

Form ADV Part 2A: Firm Brochure

SkyKnight Capital, LP

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This brochure provides information about the qualifications and business practices of SkyKnight Capital, LP (“SkyKnight”). If you have any questions about the contents of this brochure, please contact Mara Hunt, SkyKnight’s Chief Compliance Officer (“CCO”) at (415) 914-0780 or mara@skyknightcapital.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about SkyKnight is also available on the SEC’s website at: www.adviserinfo.sec.gov.

Unless otherwise indicated, the term “SkyKnight” or “the Adviser” is broadly used within this brochure to refer to the entire enterprise and not to a specific legal entity.

Item 2: Material Changes

SkyKnight is filing its initial application to register as an investment adviser with the SEC. Accordingly, pursuant to disclosure rules under the Investment Advisers Act of 1940 (the “Advisers Act”), as amended, this is the first Brochure compiled by SkyKnight to provide new and prospective investors with clearly written, meaningful, current disclosure of its business practices, conflicts of interest and background of its advisory personnel. We encourage all recipients of this Brochure to read it carefully in its entirety. In the future, this Item will identify and discuss the material changes since the last annual update to assist investors and make them aware of certain information that has changed since the prior year’s Brochure and that may be important to them.

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Item 4: Advisory Business

SkyKnight is a Delaware limited partnership formed August 5, 2015 by Matthew Ebbel, who is also the Adviser's primary owner. SkyKnight is an investment management firm with its principal place of business in San Francisco, California.

SkyKnight provides advisory services to privately offered pooled investment vehicles. The Adviser currently manages SkyKnight Capital Fund, L.P., SkyKnight Rail Holdings, L.P., and SkyKnight Rail Holdings II, L.P., Delaware limited partnerships, and SkyKnight Income, LLC, a Delaware limited liability company (collectively referred to as the "Funds"). The Adviser will typically invest in a long-term, concentrated portfolio of approximately 10 to 20 securities across private and public companies in SkyKnight Capital Fund, L.P. SkyKnight's investment objective is to achieve 10 to 20% absolute, gross annual returns.

Advisory services provided to the Funds are provided pursuant to the terms of the relevant Fund governing documents and disclosed therein. Investors in the Funds do not receive advisory services tailored to their individual needs.

The Adviser does not intend on participating in a wrap fee program at this time.

SkyKnight currently manages approximately \$369 million of regulatory assets under management on a discretionary basis. SkyKnight does not manage any assets on a non-discretionary basis.

Item 5: Fees and Compensation

SkyKnight charges an asset based quarterly management fee calculated and payable in advance by Fund investors in accordance with the respective limited partnership agreement or investment management agreement. The management fee will be adjusted for subscriptions and redemptions made during a quarter. The management fee is also calculated before reallocation of any incentive allocation with respect to investor's capital accounts. SkyKnight may waive or modify the management fee at its own discretion.

In addition to firm's management fees, the Funds are responsible to pay the costs and expenses incurred by the respective Fund, SkyKnight or an affiliate (such as a general partner or managing member) in connection with the Fund's formation and operations, which can include: (i) all costs and expenses, including legal and consulting expenses, relating to the formation, registration and organization of each Fund and the offer and sale of interests therein, including placement agent costs and fees, legal, accounting, printing, travel, administrative, and filing fees and expenses; (ii) all expense incurred in connection with obtaining third-party market research or market data, fees and expenses of special consultants, investment bankers and other third-party service providers engaged by the general partner on behalf of the Fund, and travel, meal and entertainment expenses in connection with investigating and monitoring potential and existing portfolio investments; (iii) administrative expenses of the Fund payable to persons other than affiliates of the general partner or SkyKnight, including fees associated with legal, accounting, bookkeeping, tax and regulatory compliance, and audit professionals, annual registration or other governmental charges, and the cost of preparing reports to investors; (iv) expenses and liabilities payable to persons other than affiliates of the general partner or SkyKnight and directly related to the diligence, purchase, sale,

settlement, and maintaining any special purpose vehicle for making or holding portfolio investments (whether or not such investments are consummated) and such expenses incurred in connection with the liquidation of the Fund, feeder fund, or any special purpose vehicle or making or holding investments; (v) all litigation-related, indemnification and insurance expenses, including the premiums associated with obtaining directors' and officers' insurance related to governance and management of the Fund, or any feeder; and (vi) auditing and tax preparation expenses.

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

SkyKnight will be entitled to receive an annual performance based fee on the last day of each fiscal year as determined in the Fund governing documents as a percentage of the net profits with respect to an investor's capital account for such fiscal year, excluding any side pocket investments.

Item 7: Types of Clients

SkyKnight primarily provides discretionary investment management services to family offices, high net worth individuals and endowments through privately offered pooled investment vehicles. In the future, the Adviser may also provide advisory services to sovereign wealth funds, pensions, and foundations.

Subject to the discretion of SkyKnight to accept less, the minimum investment commitment for the Funds ranged from \$100,000 to \$10,000,000.

SkyKnight may from time to time enter into letter agreements or other similar agreements (collectively, "Side Letters") with one or more investors of a Fund which provide such investor(s) with additional and/or different rights (including, without limitation, with respect to management fees, the performance allocations, withdrawals, access to information, minimum investment amounts and liquidity terms) than such investors have pursuant to general terms of such Fund. SkyKnight will not be required to notify any or all of the other investors of any such written agreements or any of the rights and/or terms or provisions thereof, nor will SkyKnight be required to offer such additional and/or different rights and/or terms to any or all of the other investors.

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

SkyKnight concentrates its investments in businesses using a consistent, single investment framework focused on industry, business, management and price. The Adviser holds a long term, concentrated core portfolio of 10 to 20 securities across private and public companies. Portfolio management personnel seek to invest in companies that, based on internal analysis, can potentially deliver 10-20% absolute, gross annual returns over an extended time period. SkyKnight's deep research is focused on the industry, the competition, and the business and endeavors to engage with management teams through constructive active dialogue and Board seats.

It is SkyKnight's belief that these are some of the most consistent, analyzable traits that characterize high-quality investments:

Attractive Industries. SkyKnight prefers to invest in businesses in “defensive growth” industries defined as sectors that generally exhibit growth in both strong and weak macroeconomic environments. (e.g. insurance, healthcare).

Quality Companies. SkyKnight looks to invest with market leaders in niche industries. The Adviser seeks out businesses that are growing faster than GDP with 10%+ EBIT margins that generate consistent, positive free cash flow. SkyKnight typically invest with companies that have high barriers to entry, usually as a result of network effects, high switching costs, patents, and scale advantages. The Adviser seeks businesses that exhibit pricing power and have high revenue retention, attractive margins, low capital intensity, and high ROIC.

Value. The Adviser looks to calculate the entire value of a business (i.e., enterprise value) and then invest in the portion of the capital structure – equity or debt – where SkyKnight can find an attractive risk/reward. SkyKnight looks to buy securities at a discount to intrinsic value, conservatively calculated with a margin of safety.

The investment process draws on the skills and experience of Mr. Ebbel, in his capacity as Portfolio Manager, and the investment team. The main elements of our investments process are:

We source all transactions. SkyKnight has developed an extensive network of close relationships given our long term orientation and collaborative partnership approach.

