permissible. Special risks may apply to instruments that we cause our Clients to invest in in the future that cannot be determined at this time or until such instruments are developed or we have caused our Clients to invest in them. 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.

High Volatility. The prices of derivative instruments, including currencies, futures and option prices, can be highly volatile. Price movements of derivative contracts in which our Clients' portfolio 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, financial instruments, futures and 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. Our Clients' portfolios are also subject to the risk of the failure of any exchanges on which its positions trade or of their clearinghouses.

Exchange Traded Funds. Exchange Traded Funds ("ETFs") are publicly traded unit investment trusts, open-end funds or depository receipts that seek to track the performance and dividend yield of specific indexes or companies in related industries. These indexes may be either broad-based, sector, or international. However, ETF shareholders are generally subject to the same risk as holders of the underlying securities they are designed to track. ETFs are also subject to certain additional risks, including, without limitation, the risk that their prices may not correlate perfectly with changes in the prices of the underlying securities they are designed to track, and the risk of trading in an ETF halting due to market conditions or other reasons, based on the policies of the exchange upon which the ETF trades. Generally, each shareholder of an ETF bears a *pro rata* portion of the ETF's expenses, including management fees.

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 Clients 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 Investment Adviser may not be able to readily dispose of Clients' illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. As a result, Clients 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.

Restricted Investments. We may cause our Clients to invest in securities which are subject to legal or other restrictions on transfer. The market prices, if any, for such securities tend to be volatile and may not be readily ascertainable, and we may not be able to cause our Clients to sell them when we desire to do so or to realize what we perceives to be their fair value in the event of a sale. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale.

Repurchase and Reverse Repurchase Agreements. In a reverse repurchase transaction, a Client "buys" 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 Client, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by Clients involves certain risks. For example, if the seller of securities to Clients under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, the Investment Adviser will seek to dispose of such securities on behalf of its Clients, 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 Investment Adviser's ability to dispose of the underlying securities for its Clients may be restricted. It is possible, in a bankruptcy or liquidation scenario, that a Client may not be able to substantiate its interest in the underlying securities. Finally, if a seller defaults on its obligation to repurchase securities under a reverse repurchase agreement, Clients may suffer a loss to the extent that the Investment Adviser is forced to liquidate such Clients' 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.

Master Limited Partnership Risk. Although the Investment Adviser expects to cause its Clients to invest in master limited partnerships ("MLPs") through total return swaps, such investments are still subject to certain risks associated with MLPs. An investment in an MLP unit involves risks that differ from those associated with investments in similar equity securities, such as common stock of a corporation. Holders of MLP units usually have the rights typically afforded to limited partners in a limited partnership, and as such have limited control and voting rights on matters affecting the partnership. In addition, there is the risk that an MLP could be, contrary to its intention, taxed as a corporation, resulting in decreased returns from such MLP. Further, conflicts of interest may exist between common unit holders, subordinated unit holders and the general partner of the MLP, including those arising from incentive distribution payments.

Total Return Swaps. The Investment Adviser causes its Clients to enter into total return swaps ("TRSs"). TRSs are financial contracts in which one party (the "protection buyer") effectively holds a short position on the reference asset, paying to the other party (the "protection seller") distributions on a reference asset to the extent distributions are paid to holders of such reference asset plus any capital appreciation on the reference asset. The protection seller effectively holds a long position on the reference asset and pays a "floating rate" (which may, in fact, be a fixed or floating periodic interest rate) plus capital losses on the reference asset to the protection buyer. A TRS allows a protection seller to derive certain economic benefits of ownership without the protection seller actually having to own the reference asset or put the reference asset on its balance sheet. Conversely, because a protection buyer receives a periodic payment that is different from distributions on the reference asset plus any capital losses attributable to the reference asset, a TRS provides the protection buyer with protection from certain economic risks of ownership of the reference asset.

The Investment Adviser's Clients are generally the protection seller under a TRS and the Investment Adviser generally expects cause its Clients to enter into TRSs with a term of not more than one year. No payments will be exchanged between a Client and its counterparty before the termination date of the TRS. It is expected that the reference assets for the majority of TRSs into which the Investment Adviser causes a Client to enter will be interests in MLPs.

