

**Item 1 – Cover Page**

**Schonfeld Strategic Advisors LLC**

460 Park Avenue, 19<sup>th</sup> Floor, New York, New York 10022

(212) 909-1623

**FORM ADV PART 2A**

March 29, 2018

This brochure (“Brochure”) provides information about the qualifications and business practices of Schonfeld Strategic Advisors LLC (the “Advisor”). If you have any questions about the contents of this Brochure, please contact us at (212) 909-1623. 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.

Schonfeld Strategic Advisors LLC is registered as an investment adviser. Registration with the Securities and Exchange Commission (the “SEC”) as an investment adviser does not imply a certain level of skill or training.

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

## **Item 2 – Material Changes**

The date of the last annual updating amendment to our Brochure was March 30, 2017.

## Item 3 -Table of Contents

Item 1 – Cover Page .....	i
Item 2 – Material Changes.....	ii
Item 3 –Table of Contents.....	iii
Item 4 – Advisory Business.....	1
Item 5 – Fees and Compensation .....	2
Item 6 – Performance-Based Fees and Side-By-Side Management .....	3
Item 7 – Types of Clients.....	4
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	5
Item 9 – Disciplinary Information .....	22
Item 10 – Other Financial Industry Activities and Affiliations.....	22
Item 11 – Code of Ethics .....	23
Item 12 – Brokerage Practices .....	24
Item 13 – Review of Accounts .....	26
Item 14 – Client Referrals and Other Compensation .....	26
Item 15 – Custody .....	26
Item 16 – Investment Discretion .....	27
Item 17 – Voting Client Securities .....	27
Item 18 – Financial Information .....	27

## Item 4 – Advisory Business

Schonfeld Strategic Advisors LLC (the "Advisor") primarily provides discretionary advisory services to private investment funds, trading vehicles and certain of the Advisor's affiliates. In limited cases the Advisor also may provide non-discretionary advisory services to an affiliate. The Advisor's clients include, but are not necessarily limited to, private investment funds, trading vehicles and family office related entities. The Advisor also selects, and delegates trading discretion to, affiliated portfolio managers (including internal traders) and unaffiliated portfolio managers (collectively, "Portfolio Managers") which provide discretionary investment advisory services to clients. The Advisor is a Delaware limited liability company that was formed on September 9, 2015. The Advisor is owned 100% by three trusts for the benefit of Steven Schonfeld and/or his family (together, with certain affiliates of Steven B. Schonfeld, including Schonfeld Group Holdings LLC, collectively, "SGH").

As of January 1, 2018, the Advisor's regulatory assets under management were \$8,898,150,001 on a discretionary basis.

When acting as a discretionary adviser, the Advisor has discretion to trade directly for clients and allocate client assets to Portfolio Managers in its discretion. Affiliates that are supervised persons of the Advisor, including internal traders, are referred to herein as "Internal Portfolio Managers." Managers of U.S. private investment funds advised by the Advisor are affiliates of the Advisor; non-U.S. funds are managed by a Board of Directors, one or more of whose members may be affiliates of the Advisor (as set forth herein, the Board and each manager shall be each, a "Manager" and collectively, the "Managers").

Once selected by the Advisor, the Portfolio Managers exercise investment discretion for certain clients and trading vehicles ("Trading Vehicles") managed by the Advisor and its affiliates. Clients' assets are traded directly and/or through such Trading Vehicles. Assets of SGH are also traded through such Trading Vehicles. A Trading Vehicle also may invest in another Trading Vehicle. The assets of each client or Trading Vehicle are allocated to Portfolio Managers who manage client or Trading Vehicle assets through managed accounts or sub-accounts thereof. The Advisor determines and adjusts in its discretion the amount of assets to be allocated to each Trading Vehicle and among the Portfolio Managers and reallocates the amount of such assets between Portfolio Managers and Trading Vehicles periodically (including monthly). Portfolio Managers may also manage client and/or Trading Vehicle assets through private investment funds managed by such Portfolio Manager and/or its affiliates.