Our research and transaction structuring. The Adviser conducts deep research prior to making an investment. We do a comprehensive strategic and financial review (including rigorous financial analysis, dissection of business models and unit economics, investigation of industry structures as well as an assessment of management, the competition, shareholder alignment and corporate governance). If we decide to proceed, the investment team will consider ways to structure the investment in a way that seeks to maximize upside while minimizing downside risk.

We stay engaged after investing. SkyKnight personnel have and will seek Board seats and formal governance rights in our private equity investments. The Adviser has a history of active Board member value add through setting strategy, sourcing tuck-in acquisitions, recruiting executive talent, and creating more efficient capital structures.

Risks

Investment in the Funds are speculative and involve certain risks. Certain of these risks are summarized below. The Fund is not suitable for all investors, and is intended for sophisticated investors who can accept the risks associated with its investment program. Prospective investors should consider, among others, the risk factors described in this section.

Risks Associated with Valuation. The Funds expect that private investments will be recorded in its financial statements at fair value as determined in good faith by the Adviser and, as a result, there will be uncertainty as to the realizable value of such private investments. The fair value of such private investments may not be readily determinable. The respective Fund will value these

securities periodically at fair value as determined in good faith by the Adviser. The valuations used by the Adviser for a substantial portion of a Fund's private investments may therefore not reflect the most recently available market information. The types of factors that may be considered in fair value pricing of a Fund's investments include the nature and realizable value of any collateral, the borrower's ability to make payments and its earnings, the markets in which the borrower does business, comparisons to publicly traded companies, discounted cash flow and other relevant factors. Because such valuations, and particularly valuations with respect to loans and securities of private companies, are inherently uncertain, they may fluctuate over short periods of time and may be based on estimates, the Adviser's determinations of the fair value of one or more private investments may differ materially from the actual realizable values of such private investments. A Fund's financial condition and results of operations could be adversely affected if the Fund's fair value determinations with respect to private investments were materially higher than the values that the Fund ultimately realizes upon the realization of such private investments.

Furthermore, the Adviser will rely on information provided by outside parties, and such persons may provide inaccurate, incomplete, not current or otherwise unreliable information. The Adviser intends to implement procedures that endeavor to safeguard against the use of inaccurate information, but may be unable to detect an error contained in the valuation information. To the extent the information received is inaccurate or unreliable, the valuation of the Fund's assets and liabilities may be inaccurate.

Side Agreements. The Funds may enter into agreements ("side letters") with certain prospective or existing investors whereby such investors may be subject to terms and conditions that are more advantageous than those set forth in the Fund governing documents. For example (and without limitation), such agreements may provide for waiver of minimum commitments, special rights to additional information about the Fund (including portfolio information), payment of a management fee, modification of the expenses borne by such investors, and reduced or rebated Incentive Allocation and operating expenses. Such modifications are made solely at the discretion of the general partner and may, among other things, be based on an investor's level of active involvement in the Fund's investment activities, the size of an investor's commitment or the size of an investor's aggregate investment in any Fund. Different Funds may be subject to different fee arrangements and liquidity terms, including the ability to withdraw their interests or cancel their unfunded commitments in circumstances when other investors would not be entitled to do so. Such arrangements will generally not be disclosed to other investors unless otherwise determined by the Adviser. The other investors will have no recourse against the Fund, the general partner, the Adviser or their respective affiliates in the event that certain investors receive additional or different rights or terms pursuant to such side letters.

Recourse to the Fund's Assets. Each Fund's assets, including any portfolio investments made by a Fund and any capital held by a Fund, are available to satisfy all liabilities and other obligations of

the respective Fund. If the Fund becomes subject to a liability, parties seeking to have the liability satisfied may have recourse to the Fund's assets generally and may not be limited to any particular asset, such as the portfolio investment giving rise to the liability. Accordingly, investors could find their interests adversely affected by a liability arising out of a portfolio investment in which they did not participate because, for example, they were excluded by the Adviser or general partner. In addition, obligations of the Fund arising out one or more portfolio investments could force the Fund to dispose of other portfolio investments, including private investments, for less than what the Adviser perceives to be their fair value in order to satisfy the Fund's obligations. To the extent the Adviser chooses to use special-purpose entities for individual transactions to reduce recourse risk (and it may, but will be under no obligation to do so), the bona fides of such entities may be subject to later challenge based on a number of theories, including veil piercing or substantive consolidation.

Distributions In-Kind. Certain securities may not be susceptible to sale or other realization by the respective Fund before the end of the term of the Fund. Although the Adviser will seek to avoid making liquidating distributions in a form other than cash or marketable securities, the Funds may make in-kind liquidating distributions of restricted or otherwise illiquid securities. Investments distributed in kind may not be readily marketable or disposable, and investors therefore must be prepared to bear the risks of owning such securities for an indefinite period of time (and to incur costs and expenses in connection with any disposition thereof). In addition, there can be no assurance that the value of such assets as determined for purposes of the Fund governing documents will ultimately be realized.

Risks Arising From Dispositions of Investments. In connection with the disposition of a portfolio investment, the Funds may be required to make representations about the business and financial affairs of a portfolio company, or may be responsible as a selling stockholder for the contents of disclosure documents under applicable securities laws. The Funds may also be required to indemnify the purchasers of such investments or underwriters to the extent that any such representations or disclosure documents turn out to be incorrect, inaccurate or misleading. If the assets of a Fund are insufficient to pay such indemnification obligations, the Adviser may be required to contribute distributions received by them to pay such obligations.

Third Party Litigation. The Funds' investment activities may be subject to the normal risks of becoming involved in litigation by third parties. These risks are elevated where the Fund exercises control or significant influence over an issuer's direction, becomes involved in official or unofficial creditor committees or becomes involved in activities that are hostile in nature. The expense of defending against any claims by third parties and paying any amounts pursuant to settlements or judgments will generally be borne by the Fund.

Highly Competitive Market for Investments. The business of identifying, negotiating, acquiring, monitoring, managing and selling investments within the scope of a Fund's investment program is

highly competitive, and involves a high degree of uncertainty. The Funds will encounter competition from other persons or entities with similar investment objectives. Although the Adviser believes that significant opportunities currently exist and that the Funds will have sufficient deal flow to access such opportunities, there can be no assurance that these opportunities will continue to exist or that the Adviser will be able to identify, select, access, develop and consummate a sufficient number of opportunities to permit the Funds to invest all of its committed capital. To the extent that any portion of the Funds' committed capital is not invested, the respective Fund's potential returns may be diminished.

General Economic and Market Risk. The value of portfolio investments could be affected by factors affecting the economy and securities markets generally, such as real or perceived adverse economic conditions, supply and demand for particular instruments, changes in the general outlook for certain markets or corporate earnings, interest rates, announcements of political information or adverse investor sentiment generally. Events such as war, terrorism and related geopolitical risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on U.S. and world economies and markets generally. Such events could also have an acute effect on individual portfolio companies or related groups of portfolio companies, as well as on other factors relating to portfolio investments.