A TRS is a contract pursuant to which a Client's counterparty agrees to make certain payments. If the credit quality of the Client's counterparty in a TRS deteriorates, the counterparty may default on its obligation to make payment to the Client under the TRS. The Investment Adviser expects to mitigate its Clients' counterparty risk by effecting swap transactions with nationally recognized swap counterparties with an investment grade rating, as judged by Moody's, Standard & Poor's or the Fitch Rating Service. Unless the counterparty is required to collateralize its obligations to the Client and actually does so, the Client may be treated as a general unsecured creditor in the event of the insolvency of the counterparty. Consequently, the Client's performance is dependent not only on the credit quality of the reference assets and the performance of the TRS, but also on the credit quality of the Client's counterparties. Additionally, it is expected that the Client will face only a few counterparties in TRS transactions. This concentration increases the exposure of the Client to risks relating to such counterparties.

It is possible that the Client's counterparties will not be required to collateralize their obligations to the Client, but that the Client will be required to collateralize its obligations to its counterparties under the TRSs. If the Client is required to post collateral to its counterparties, this will reduce the amount of cash available for other investments. The Investment Adviser and its Clients' counterparties will negotiate a measure of exposure upon which to calculate amounts to be posted, which measure may include an aggregate of all positions of the Client and any affiliates or related entities managed by the Investment Adviser at the discretion of the counterparty. The amount to be posted may vary from time to time due to the performance of the reference assets or the TRSs with a particular counterparty, or may vary due to other factors. Because it is expected that the Investment Adviser will, in general, cause its Clients to take long positions by means of TRSs, posting requirements could be significant, especially if the credit quality of the reference assets declines.

Under a TRS, the Client has a contractual relationship only with its counterparty, and not with any reference asset or obligor in respect of a reference asset. The Client will therefore not obtain any benefit from any collateral supporting a reference asset and will not have the benefit of remedies normally available to the holder of a reference asset. The Client only has rights against its counterparty in accordance with the TRS and will not have any recourse against the issuer of a reference asset.

Commodities. The values of commodities that underlie commodity futures contracts and other types of financial instruments in which our Clients may invest generally are affected by, among other factors, the cost of producing commodities, changes in consumer demand for commodities, the hedging and trading strategies of producers and consumers of commodities, speculative trading in commodities by commodity pools and other market participants, disruptions in commodity supply, weather and climate conditions, changes in interest rates, rates of inflation, currency devaluations and revaluations, embargoes, tariffs, regulatory developments, governmental, agricultural, trade, fiscal, monetary and exchange control programs and policies, political and other global events and global economic factors. In addition, governments from time to time intervene, directly and by regulation, in certain markets, often with the intent to influence prices directly. The effects of governmental intervention may be particularly significant at certain times in certain markets and this intervention may cause these markets to move rapidly. We have no control over the factors that affect the price of commodities. Accordingly, the value of our Clients' investments could change substantially and in a rapid and unpredictable manner.

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

A. Broker-Dealer Registration Status.

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.

B. Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Adviser Registration Status.

The Investment Adviser and its management persons are not registered as, and do not have any application to register as, futures commission merchants, commodity pool operators, commodity trading advisors or associated persons of the foregoing entities.

C. Material Relationships or Arrangements with Industry Participants.

We do not have any material relationships or arrangements with industry participants.

D. Material Conflicts of Interest Relating to Other Investment Advisers.

We do not recommend or select other investment advisers for our Clients.

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

A. Code of Ethics.

We strive to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. In seeking to meet these standards, we have adopted a Code of Ethics (the "Code"). The Code incorporates the following general principles that all employees are expected to uphold:

- employees must at all times place the interests of Clients first;
- all personal securities transactions must be conducted in a manner consistent with the Code and any actual or potential conflicts of interest or any abuse of an employee's position of trust and responsibility must be avoided;
- employees must not take any inappropriate advantage of their positions;
- information concerning the identity of securities and financial circumstances of Client accounts, including the identity of the beneficial owners of such Client accounts, must be kept confidential; and
- independence in the investment decision-making process must be maintained at all times.

Clients may request a copy of the Code by contacting us at the address or telephone number listed on the first page of this document.

B. Securities that the Investment Adviser or a Related Person Has a Material Financial Interest.

1. Cross Trades

The Investment Adviser may determine that it would be in the best interests of certain Clients to transfer a security from one Client to another (each such transfer, a "Cross Trade") for a variety of reasons, including, without limitation, tax purposes, liquidity purposes, to rebalance the portfolios of the Clients, or to reduce transaction costs that may arise in an open market transaction. If the Investment Adviser decides to engage in a Cross Trade, the Investment Adviser will determine that the trade is in the best interests of each Client involved in it and take steps to ensure that the transaction is consistent with the duty to obtain best execution for each of those Clients.