The investment strategies that the Advisor utilizes for any private investment fund client for which it acts as an investment adviser, as well as other information about an investment in such fund, including conflicts of interests, risk factors, and tax and other important disclosures, is described in the particular fund's private offering documents and investors in those funds must refer to such materials for specific information about such fund. The information in this Brochure is qualified in its entirety by such offering documents with respect to such private investment funds and in the event of any conflict between this Brochure and such offering documents, such offering documents will govern. The Advisor does not tailor its advisory services to the individual needs of the investors in any such fund or entity and investors may not impose restrictions on investing in certain securities or types of securities. The Advisor does not participate in wrap fee programs. As set forth in a fund's offering documents, various actual and potential conflicts of interest exist among the Advisor, the Managers, their respective principals and affiliates, a fund, other clients, the Portfolio Investments (hereafter defined), Portfolio Managers, and other clients of the Portfolio Managers, including actual and potential conflicts of interest related to fees, portfolio

composition, portfolio valuation, expense allocation, selection of counterparties and best execution, treatment of investors, limitation of liability, indemnification, allocation of trades and investment opportunities among various clients of the Advisor and Portfolio Managers and outside business activities and personal trading.

Certain senior officers of the Advisor are also senior officers of certain of its affiliates. Steven B. Schonfeld serves as the Advisor's Non-Executive Chairman and in this role provides general guidance and consultation on a non-binding basis with respect to strategic direction, initiatives, market perspective and key personnel. Mr. Schonfeld does not have decision-making or discretionary authority over client accounts.

## **Item 5 – Fees and Compensation**

The Advisor does not have a standardized management fee or performance fee schedule. For one private investment fund, the Advisor charges a management fee ranging from 1.25% to 2% (depending on the applicable class of ownership interest) and a performance allocation (including on realized and unrealized gains) ranging from 12.5% to 20% (depending on the applicable class of ownership interest) that is allocated to the Manager, an affiliate of the Advisor, of such fund. Additionally, beginning in November 2017, a private investment fund managed by the Advisor began charging a performance allocation (including on realized and unrealized gains) of 20% to new investors holding a particular class of its ownership interests and to additional investments made by existing investors in such class. The performance allocation will begin on a delayed basis with respect to interests in that class held prior to November 2017. Investors in such fund do not pay a management fee and instead are allocated the expenses of the Advisor and its affiliates as set forth in the fund's offering documents.

The management fee and performance allocations described above are in addition to the fees and performance-based compensation charged by Portfolio Managers who manage the funds' assets. Currently, private investment funds managed by the Advisor utilize a mini-master feeder structure in which one fund invests (as a "feeder" fund) substantially all of its assets in another fund, acting as a "master" fund. To the extent any such structure involves a fee-paying fund client, management fees and performance-based compensation may be charged at either the "feeder" level or the "master" level, but not both.

The expenses of the Advisor are borne by its non-management-fee-paying clients (either by payment or reimbursement) and are allocated in the discretion of the Advisor or relevant Manager, as applicable. Expenses of the Trading Vehicles, the Portfolio Managers and the Advisor's affiliates are borne by non-management-fee-paying and management fee-paying clients of the Advisor, as applicable. Expenses for a particular client will be allocated to such client. Client expenses also include the fees and performance-based compensation charged by or paid to Portfolio Managers (including Internal Portfolio Managers) who manage or trade such client's assets. Expenses for more than one client generally will be allocated to the applicable clients on a *pro rata* basis generally based on the total assets invested by each such client; however, in certain circumstances, the assets of Portfolio Managers (and their affiliates) who invest in a certain class of a private fund are only traded pursuant to that Portfolio Manager's strategy (and therefore not other Portfolio Managers in the fund) and are only subject to expenses associated with that class and its trading and according references to *pro rata* basis do not include such class. Such class is also not subject to any performance allocation. The expenses of any such fund, the Trading Vehicles, the Advisor and its affiliates may be greater than the expenses incurred by investing in a similarly situated fund or

utilizing the services of another investment adviser providing similar services and charging a management fee and performance-based compensation.