Long-Term Nature of Investments; Potential Retention of Proceeds. The Funds are intended for long-term investment and for investors who can accept the risks associated with making highly speculative, illiquid investments in privately negotiated transactions. Portfolio investments will be long-term in nature and it is uncertain when profits on portfolio investments will be realized, if at all. Although the Fund may earn current interest or dividends on some of its portfolio investments, it is generally expected that invested capital will not be returned for a significant period of time after initial investment. In addition, it is expected that all proceeds from realizations will be reinvested by the Fund. Furthermore, the amount and timing of distributions (if any) of portfolio investment proceeds will in all cases be subject to the availability of cash after satisfying obligations or setting aside reasonable reserves for anticipated obligations of the Fund or for permitted reinvestment. Accordingly, no assurance can be made as to the amount and timing of any distributions.

Concentration of Investments. Portfolio investments could potentially be concentrated in relatively few companies, industries or markets. Such non-diversification would make the Fund more susceptible to risks associated with a single economic, political or regulatory occurrence than a more diversified portfolio might be. The Fund could be subject to significant losses if it holds a relatively large position in a single company, industry, market or a particular type of portfolio investment that declines in value, and the losses could increase even further if portfolio investments cannot be liquidated without adverse market reaction or are otherwise adversely affected by changes in market conditions or circumstances.

Equity Investments. The market price of securities owned by a Fund may go up or down, sometimes rapidly or unpredictably. A risk of investing in any Fund is that the equity securities in the Fund's portfolio will decline in value due to factors affecting equity securities markets generally or particular industries represented in those markets. The values of equity securities may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Other risks of investing globally in equity securities may include changes in currency exchange rates, exchange control regulations, expropriation of assets or nationalization, imposition of withholding taxes, and difficulty in obtaining and enforcing judgments against non-U.S. entities. In addition, securities which the Adviser believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the time frame the Adviser anticipates. As a result, the Fund may lose all or substantially all of its investment in any particular instance.

General Debt Risks. A significant portion of a Fund's investments may consist of debt investments. Debt instruments are subject to credit risk, interest rate risk, and pre-payment risk.

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

- “Pre-payment risk” refers to the risk that a borrower could repay the principal on an obligation held by the Fund earlier than expected. This may happen when there is a decline in interest rates, when the borrower’s improved credit or operating or financial performance allows the refinancing of certain classes of debt with lower cost debt. The yield of the Fund’s investment assets may be affected by the rate of pre-payments differing from the Adviser’s expectations. In addition, if the Fund is unable to reinvest the proceeds of such pre-payments received in investments expected to be as profitable, the proceeds generated by the Fund will decline as compared to the Adviser’s expectations.

Senior Secured Loans. When a Fund makes a senior secured loan to a portfolio company, it generally shall take a security interest in the available assets of the portfolio company, including the equity interests of its subsidiaries, which should help mitigate the risk that the Fund will not be repaid. However, there is a risk that the collateral securing the Fund’s loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise, and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the portfolio company to raise additional capital. In some circumstances, the Fund’s lien could be subordinated to claims of other creditors. In addition, deterioration in a portfolio company’s financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the loan. Consequently, the fact that a loan is secured does not guarantee that the Fund will receive principal and interest payments according to the loan’s terms, or at all, or that the Fund will be able to collect on the loan should it be forced to enforce its remedies.

Unsecured Loans or Debt. The Funds may invest in loans which are not secured by collateral. In the event of default on an unsecured loan, a lien holder may have a prior claim to the assets supporting the loan. In such a circumstance, it is possible that no asset value would remain for an unsecured lender and therefore there could be a resulting loss to the respective Fund.

Second Lien, or Other Subordinated Loans or Debt. The Funds may acquire second lien or other subordinated loans. In the event of a loss of value of the underlying assets that collateralize the loans, the subordinate portions of the loans may suffer a loss prior to the more senior portions suffering a loss. If a borrower defaults and lacks sufficient assets to satisfy the Fund’s loan, the Fund may suffer a loss of principal or interest. If a borrower declares bankruptcy, the Fund may not have full recourse to the assets of the borrower, or the assets of the borrower may not be sufficient to satisfy the loan. In addition, certain of the Fund’s loans may be subordinate to other debt of the borrower. As a result, if a borrower defaults on the Fund’s loan or on debt senior to the Fund’s loan, or in the event of the bankruptcy of a borrower, the Fund’s loan will be satisfied only after all senior debt is paid in full. The Adviser’s ability to amend the terms of the Fund’s loans, assign the Fund’s loans, accept pre-payments, exercise the Fund’s remedies (through “standstill periods”) and control decisions made in bankruptcy proceedings relating to borrowers may be limited by intercreditor arrangements if debt senior to that Fund’s loans exists.

Convertible Securities. The Funds may invest in convertible securities, which are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. A convertible security entitles the holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics in that they generally (i) have higher yields than common stocks, but lower yields than comparable non-convertible securities, (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed income characteristics and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases. A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by the Fund is called for redemption, the Fund will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third-party. Any of these actions could have an adverse effect on the Fund's ability to achieve its investment objective.

Warrants. The Funds may receive or purchase warrants or rights. Warrants and rights generally give the holder the right to receive, upon exercise, a security of the issuer at a stated price. Risks associated with the use of warrants and rights are generally similar to risks associated with the use of options. Unlike most options, however, warrants and rights are issued in specific amounts, and warrants generally have longer terms than options. Warrants and rights are not likely to be as liquid as exchange-traded options backed by a recognized clearing agency. In addition, the terms of warrants or rights may limit the Fund's ability to exercise the warrants or rights at such time, or in such quantities, as the Fund would otherwise wish.

Illiquidity of Investments. Both public investments and private investments are subject to liquidity risk.

Public Investments. The markets for certain of the Funds' public investments may be thinly traded from time to time. The Funds' ability to sell public investments may be adversely affected by various factors, including limited trading volume, lack of a market maker, or legal restrictions. Short sales are particularly subject to liquidity risk because the Fund's purchase of securities or currencies to close out a short position can itself cause the price of the securities or currencies to rise further, thereby exacerbating the loss. It is also possible that a domestic or international securities exchange or a governmental authority (such as the SEC) may suspend or restrict trading on an exchange or in particular securities or other instruments traded on the exchange. It may not always be possible to execute a buy or sell order at the desired price or to liquidate an open public investment position, either due to market conditions on exchanges or due to the operation of "circuit breakers." This lack of liquidity and market depth could disadvantage

the Fund, both in the realization of the prices which are quoted and in the execution of orders at desired prices or in desired quantities.

Private Investments. It is anticipated that all or a substantial portion of the Funds' private investments will consist of securities that are subject to restrictions on sale by the Fund because they were acquired from the issuer in "private placement" transactions. Generally, the Fund will not be able to sell these securities publicly without the expense and time required to register the securities under the Securities Act, or will be able to sell the securities only under Rule 144 or other rules under the Securities Act which permit only limited sales under specified conditions. When restricted securities are sold to the public, the Fund may be deemed to be an "underwriter" with respect thereto for the purposes of the Securities Act and be subject to liability as such under the Securities Act. In addition, practical limitations may inhibit the Fund's ability to liquidate certain of its private investments since the issuer will be privately held and the Fund may own a substantial percentage of the issuer's equity securities. Sales may also be limited by market conditions, which may be unfavorable for sales of securities of particular issuers or issuers in particular industries. Such limitations could prevent a successful sale of the Fund's private investments, result in delay of any such sale, or reduce the amount of proceeds that might otherwise be realized.