The Investment Adviser will generally execute Cross Trades with the assistance of a broker-dealer who executes and books the transaction at the close of the market on the day of the transaction. Alternatively, a Cross Trade between two Clients may occur as an "internal cross", where the Investment Adviser instructs the custodian for the Clients to book the transaction at the price determined in accordance with the Investment Adviser's valuation

policy. If the Investment Adviser effects an internal cross, the Investment Adviser will not receive any fee in connection with the completion of the transaction.

2. Principal Transactions

To the extent that Cross Trades may be viewed as principal transactions due to the ownership interest in a Client by the Investment Adviser or its personnel, the Investment Adviser will comply with the requirements of Section 206(3) of the Advisers Act, including that any such transactions will be considered on behalf of investors in such a Client and approved or disapproved by (i) an advisory board comprised of representatives of such investors or (ii) a committee consisting of one or more persons selected by the Investment Adviser (or its affiliate), and any valuation approved by such a committee will be determined by an independent third party that has appropriate experience in providing such valuations.

C. Investing in Securities that the Investment Adviser or a Related Person Recommends to Clients.

The Code places restrictions on personal trades by employees, including that they disclose their personal securities holdings and transactions to the Investment Adviser on a periodic basis, and requires that employees pre-clear certain types of personal securities transactions. Subject to certain exceptions, the Investment Adviser's employees may engage in personal trading, but may not trade any securities held by the portfolios of the Investment Adviser's Clients.

The Investment Adviser, its affiliates and its employees may give advice or take action for their own accounts that may differ from, conflict with or be adverse to advice given or action taken for Clients. These activities may adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more Clients.

The Investment Adviser has established policies and procedures to monitor and resolve conflicts with respect to investment opportunities in a manner it deems fair and equitable, including the restrictions placed on personal trading in the Code, as described above, and regular monitoring of employee transactions and trading patterns for actual or perceived conflicts of interest, including those conflicts that may arise as a result of personal trades in the same or similar securities made at or about the same time as Client trades.

D. Conflicts of Interest Created by Contemporaneous Trading.

The Investment Adviser may manage investments on behalf of a number of Clients. Such Clients may 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. The Investment Adviser will have no obligation to purchase or sell a security for, enter into a transaction on behalf of, or provide an investment opportunity to any Client solely because the Investment Adviser purchases or sells the same security for, enters into a transaction on behalf of, or provides an opportunity to any client if, in its reasonable opinion, such security, transaction or investment opportunity does not appear to be suitable, practical or desirable for the Client.

ITEM 12 BROKERAGE PRACTICES

A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.

As noted previously, we have full discretionary authority to manage our Client portfolios, including authority to make decisions with respect to which securities are bought and sold, the amount and price of those securities, and in certain cases, the brokers or dealers to be used for a particular transaction and commissions or markups and markdowns paid. The Investment Adviser's authority is limited by its own internal policies and procedures and each Client's investment guidelines.

Portfolio transactions for each Client will be allocated to brokers and dealers on the basis of numerous factors and not necessarily lowest pricing. Brokers and dealers may provide other services that are beneficial to us and/or certain clients, but not beneficial to all clients. Subject to best execution, in selecting brokers and dealers to execute transactions, provide financing and securities on loan, hold cash and short balances and provide other services, we may consider, among other things, the following:

- the ability of the brokers and dealers to effect the transaction;
- the brokers' or dealers' facilities, reliability and financial responsibility;
and
- the provision by the brokers of capital introduction, talent introduction, marketing assistance, consulting with respect to technology, operations and equipment, commitment of capital, access to company management and access to deal flow.

Accordingly, the commission rates (or dealer markups and markdowns) charged to Clients by brokers or dealers in the foregoing circumstances may be higher than those charged by other brokers or dealers who may not offer such services. The Investment Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost or spread. Generally, neither the Investment Adviser nor its Clients separately compensate any broker or dealer for any of these other services.

If the Investment Adviser decides, based on the factors set forth above, to execute over-the-counter transactions on an agency basis through Electronic Communications Networks ("ECNs"), it will also consider the following factors when choosing to use one ECN over another:

- the ease of use;
- the flexibility of the ECN compared to other ECNs; and
- the level of care and attention that will be given to smaller orders.

We maintain policies and procedures to review the quality of executions, including periodic reviews by its investment professionals.