Certain expenses paid and/or indirectly borne by non-management-fee-paying clients reflect overhead expenses of the Advisor and its affiliates. Both management-fee-paying and non-management-fee-paying clients pay and/or indirectly bear the cost of the applicable Portfolio Managers which manage such clients' assets and the applicable Trading Vehicles through which client assets are managed, including advisory fees and performance-based compensation paid to Portfolio Managers. Internal Portfolio Managers receive performance-based compensation (and in limited cases, salaries) and certain employees and members of the Advisor and its affiliates are compensated (including through bonuses) based on the performance of the Trading Vehicles and affiliates of SGH, the cost of which are indirectly borne by non-management-fee-paying clients on a *pro rata* basis as set forth in the applicable fund's offering documents. All or a portion of the management fee and/or performance-based compensation payable by such management-fee-paying funds described above will be used by the Advisor, as applicable and in its discretion, to offset expenses incurred by the Advisor and its affiliates on behalf of or in connection with the Advisor's business and clients (including such funds). In connection with the foregoing, the Manager of such management fee-paying fund that receives the performance allocation described above is owned by certain non-management-fee-paying clients in order to give such clients the benefit of such performance allocation.

Certain classes of private investment funds managed by the Advisor are subject to a lock-up period. Notwithstanding such lock-up, as described in such funds' offering documents, an investor may be permitted to make a complete or partial withdrawal of its interest in such fund subject to a withdrawal fee of 5% of the amount of withdrawal, which fee is payable to such fund (or the "master" fund in a "master-feeder" fund structure), not to the Advisor.

Private investment funds are subject to their own respective expenses. A particular fund's expenses are described in such fund's private offering documents. In addition to the foregoing fees, clients incur additional costs including brokerage commissions, transaction fees, and other costs and expenses which shall be incurred by the client, including charges imposed by the Portfolio Managers, custodians, brokers, and other third parties. Overall expenses may be substantial. Portfolio Managers (including though any private investment funds managed by the Portfolio Managers) also charge their own advisory fees and/or performance-based compensation, which are indirectly or directly borne by clients (and if invested therein, such investments will also be subject to the expenses of such private investment funds managed by such Portfolio Managers).

The Advisor may, in its discretion and as disclosed to such clients, charge other clients management fees, and its affiliates or it may receive performance-based compensation, in the future. Such fees and compensation will be set forth in the respective private fund's offering documents or if applicable, other client disclosures and/or documentation.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

Currently, for one private investment fund, a performance allocation of, depending on the applicable class of ownership interest, 12.5% to 20% (including on realized and unrealized gains) may be allocated to the Manager of such fund. Additionally, beginning in November 2017, another private investment fund managed by the Advisor began charging a performance allocation (including on realized and unrealized

gains) of 20% to new investors holding a particular class of its ownership interests and to additional investments made by existing investors in such class. The performance allocation will begin on a delayed basis with respect to interests held prior to November 2017. Investors in such fund do not pay a management fee and instead are allocated the expenses of the Advisor and its affiliates as set forth in the fund's offering documents.

These funds' performance allocations are in addition to the fees and performance-based compensation charged by Portfolio Managers who manage such funds' assets. For all clients, Portfolio Managers (including Internal Portfolio Managers) are paid performance-based compensation, which is directly or indirectly borne by clients whose assets are managed or traded by such Portfolio Managers. Internal Portfolio Managers receive performance-based compensation (and in limited cases, salaries) and certain employees and members of the Advisor and its affiliates are compensated (including through bonuses) based on the performance of the Trading Vehicles and affiliates of SGH, the cost of which are indirectly borne by non-management-fee-paying clients on a *pro rata* basis as set forth in the applicable fund's offering documents.