Non-U.S. Investments. The Funds may invest in portfolio companies that are headquartered in, or organized under the laws of, jurisdictions other than, or that have a substantial portion of their assets or business operations outside of, the United States. Such investments are also subject to fluctuations in foreign currency exchange rates, unexpected changes in regulatory requirements, political and economic instability in certain geographic locations, less developed securities markets, difficulties in managing international operations, potentially adverse tax consequences, different or less rigorous accounting, auditing and financial reporting standards, practices and requirements than those in the United States, enhanced accounting and control expenses and the burden of complying with a wide variety of foreign laws. Brokerage commissions and other transaction costs on securities exchanges in non-U.S. countries are generally higher than in the United States. Non-U.S. securities settlements may in some instances be subject to delays and related administrative uncertainties. In some countries there are restrictions on investments or investors such that the only practicable way for the Fund to invest in such markets is by entering into swaps or other derivative transactions with its prime brokers or others. Such transactions involve counterparty risks which are not present in the case of direct investments and which may not be controllable by the Adviser. The Adviser will analyze risks in the applicable foreign countries before making such investments, but no assurance can be given that a change in political or economic climate, or particular legal or regulatory risks, including changes in regulations regarding foreign ownership of assets or repatriation of funds or changes in taxation might not adversely affect an investment by the Fund.

Currency Risk. The investments of the Funds that are not denominated in the U.S. dollar are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. Officials in foreign countries may from time to time take actions in respect of their currencies that could significantly affect the value of the Fund's assets denominated in those currencies or the liquidity of such investments. For example, a foreign government may unilaterally devalue its currency against other currencies, which would typically have the effect of reducing the U.S. dollar value of investments denominated in that currency. A foreign government may also limit the convertibility or repatriation of its currency or assets denominated in that currency. The Fund may, but is not required to, invest in foreign currencies, foreign currency futures contracts and options thereon, forward foreign currency exchange contracts, or any combination thereof for hedging purposes, but there can be no assurance that such strategies will be implemented, or if implemented, will be effective.

Investments in Emerging Markets. The Funds may invest in portfolio companies located outside of the United States, including in emerging markets such as China, India, and Brazil. Investing in emerging markets involves additional risks and special considerations not typically associated with investing in other, more established economies or markets. Such risks may include (i) increased risk of nationalization or expropriation of assets or confiscatory taxation; (ii) greater social, economic and political uncertainty, including war or terrorism or social unrest; (iii) higher dependence on exports and the corresponding importance of international trade; (iv) greater volatility, less liquidity and smaller capitalization of markets; (v) greater volatility in currency exchange rates; (vi) greater risk of inflation; (vii) greater controls on foreign investment and limitations on realization of investments, repatriation of invested capital and on the ability to exchange local currencies for U.S. dollars; (viii) increased likelihood of governmental involvement in and control over the economy; (ix) differences in auditing and financial reporting standards which may result in the unavailability of material information about portfolio companies; (x) less extensive regulation of financial and other markets; (xi) less developed compliance culture; (xii) risks associated with differing cultural expectations and norms regarding business practices; (xiii) longer settlement periods for transactions and less reliable clearance and custody arrangements; (xiv) less developed corporate laws and less developed, reliable or independent judiciary systems; (xv) greater regulatory uncertainty; and (xvi) threats or incidents of corruption or fraud that may cause the Fund not to pursue certain investments or to alter certain activities or liquidate certain investments prior to or after the time when the Adviser would otherwise liquidate to achieve optimal returns, all of which may cause losses or have other negative impacts on the Fund or its portfolio investments. Some jurisdictions in which the Fund expects to invest may impose taxes or other charges on foreign exchange transactions that may be required for the Fund to acquire, maintain or dispose of its investments in such

jurisdictions. Repatriation of investment income, assets and the proceeds of sales by foreign investors may require governmental registration and/or approval in some emerging markets. The Fund's emerging market investments could be adversely affected by delays in or a refusal to grant any required governmental registration or approval for such repatriation, by withholding taxes imposed by emerging market countries on interest or dividends paid on financial instruments held by the Fund or gains from the disposition of such financial instruments, or by any of the foregoing risks.

Investments in China. In general, the economic, political and legal structures in the People's Republic of China (the "PRC") differ in significant ways from those of most developed countries and other emerging market, and these differences present a variety of risks that could impair the Fund's ability to achieve its investment objective. The following risk factors, in addition to the risks associated with non-U.S. and emerging market investments described above, are applicable to portfolio investments in the PRC.

- *Regulations governing foreign investment enterprises.* The PRC has adopted a broad range of laws, administrative rules and regulations that govern the conduct and operations of companies in the PRC that receive capital investments from foreign investors (known as "Foreign Investment Enterprises" or "FIEs"). These laws, rules and regulations provide some incentives to encourage the flow of investment into the PRC, but they also subject FIEs to a set of restrictions that may not always apply to domestic companies in the PRC. For example, FIEs are prohibited from participating in certain industries and may only participate in certain other industries if they are at least partially-owned by domestic Chinese investors. The rules and regulations restricting FIE participation in certain industries in China are codified in the Foreign Investment Catalogue, which is administered by the PRC Ministry of Commerce and its local affiliates ("MOFCOM"), as well as other related agencies. The Adviser cannot provide any assurance that laws or regulations in China will not restrict the Fund's ability to invest in China. The Fund may be required to apply for PRC government approvals with respect to its purchase and/or disposal of any portfolio investment that consists of a direct equity investment in a Chinese company. In certain industries there is no guarantee that the Fund will be able to obtain such approvals. Current laws and regulations provide MOFCOM and other regulators with significant discretion to delay or restrict foreign investment for broad public policy reasons. Further, MOFCOM has the power to require that the terms of an investment be altered as a precondition to approval. Altered terms can include the amount of ownership granted, as well as governance and liquidity rights. PRC regulatory authorities may cause delays or refuse to grant necessary approvals and the process of securing approvals may result in a level of expenses to the Fund which exceeds the level of expenses necessary to make investments of a similar nature in other jurisdictions.

- *Foreign exchange controls.* In addition to managing the exchange rate between the RMB and other currencies, the government of the PRC imposes controls on the convertibility of the RMB into foreign currencies and the remittance of currency out of China in certain circumstances. The Fund could be adversely affected by delays in, or refusal to grant, any required governmental approval for repatriation of capital, interest and dividends paid on portfolio investments in China.
- *Developing nature of legal system.* The administration and judicial interpretation and implementation of laws and the resolution of commercial disputes in the PRC may be subject to the exercise of considerable discretion by both administrative and judicial officials and may be influenced by external forces unrelated to the legal merits of a particular matter or dispute. These uncertainties could limit the legal protections available to the Fund and its portfolio companies in China. In addition, it is difficult to predict the effect of future developments in the Chinese legal system, particularly with regard to equity and equity-related investments by foreign investors, including the promulgation of new laws, changes to existing laws or their interpretation or enforcement, or the preemption of local regulations by national laws. Even where laws and contractual terms are clearly stated, obtaining swift and equitable enforcement of the legal rights of the Fund or its Portfolio Companies may not be possible.