1. Research and Other Soft Dollar Benefits

To the extent that the Investment Adviser utilizes "soft dollar" arrangements, such transactions will be effected only to the extent that the transactions (and any research received) falls within the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934, as amended, and subject to prevailing guidance provided by the SEC regarding Section 28(e). Consistent with Section 28(e), research products or services obtained with "soft dollars" generated by one or more Clients may be used by the Investment Adviser to service one or more other clients, including clients that may not have paid for the soft dollar benefits. The Investment Adviser will not seek to allocate soft dollar benefits to client accounts in proportion to the soft dollar credits the client accounts generate. Where a product or service obtained with soft dollars provides both research and non-research assistance to the Investment Adviser (*i.e.*, a "mixed use" item), the Investment Adviser will make a good faith allocation of the cost which may be paid for with soft dollars. In making good faith allocations of costs between administrative benefits and research and brokerage services, a conflict of interest may exist by reason of the Investment Adviser's allocation of the costs of such benefits and services between those that primarily benefit the Investment Adviser and those that primarily benefit its Clients.

If the Investment Adviser uses client brokerage commissions (or markups or markdowns) to obtain research or other products or services, the Investment Adviser will receive a benefit because it does not have to produce or pay for such products or services. The Investment Adviser may have an incentive to select or recommend a broker-dealer based on the Investment Adviser's interest in receiving research or other products or services, rather than on its clients' interest in receiving most favorable execution. The Investment Adviser will review, at least on an annual basis, the provision of research services by broker-dealers pursuant to "soft dollar" arrangements.

2. Brokerage for Client Referrals.

Neither the Investment Adviser nor any related person receives client referrals from any broker-dealer or third party.

3. Directed Brokerage.

The Investment Adviser does not recommend, request or require that a Client direct the Investment Adviser to execute transactions through a specified broker-dealer.

B. Order Aggregation.

To the extent that the Investment Adviser advises multiple Clients, the Investment Adviser may determine that the purchase or sale of a security is appropriate with regard to multiple clients. In such circumstances, 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, to the extent permitted by applicable law. When an aggregated order is filled through multiple trades at different prices on the same day, 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 to avoid 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.

ITEM 13
REVIEW OF ACCOUNTS

A. Frequency and Nature of Review of Client Accounts or Financial Plans.

We perform various daily, weekly, monthly, quarterly and/or periodic reviews of each Client's portfolio. Such reviews are conducted by the members of the Investment Adviser's officers, portfolio managers and research associates.

B. Factors Prompting Review of Client Accounts Other than a Periodic Review.

A review of a Client account may be triggered by any unusual activity or special circumstances.

C. Content and Frequency of Account Reports to Clients.

We generally provide annual audited financial statements to our Clients within 120 days of the applicable Client's fiscal year end.

ITEM 14
CLIENT REFERRALS AND OTHER COMPENSATION

A. Economic Benefits for Providing Services to Clients.

We do not receive economic benefits from non-Clients for providing investment advice and other advisory services.

B. Compensation to Non-Supervised Persons for Client Referrals.

Neither we nor any of our related persons directly or indirectly compensates any person who is not a supervised person, including placement agents, for Client referrals.

ITEM 15
CUSTODY

The Investment Adviser is not deemed to have custody of its Clients' funds and securities.

ITEM 16
INVESTMENT DISCRETION

The Investment Adviser will serve as the management company with discretionary trading authority to each Client.

Our investment decisions and advice with respect to each Client are subject to each Client's investment objectives and guidelines, as set forth in its offering or governing documents.

The Investment Adviser or an affiliate of the Investment Adviser will enter into an investment management agreement, or similar agreement, with each Client pursuant to which the Investment Adviser or an affiliate of the Investment Adviser will be granted discretionary trading authority.

ITEM 17

VOTING CLIENT SECURITIES

A. Policies and Procedures Relating to Voting Client Securities.

In compliance with Advisers Act Rule 206(4)-6, the Investment Adviser has adopted proxy voting policies and procedures. The general policy is to vote proxy proposals, amendments, consents or resolutions (collectively, "Proxies") in a prudent and diligent manner that will serve the applicable Client's best interests and is in line with each Client's investment objectives.

We may take into account all relevant factors, as determined by us in our discretion, including, without limitation:

- the impact on the value of the securities or instruments owned by the relevant Client and the returns on those securities;
- the anticipated associated costs and benefits;
- the continued or increased availability of portfolio information; and
- industry and business practices.

In limited circumstances, the Investment Adviser may refrain from voting Proxies where we believe that voting would be inappropriate, taking into consideration the cost of voting the Proxies and the anticipated benefit to its Clients. Generally, Clients may not direct our vote in a particular solicitation.

Conflicts of interest may arise between the interests of the Clients on the one hand and us or our affiliates on the other hand. If we determine that we may have, or be perceived to have, a conflict of interest when voting Proxies, we will vote in accordance with our Proxy voting policies and procedures. Clients may obtain a copy of our Proxy voting policies and our Proxy voting record upon request.

ITEM 18
FINANCIAL INFORMATION

The Investment Adviser is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to Clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.