Performance-based compensation may create an incentive for the Advisor or a Portfolio Manager to cause the funds above, or as applicable a client, to make investments that are riskier or more speculative than would be the case in the absence of performance-based compensation. In addition, because the performance-based compensation is calculated on a basis that includes unrealized appreciation of such funds' or client's assets, it may be greater than if such compensation were based solely on realized gains.

The Advisor manages the assets of SGH within the same Trading Vehicles as assets of non-affiliated clients (over which Portfolio Managers of such Trading Vehicles exercise trading discretion). As described above, the Advisor also manages client assets for which the Advisor itself does not charge any management fee and such clients are subject to various expenses, including Advisor overhead expenses. The Advisor may have a conflict of interest by managing these management-fee and non-management-fee paying clients at the same time, including that the Advisor may have an incentive to favor a client for which it (or a Manager affiliate of it) receives a performance-based fee or allocation (including by devoting more time to such client) and may have an incentive to allocate expenses to non-management-fee-paying clients instead of management-fee-paying clients who do not bear such expenses. In connection with the foregoing, the Advisor has agreed that all or a portion of the management fee and/or performance-based compensation payable by the management-fee-paying fund described above will be used by the Advisor, as applicable and in its discretion, to offset expenses incurred by the Advisor and its affiliates on behalf of or in connection with the Advisor's business and clients, including such fund.

*See also* Item 5 – Fees and Compensation and Item 4 – Advisory Business above.

The Advisor may receive management fees and the Advisor's affiliates may receive performance-based compensation from other private investment funds in the future. Such compensation will be set forth in the respective private fund's offering documents.

## **Item 7 – Types of Clients**

A description of the Advisor's clients is provided above in Item 4 – Advisory Business. As described above, in certain circumstances, private investment funds managed by the Advisor (so-called "feeder" funds) invest in other private investment funds acting as "master" funds, also managed by the Advisor.

Certain fund clients have been formed under the laws of a foreign jurisdiction (*i.e.*, a non-U.S. fund). With respect to any private investment fund, investment advice will be provided to such fund as applicable, and not individually to each of the investors in the fund. A private investment fund may have different classes with different subscription, withdrawal and other terms.

The investment minimums and investor eligibility requirements relating to investments in a private investment fund advised by the Advisor are stated in the fund's offering documents. The Managers of such funds (which are affiliates of the Advisor) may waive or reduce the amount of any such minimum initial or additional subscriptions or withdrawals in its sole discretion, subject to applicable legal or regulatory requirements.

## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

The overall objective of the Advisor's investment strategy is to achieve capital appreciation of client assets at superior risk-adjusted rates of return. The primary general investment strategies in which the Portfolio Managers invest are: Fundamental Equity/Relative Value, Global Quantitative/Statistical Arbitrage and Tactical Trading.

The Advisor invests in U.S. and non-U.S. financial instruments for its clients, including but not limited to, stocks, bonds, options, warrants, swaps, futures, currencies, futures contracts, commodities, options, warrants, partnership interests, money market instruments, debt securities and other securities and derivatives (collectively, "Instruments"). The Portfolio Managers (including private investment funds managed by the Portfolio Manager) also invest in a variety of Instruments.

The Advisor identifies prospective Portfolio Managers through disciplined "bottom-up" analyses, involving the quantitative assessment of historical risk/return characteristics of the Portfolio Manager, with particular attention paid to a Portfolio Manager's performance during times of dislocating markets. Other important quantitative considerations include market correlation and betas, return distribution skewness, growth in assets under management (and the potential for performance deterioration, as a result of this growth), investment identification methodology (e.g., statistical versus fundamental), frequency of position turnover, degree of position concentration with a Portfolio Manager's holdings, and lock-up requirements. The Advisor bases decisions to allocate capital on both the quality of the Portfolio Manager and the particular fit of such Portfolio Manager's investment strategies within the client's portfolio, based on the then prevailing portfolio composition.

In addition to quantitative analysis, the Advisor believes that a qualitative and subjective assessment of a Portfolio Manager's business operations and infrastructure is essential to the process, due to the existence of "operational risk." The Advisor performs due diligence on each prospective Portfolio Manager.