Follow-On Investments. The Funds may be presented with the opportunity to make additional, “follow-on” investments in its existing portfolio investments, either because such portfolio investment’s performance and/or liquidity has been below expectations or because additional capital is required to fund growth. There can be no assurance that the Fund will desire to make follow-on investments or that it will have sufficient funds to do so. Any decision by the Fund not to make follow-on investments or its inability to make them may have a substantial negative impact on a portfolio investment in need of such an investment and may dilute the Fund’s existing portfolio investment and/or may diminish the Fund’s ability to influence future developments relating to such portfolio investment.

Leveraged Portfolio Companies. The Funds may invest in companies whose capital structures have significant leverage. The use of leverage has the potential to magnify the gains or the losses on portfolio investments and to make the Fund’s returns more volatile, and such portfolio investments are inherently more sensitive to declines in revenues and to increases in expenses and interest rates. The leveraged capital structure of such portfolio investments will increase the exposure of the portfolio companies to adverse economic factors such as downturns in the economy or deterioration in the condition of the portfolio company or its industry. In the event any portfolio company cannot generate adequate cash flow to meet debt service, the Fund may suffer a partial or total loss of capital invested in the portfolio company.

Indebtedness and Guarantees. The Funds are authorized to borrow funds from time to time, for investment or other specific business purposes and to provide guarantees of or other credit support for the obligations of third parties, subject to certain limitations. Such borrowing may be used, among other things, to purchase portfolio investments as they become available in advance of the receipt of anticipated funds from the investors' capital contributions, or to purchase public investments on margin by borrowing funds and pledging securities held by the Fund through a brokerage account as collateral. As security for such borrowing, guarantees or other credit support, the Fund may grant liens on any of the Fund's assets to a lender or other counterparty. Each of the Fund and the Adviser, as applicable, will have the right to pledge all or a portion of uncalled Commitments, the right of the Adviser to deliver notices to investors demanding capital contributions and any account into which such capital contributions are paid; provided, that no investor will be obligated to pledge its Interests.

While such use of borrowed funds increases returns if the Fund earns a greater return on the investments purchased with borrowed funds than it pays for such funds, the use of leverage decreases returns if the Fund fails to earn as much on such incremental investments as it pays for such funds. Failure to satisfy the terms of debt incurred by the Fund can have negative consequences, including forced liquidation of other portfolio investments in order to satisfy the Fund's obligations. For example, the securities pledged to brokers to secure the Fund's margin accounts could be subject to a "margin call," pursuant to which the Fund would be required to either deposit additional funds with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In addition, the Fund may engage in certain derivative transactions which implicitly contain leverage and subject the Fund to the same risks discussed above.

Hedging Transactions. The Adviser is not required to attempt to hedge portfolio positions of the Fund. Furthermore, the Adviser may not anticipate a particular risk so as to hedge against it. The Fund may utilize a variety of financial instruments (including options and derivatives), both for investment purposes and for risk management purposes in order to: (i) protect against possible changes in the market value of the Fund's investment portfolio resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect the unrealized gains in the value of the Fund's investment portfolio; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in the Fund's portfolio; (v) hedge the interest rate or currency exchange rate on any of the Fund's liabilities or assets; (vi) protect against any increase in the price of any securities the Fund anticipates purchasing at a later date; and/or (vii) for any other reason that the Adviser deems appropriate. The success of the Adviser's hedging strategy is subject to the Adviser's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy 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 the Adviser hedges portfolio positions in the Fund is also subject to the Adviser's ability to continually recalculate, readjust and

execute hedges in an efficient and timely manner. While the Funds may enter into certain hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Fund than if they had not engaged in any such hedging transactions.

Short Sales. The Funds may engage in short sales. A short sale involves the sale of a security that the Fund does not own in the expectation of purchasing the same security (or a security exchangeable therefor) at a later date at a lower price. A short sale involves a theoretically unlimited risk of an increase in the market price of the security sold short, increasing the cost of buying those securities to cover the short position, and thus a possible unlimited loss to the Fund. There can be no assurance that the security necessary to cover a short position will be available for purchase or to be borrowed. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Securities borrowed to be sold short are generally required to be returned to the lender on short notice. Thus, the Fund would be required to purchase the security at the market price. If the market price increases, the Fund could be required to purchase the securities at a higher price in order to close out the short positions. This may result in losses to the Fund. Securities may be sold short by the Fund in a long/short strategy to hedge a long position, or to enable the Fund to express a view as to the relative value between the long and short positions. There is no assurance that the objective of this strategy will be achieved, or specifically that the long positions will not decrease in value and the short positions will not increase in value, causing the Fund losses on both components of the transaction.

Risks Associated with Derivatives. Derivatives are financial contracts whose value depends on, or is derived from, the value of an underlying asset, reference rate or index. The Funds may use derivatives, including swaps, for any purpose including, among other things, as a substitute for taking a position in an underlying asset, to increase the Fund's leverage, or as part of a strategy designed to reduce or increase exposure to other risks, such as interest rate, credit or currency risk. The Fund's use of derivative instruments involves risks different from, and possibly greater than, the risks associated with investing directly in securities and other traditional investments. Derivatives are subject to a number of risks described elsewhere in this section, such as interest rate risk, market risk, liquidity risk, credit risk and counterparty risk. They also involve the risk of mispricing or improper valuation, the risk of ambiguous documentation, and the risk that changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index. To the extent the Fund invests in repos, swaps, forwards, futures, options and other "synthetic" or derivative instruments, counterparty exposures can develop and the Fund takes the risk of nonperformance by the other party on the contract. This risk may differ materially from those entailed in exchange-traded transactions which generally are supported by guarantees of clearing organizations, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default. In the international securities markets, the existence of less mature

settlement structures and systems can result in settlement default and exposure to counterparty credits. If the Fund invests in a derivative instrument it could lose more than the principal amount invested.

Certain derivatives that may be used by the Funds, including certain interest rate swaps and certain credit default index swaps, will be required to be cleared. In a cleared derivatives transaction, the Fund's counterparty is a central derivatives clearing organization, or clearing house, rather than a bank or broker. Since the Fund is not a member of a clearing house, and only members of a clearing house can participate directly in the clearing house, the Fund will hold cleared derivatives transactions through accounts at clearing members, who are futures commission merchants who are members of the clearing houses. The Funds will make and receive payments owed under cleared derivatives transactions (including margin payments) through its accounts at clearing members. The Funds' clearing members guarantee the Fund's performance of its obligations to the clearing house. In contrast to bilateral derivatives transactions, following a period of advance notice to the Fund, clearing members can generally require termination of existing cleared derivatives transactions at any time and increase the amount of margin required to be provided by the Funds to the clearing member for any cleared derivatives transaction above the amount of margin that was required at the beginning of the transaction. Any such termination or increase could interfere with the ability of the Fund to pursue its investment strategy. Also, the Funds are subject to execution risk if it enters into a derivatives transaction that is required to be cleared (or which the Adviser expects to be cleared), and no clearing member is willing to clear the transaction on the Fund's behalf. In that case, the transaction might have to be terminated, and the Fund could lose some or all of the benefit of any increase in the value of the transaction after the time of the trade.