Each Portfolio Manager is responsible for its own portfolio composition and risk management activities. However, the Advisor monitors performance, strategy drift, portfolio composition and portfolio diversification of the Portfolio Managers. The Advisor generally has real-time or other intraday trading information with respect to the Portfolio Managers. The Advisor may allocate and reallocate assets to a Portfolio Manager or between and among Portfolio Managers in its discretion, subject to the terms of the investment management or similar agreement with each Portfolio Manager. Certain Portfolio Managers trade the assets of more than one Trading Vehicle. The Advisor (and its respective supervised persons) do and may serve as a Portfolio Manager.



**The following is a summary of the material risks associated with the Advisor's strategy. Investors in private investment funds advised by the Advisor must review the fund's offering documents for a description of the risks associated with the fund and its investment strategy.**

**As used herein and elsewhere in this Form ADV Part 2A, as applicable: (i) the "Fund" refers to the private investment fund clients (which include funds that are part of "master-feeder" structures) advised by the Advisor and managed by a Manager; (ii) "investor" refers to an investor in a Fund; and (iii) "Portfolio Investments" generally refers to securities and other instruments ("Instruments") traded by a Fund or the Trading Vehicle managed accounts or sub-accounts managed by the Portfolio Managers (and the Instruments traded therein) and the private investment vehicles managed by such Portfolio Managers (and the Instruments traded therein). As applicable based on context, references to a Fund include the Trading Vehicles through which such Fund trades its assets and references to Trading Vehicles and trading conducted by Trading Vehicles also includes references to Fund(s) and trading conducted by Fund(s) to the extent those Fund(s) trade directly and not through Trading Vehicles.**

**Risk of Loss:** Investing in securities involves risk of loss that clients should be prepared to bear. All investments in securities and other financial investments involves substantial risk of volatility arising from numerous factors that are beyond the control of the Advisor and investment managers utilized by the Advisor, including market conditions, changing domestic or international economic or political conditions, changes in tax laws and government regulation and other factors.

**Multiple Levels of Expense.** As with most multi-manager investment platforms, in addition to fees and compensation charged by the Advisor and its affiliates, and expenses at the Fund level, the Portfolio Managers and the Portfolio Investments charge and/or impose fees (including management fees and performance-based compensation) and expenses. These fees and expenses result in lower returns on investment than if such fees and expenses were not charged or imposed. Portfolio Managers may charge fees directly or through an underlying fund which they and/or their affiliate manage (at which level, such fund will also bear its own expenses). The multiple levels of fees and expenses will reduce the overall profitability of the Fund. Investors in the Fund are subject to higher aggregate fees and expenses than if they were able to invest with such Portfolio Managers or Portfolio Investments directly.

**General Investment and Trading Risks.** All investments risk the loss of capital. No guarantee or representation is made that the Fund's and the Portfolio Investments' investment programs will be successful or profitable. The Fund's and the Portfolio Investments' investment programs may involve, without limitation, risks associated with limited diversification, leverage, interest rates, currencies, volatility, tracking risks in hedged positions, security borrowing risks in short sales, credit deterioration or default risks, systems risks and other risks inherent in the Fund's and the Portfolio Investments' activities. Certain investment techniques utilized by the Fund and the Portfolio Investments will, in certain circumstances, substantially increase the impact of adverse market movements to which the Fund and such Portfolio Investments will be subject. In addition, the Fund's and the Portfolio Investments' investments will be materially affected by conditions in the financial markets and overall economic conditions occurring globally and in particular countries or markets where the Fund and the Portfolio Investments invest their assets. The Fund's and the Portfolio Investments' methods of minimizing such risks may not accurately predict future risk exposures. 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 can be misinterpreted.

**Activities of Investment Managers and Investment Funds:** While the Advisor receives information about the Portfolio Managers, the Advisor ultimately will not have complete control over the day-to-day operations of any unaffiliated investment fund or investment manager. As a result, there can be no assurance that every investment fund or investment manager will invest on the basis expected by the Advisor. Furthermore, because the Advisor will not have complete control over any investment fund's or investment manager's day-to-day operations, clients may experience losses due to the fraud, poor risk management or recklessness of the investment funds or the investment managers.