Some types of cleared derivatives are required to be executed on an exchange or on a swap execution facility. A swap execution facility is a trading platform where multiple market participants can execute derivatives by accepting bids and offers made by multiple other participants in the platform. While this execution requirement is designed to increase transparency and liquidity in the cleared derivatives market, trading on a swap execution facility can create additional costs and risks for the Fund. For example, swap execution facilities typically charge fees, and if the Fund executes derivatives on a swap execution facility through a broker intermediary, the intermediary may impose fees as well. Also, the Fund may indemnify a swap execution facility, or a broker intermediary who executes cleared derivatives on a swap execution facility on the Fund's behalf, against any losses or costs that may be incurred as a result of the Fund's transactions on the swap execution facility.

Minority Positions in Portfolio Companies. The Funds are not expected to have unilateral control of most of its portfolio companies. The Fund will therefore will have a limited ability to protect the Fund's investments through the operation of such portfolio companies. In such situations, the Fund will be significantly reliant on the management and board of directors of such portfolio

companies, which may include representatives of other investors with whom the Fund is not affiliated and whose interests may conflict with the interests of the Fund.

Reliance on Portfolio Company Management. Although it is the intent of the Fund to invest in companies with strong and stable management, there can be no assurance that the existing management team of a portfolio company, or any new one, will be able to operate such company successfully. Furthermore, although the Adviser will monitor the performance of each portfolio company, it will be primarily the responsibility of company management to operate the business on a day-to-day basis.

Third-Party Involvement. The Funds may hold a portion of its investments through partnerships, joint ventures, or other entities with third-party investors. Joint venture investments involve various risks, including the risk that the Fund will not be able to implement investment decisions or exit strategies because of limitations on the Fund's control of the property under applicable agreements with joint venture partners, the risk that a joint venture partner may become bankrupt or may at any time have economic or business interests or goals that are inconsistent with those of the Fund, the risk that a joint venture partner may be in a position to take action contrary to the Fund's objectives, the risk of liability based upon the actions of a joint venture partner and the risk of disputes or litigation with such partner and the inability to enforce fully all rights (or the incurrence of additional risk in connection with enforcement of rights) one partner may have against the other, including in connection with foreclosure on partner loans because of risks arising under state law. In addition, the Fund may be liable for actions of its joint venture partners.

Private Investments in Public Equities. The Funds may make private investments in public equities ("PIPEs"), via which the Fund would take a minority position in a public company. In a PIPE transaction, the Fund may bear the price risk from the time of pricing until the time of closing. In addition, the Fund may have to commit to purchase a specified number of shares at a fixed price, with the closing conditioned upon, among other things, the SEC's preparedness to declare effective a resale registration statements covering the resale, from time to time, of the shares sold in the private financing. To the extent that the public market for such companies declines, it is possible that private investments in public equities transactions may generate losses or returns that do not justify the risk associates with such investments. In addition, due to securities law regulations, the Fund may be restricted from selling, or hedging their exposure to, such securities during a time when the Fund would otherwise like to do so. For example, the Fund may be required to hold such security even though the value of such security is continuing to decrease. Such restrictions could have an adverse effect on the Fund, and its ability to achieve its investment objective.

Preferred Securities. Certain preferred securities contain provisions that allow an issuer under certain conditions to skip or defer distributions. If the Fund owns a preferred security that is

deferring its distribution, it may be required to report income for tax purposes despite the fact that it is not receiving current income on this position. Preferred securities often are subject to legal provisions that allow for redemption in the event of certain tax or legal changes or at the issuer's call. In the event of redemption, the Fund may not be able to reinvest the proceeds at comparable rates of return. Preferred securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. If the Fund owns a preferred security that is deferring its distributions, the Fund may be required to report income for tax purposes although it has not yet received such income. Preferred securities are subordinated to bonds and other debt securities in an issuer's capital structure in terms of priority for corporate income and liquidation payments and, therefore, will be subject to greater credit risk than those debt securities.

Depository Receipts. The Funds may purchase sponsored or unsponsored American Depositary Receipts, European Depositary Receipts and Global Depositary Receipts (collectively "Depository Receipts") typically issued by a bank or trust company which evidence ownership of underlying securities issued by a corporation. Generally, Depository Receipts in registered form are designed for use in the U.S. securities market and Depository Receipts in bearer form are designed for use in securities markets outside the U.S. Depository Receipts may not necessarily be denominated in the same currency as the underlying securities into which they may be converted. Depository Receipts may be issued pursuant to sponsored or unsponsored programs. In sponsored programs, an issuer has made arrangements to have its securities trade in the form of Depository Receipts. In unsponsored programs, the issuer may not be directly involved in the creation of the program. Although regulatory requirements with respect to sponsored and unsponsored programs are generally similar, in some cases it may be easier to obtain financial information from an issuer that has participated in the creation of a sponsored program. Accordingly, there may be less information available regarding issuers of securities' underlying unsponsored programs and there may not be a correlation between such information and the market value of the Depository Receipts.

Portfolio Companies in Regulated Industries. The Funds may be subject to certain restrictions when considering investments in regulated industries, such as banking, insurance, gaming or communications. For example, there may be limits on the aggregate amount of investment by affiliated investors that may not be exceeded in certain regulated industries without the grant of a license or other regulatory or corporate consent or, if exceeded, may cause the Fund to suffer disadvantages or business restrictions. As a result, the Adviser may restrict or limit transactions or exercise of rights for the Fund, or limit the amount of voting securities purchased for the Fund or restrict the type of governance rights it acquires or exercises in connection with its investments in regulated industries.

Control of Portfolio Companies. The Funds may obtain a control position (either on its own or acting together with a group of investors) with respect to one or more portfolio companies, which

could expose it to liabilities not normally associated with minority equity or debt investments, such as additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability in which the limited liability generally characteristic of business operations may be ignored.

Service on Boards of Directors, Material Non-Public Information, Etc. Individual members of the Adviser may serve as officers or directors of portfolio companies. In their capacity as officers or directors (or even simply by virtue of the Fund's status as a significant shareholder of a portfolio company), such individuals may become subject to fiduciary or other duties which adversely affect the Fund. For example, the Fund may be unable to sell or otherwise dispose of portfolio investments if a member of the Adviser is in possession of material, non-public information ("material non-public information") relating to the issuer thereof. Nevertheless, the Fund's governing documents will not preclude members of the Adviser or the Adviser from serving as officers or directors of portfolio companies or otherwise acquiring material, non-public information regarding portfolio companies. Conversely, the Fund's governing documents will not require that members of the Adviser or the Adviser serve as officers or directors of portfolio companies, and there can be no assurance that the Adviser will have a legal right to influence the management of any portfolio company.

Provision of Managerial Assistance. The Adviser may obtain rights to participate in or influence the conduct of the management of the portfolio companies to which an investment related, which could expose the Adviser to claims by such portfolio company, its security holders and its creditors. If these liabilities were to occur, the Fund could suffer losses. Furthermore, identifying and implementing potential operating improvements at portfolio companies is difficult and entails a high degree of uncertainty. There can be no assurance that the Fund will be able to successfully identify and implement such improvements or that such improvements, if made, will result in improved financial performance. Some portfolio companies may depend for their success on the efforts of one person or a small group of persons whose death, disability, or resignation would adversely affect their businesses.

Activist Role of the Fund. The Funds may pursue an activist role in effectuating corporate change with respect to an investment. The costs in time, resources and capital involved in such activist investments depend on the circumstances, which are only in part within the Adviser's control, and may be significant, particularly if litigation against the Fund, the Adviser ensues. In addition, the expenses associated with an activist investment strategy, including potential litigation or other transactional costs, will be borne by the Fund. Such expenses may reduce returns or result in losses.

The success of the Fund's activist investment strategy may require, among other things: (i) that the Adviser properly identify portfolio companies whose equity prices can be improved through corporate and/or strategic action; (ii) that the Fund acquire sufficient shares of the securities of

such portfolio companies at a sufficiently attractive price; (iii) a positive response by the management of portfolio companies to shareholder engagement; (iv) a positive response by other shareholders to shareholder activism and the Adviser's proposals; and (v) a positive response by the markets to any actions taken by portfolio companies in response to shareholder activism. None of the foregoing can be assured to succeed.

Corporate governance strategies may prove ineffective for a variety of reasons, including: (i) opposition of the management or shareholders of the subject company, which may result in litigation and may erode, rather than increase, shareholder value; (ii) intervention of one or more governmental agencies; (iii) efforts by the subject company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) market conditions resulting in material changes in securities prices; (v) the presence of corporate governance mechanisms such as staggered boards, poison pills and classes of stock with increased voting rights; and (vi) the necessity for compliance with applicable securities laws. In addition, opponents of a proposed corporate governance change may seek to involve regulatory agencies in investigating the transaction or the Fund and such regulatory agencies may independently investigate the participants in a transaction, including the Fund, as to compliance with securities or other law. Furthermore, successful execution of a corporate governance strategy may depend on the active cooperation of shareholders and others with an interest in the subject company. Some shareholders may have interests which diverge significantly from those of the Fund and some of those parties may be indifferent to the proposed changes. Moreover, securities that the Adviser believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the time frame the Adviser anticipates, even if a corporate governance strategy is successfully implemented. Even if the prices for a portfolio company's securities have increased, no guarantee can be made that there will be sufficient liquidity in the markets to allow the Fund to dispose of all or any of its securities therein or to realise any increase in the price of such securities.

Cash and Other Investments. The Funds may invest all or a portion of its assets in cash or cash items for investment purposes, pending other investments or as provision of margin for futures or forward contracts. These cash items are generally required to be of high quality at the time of investment and may include a number of money market instruments such as negotiable or non-negotiable securities issued by or short-term deposits with the U.S. and non-U.S. governments and agencies or instrumentalities thereof, bankers' acceptances, high quality commercial paper, repurchase agreements, bank certificates of deposit, and short-term debt securities of U.S. or non-U.S. issuers deemed to be creditworthy by the Adviser. The Funds may also hold interests in investment vehicles that hold cash or cash items. While investments in cash items generally involve relatively low risk levels, they may produce lower than expected returns, and could result in losses. Investments in cash items and money market funds may also provide less liquidity than anticipated by the Fund at the time of investment.

Future Techniques and Instruments. The Funds may employ a variety of investment, hedging and financing techniques and invest in other instruments that the Adviser believes will help achieve the Fund's investment strategy, whether or not such techniques or instruments are specifically described herein. Consistent with its investment strategy, the Funds may invest in financial instruments of any and all types, which exist now or are hereafter created.

This list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in connection with the Adviser's investment portfolio or the management of the Funds. In addition, prospective investors should be aware that, as the Funds' investment portfolios develop and change over time, the Funds may be subject to additional and different risks.

Item 9: Disciplinary Information

SkyKnight and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

Item 10: Other Financial Industry Activities and Affiliations

SkyKnight Capital GP, LLC is an affiliate of SkyKnight and serves as the general partner to SkyKnight Capital Fund, L.P., SkyKnight Rail Holdings, L.P., and SkyKnight Rail Holdings II, L.P.

SkyKnight also serves as the managing member to SkyKnight Income, LLC.

While SkyKnight Capital GP, LLC (the "General Partner") is not registered as an investment adviser, any of its investment advisory activities are subject to the Advisers Act and the rules thereunder. In addition, employees and persons acting on behalf of the General Partner are subject to the supervision and control of SkyKnight. Thus, the General Partner, all of its employees and the persons acting on its behalf would be "persons associated with" the registered investment adviser so that the SEC could enforce the requirements of the Advisers Act against the General Partner.

SkyKnight has entered into a consulting agreement with an unaffiliated investment adviser whereby SkyKnight serves as an independent contractor providing advice related to the insurance industry, and receives compensation for work performed on a quarterly basis as set forth in the consulting agreement.

Related persons of SkyKnight may serve as directors and officers of, and provide advice to, publicly traded companies and private companies. Investors should be aware that receipt of material non-public information by Adviser's related persons regarding these companies could preclude SkyKnight from effecting transactions in the securities of such companies. Compensation, if any, for directorships with portfolio companies of the Funds is transferred for the benefit of the relevant Fund as "transaction fees." These activities and affiliations facilitate the Adviser's investment strategy and its management of client portfolios.

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

To avoid any potential conflicts of interest involving personal trades, SkyKnight has adopted a Code of Ethics, which requires, among other things, that employees:

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets;
- Place the integrity of the investment profession, the interests of clients, and the interests of the Adviser above one's own personal interests;
- Adhere to the fundamental standard that you should not take inappropriate advantage of your position;
- Avoid or disclose any actual or potential conflict of interest;
- Conduct all personal securities transactions in a manner consistent with this policy;
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities;
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on yourself and the profession;
- Promote the integrity of, and uphold the rules governing, capital markets;
- Maintain and improve your professional competence and strive to maintain and improve the competence of other investment professionals.
- Comply with applicable provisions of the federal securities laws.

The Adviser's Code of Ethics also requires Employees to: 1) pre-clear certain personal securities transactions, 2) report personal securities transactions on at least a quarterly basis, and 3) provide the Adviser with a detailed summary of certain holdings (both initially upon commencement of employment and annually thereafter) over which such employees have a direct or indirect beneficial interest.

A copy of SkyKnight's Code of Ethics shall be provided to any client or prospective client upon request.

Item 12: Brokerage Practices

Soft Dollar Benefits

The term "soft dollars" refers to a means of paying brokerage firms for products and services through commission revenue, based on the volume of brokerage commission revenues generated from securities transactions executed through brokers by an investment manager on behalf of advisory clients. Section 28(e) of the Securities Exchange Act of 1934, as amended allows SkyKnight to pay broker-dealers more than the lowest commission available in order to obtain research and brokerage services without breaching its fiduciary duties to clients or imposing a duty upon SkyKnight to obtain the lowest commission if certain conditions are met and SkyKnight makes a good faith determination that the commissions paid are reasonable in relation to the value of the brokerage or research services on behalf of its advisory clients. The

determination may be viewed in terms of either the particular transaction involved or the overall responsibilities of SkyKnight with respect to the accounts over which it exercises investment discretion. In determining if something is research, thus falling within the safe harbor provisions, the controlling principle is whether it provides lawful and appropriate assistance to the money manager in the performance of its investment decision-making responsibilities.

Certain brokerage and research products and services utilized by SkyKnight may be categorized as mixed-use items that are partially paid for with soft dollars. Pursuant to the guidance set forth in the July 18th, 2006 SEC Interpretive Release regarding permissible client commission practices, SkyKnight partially pays for mixed-use items with soft dollars after reasonably allocating between eligible and ineligible uses and making a good faith determination that the commissions being paid are reasonable in light of each of the brokerage and research services that are provided. SkyKnight maintains adequate books and records regarding the mixed-use allocations.

Information so received is in addition to and not in lieu of services required to be performed by SkyKnight and the management fee and incentive allocation are not reduced as a consequence of the receipt of such supplemental research information. Because commission rates in the United States are negotiable, SkyKnight's selection of broker-dealers on the basis of considerations which are not limited to applicable commission rates may at times result in Fund being charged higher transaction costs than it would otherwise obtain. Nonetheless, SkyKnight's decision on which broker-dealer to utilize will be fully driven by a concerted effort to seek best execution. Research services received from broker-dealers are supplemental to SkyKnight's own research effort and, when utilized, are subject to internal analysis before being incorporated by SkyKnight into its investment process.

As a practical matter, it would not be possible for SkyKnight to generate all of the information presently provided by broker-dealers. SkyKnight pays cash for certain research services received from external sources. SkyKnight also allocates brokerage for research services, which are available for cash. While the receipt of research services from brokerage firms has not reduced SkyKnight's normal research activities, the expenses of SkyKnight could be materially increased if it attempted to generate such additional information through its own staff. To the extent that broker-dealers provide research services of value, SkyKnight is relieved of expenses, which it may otherwise bear. In addition, SkyKnight has an incentive to select a broker-dealer based on its interest in receiving research or other products or services, rather than client's interests in receiving lower transaction costs.

Certain broker-dealers who provide quality brokerage and execution services also furnish research services to SkyKnight. In selecting a broker-dealer, SkyKnight may consider, among other things, the broker-dealer's best execution capabilities, reputation, and access to the markets for the securities being traded. SkyKnight will generally seek competitive commissions for transactions for advisory client's accounts. Consistent with obtaining best execution, transactions for advisory clients may be directed to brokers in return for research services furnished by them to SkyKnight. Such research generally will be used to service all of SkyKnight's Private Funds and advisory clients, but brokerage commissions paid may be used to pay for research that is not used in managing a specific account. Therefore, research may not necessarily benefit all accounts paying

commissions to such brokers. Accordingly, SkyKnight cannot readily determine the extent to which commission rates charged by broker-dealers reflect the value of their research services. SkyKnight generally assesses the reasonableness of commissions in light of the total brokerage and research services provided by each particular broker-dealer. SkyKnight receives a wide range of services from broker-dealers. These services include: information on the economy, industries, groups of securities, individual companies, statistical analysis, performance analysis, and analysis of corporate responsibility issues. These services provide both domestic and international perspective. Research services are received primarily in the form of written reports, computer generated services, telephone contacts, and personal meetings with security analysts. In addition, such services may be provided in the form of meetings arranged with corporate and industry spokespersons, economists, academics and government representatives. In some cases, research services are generated by third parties but are provided to SkyKnight by or through broker-dealers.

Best Execution Reviews

On at least an annual basis SkyKnight's Chief Compliance Officer and other senior executives evaluate the pricing and services offered and other trading counterparties with those offered by other reputable brokerage firms. SkyKnight will seek to make a good-faith determination that chosen trading counterparties provide clients with good services at competitive prices. However, clients should be aware that this determination could have been influenced by SkyKnight's receipt of products and services from certain brokers.

Aggregated Trades

SkyKnight may typically aggregate Fund trades in an effort to treat all clients fairly. Funds participating in a bunched order receive the same average price and incur trading costs that are the same as would be paid if they were trading individually. The Funds will generally be traded pari-passu.

Item 13: Review of Accounts

Accounts under SkyKnight's management are monitored on an ongoing basis by the investment team. The investment team meets on a weekly basis to review the portfolio, investment objectives and guidelines, discuss current positions and any changes or updates to current holdings, and discuss any positions they may buy in the future on the Adviser's watch list. The Chief Compliance Officer is generally present at these meetings to ensure the investment process that is disclosed to investors is adhered to.

Investors receive account statements directly from Fund administrator on at least a quarterly basis. SkyKnight may supplement these statements with reports provided during investor meetings or as requested. Investors receive quarterly distributions from SkyKnight Income, LLC.

Item 14: Client Referrals and Other Compensation

SkyKnight may compensate third parties for client or investor referrals. To the extent the Adviser engages a placement agent, such terms and conditions will be disclosed to each potential Fund investor consistent with applicable law. Additionally, SkyKnight will not receive any economic benefits from non-clients relating to the provision of investment advice.

Item 15: Custody

All Fund assets are held in custody by unaffiliated broker/dealers or banks, however SkyKnight may have access to client accounts since it or an affiliate serves as the managing member or general partner of the Funds. Investors will not receive statements from the custodian. Instead the Funds are subject to an annual audit and the audited financial statements are distributed to each limited partner (or member or owner). The audited financial statements will be prepared in accordance with generally accepted accounting principles and distributed within 120 days of the Fund's fiscal year end.

Item 16: Investment Discretion

SkyKnight has investment discretion over all clients' accounts. Clients grant SkyKnight trading discretion through the execution of a limited power of attorney included in the investment management agreement or Fund governing documents.

Item 17: Voting Client Securities

In accordance with its fiduciary duty to clients and Rule 206(4)-6 of the Investment Advisers Act, SkyKnight has adopted and implemented written policies and procedures governing the voting of client securities. All proxies that SkyKnight receives will be treated in accordance with these policies and procedures.

SkyKnight considers the reputation, experience, and competence of a company's management and board of directors when it evaluates a prospective investment. In general, SkyKnight votes in favor of routine corporate matters, such as the re-approval of an auditor or a change of a legal entity's name. SkyKnight also generally votes in favor of compensation practices and other measures that are in-line with industry norms, that allow companies to attract and retain key employees and directors, that reward long-term performance, and that align the interests of management and shareholders.

SkyKnight has not identified any material conflicts of interest in connection with past proxy votes. Absent specific client instructions, if SkyKnight identifies a material conflict of interest it will endeavor to vote in the best economic interest of its clients and investors.

A copy of SkyKnight's proxy voting policies and procedures, as well as specific information about how SkyKnight has voted in the past, is available upon written request.

Item 18: Financial Information

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