**Allocation Risks:** Investment performance will depend largely on the Advisor's decisions as to strategic asset allocation and tactical adjustments made to the asset allocation. At times, the Advisor's judgments as to the asset classes in which clients should invest may prove to be wrong, as some asset classes may perform worse than others or the equity markets generally from time to time or for extended periods of time.

**Risks of Net Asset Valuation Determinations.** The Manager is involved in determining the Fund's Net Asset Value, and this process involves substantial discretion and subjectivity, particularly in the case of illiquid investments. Even the Manager's best good faith judgment as to fair value may not accurately reflect the prices at which the Fund could actually purchase or sell certain assets. Prospective investors should be aware that situations involving uncertainties as to the valuation of the Fund's investments, particularly in the case of illiquid investments, could have a material adverse effect on Net Asset Value if the judgment of the Manager regarding appropriate valuations should prove to be incorrect. Even the Manager's good faith judgment as to fair value may not accurately reflect the prices at which the Fund could actually purchase or sell certain assets. There is no assurance that such valuations will be correct or timely made. In certain circumstances, the Manager may rely on price information supplied by third party industry participants or counterparties to the transactions being valued. These industry participants and counterparties may have an incentive to supply valuations that are more favorable to themselves than to the Manager and such information may not reflect fully appropriate valuations. Net Asset Value determinations, including regarding unrealized appreciation, generally are conclusive and binding on all Members. Because the Performance Allocation is calculated on a basis that includes unrealized appreciation in the Fund's portfolio, the Performance Allocation may create an incentive for the Manager to value or time investments so as to maximize the Performance Allocation, rather than the return of the Fund.

**Quantitative Strategy Risks.** Certain of the Portfolio Managers' investment strategies rely upon quantitative models and systems. Such models and systems entail the use of sophisticated statistical calculations and complex computer systems, and there is no assurance that the Portfolio Managers will be successful in carrying out such calculations correctly or that the use of these quantitative models and systems will not expose the Fund to the risk of significant losses. In addition, the analytical techniques used by the Portfolio Managers cannot provide any assurance that the Fund will not be exposed to the risk of significant trading losses if the underlying patterns that form the basis for the quantitative models and systems employed by the Portfolio Managers change in ways not anticipated by the Portfolio Managers. The effectiveness of quantitative models and systems may diminish over time and attempts to apply existing quantitative models and systems to new or different markets or strategies may prove ineffective. Quantitative strategies are also subject to human error which can result in significant losses.

**Equity Risks.** The Fund and the Portfolio Investments invest in equity and equity-linked securities. Equity long/short strategies typically consist of a core holding of long equities hedged with short sales of equities or stock index options, often based on the Portfolio Manager's assessment of fundamental value compared to market price. It is expected that a Portfolio Manager employing an equity long/short strategy may (i) focus on companies within specific industries; (ii) focus on companies only in certain countries or

regions; or (iii) employ a more diversified approach, allocating assets to opportunities across investing styles, industry sectors and geographic regions.

The value of equity and equity-linked securities generally will vary with the performance of the issuer and movements in the equity markets generally and for specific sectors. As a result, the Fund and the Portfolio Investments may suffer losses if they invest in equity securities of issuers whose performance falls below market or industry expectations or if equity markets generally or specific sectors decline and the Fund and/or the Portfolio Investments have not hedged against such a decline. In their equity derivatives and private placements businesses, the Fund and the Portfolio Investments will be exposed to risks that issuers will not fulfill their contractual obligations to the Fund and the Portfolio Investments, such as delivering marketable common stock upon conversions of convertible securities, registering restricted securities for public resale and maintaining listings on exchanges.

**Market Neutral.** Market neutral strategies try to avoid market directional influences and seek to generate returns primarily from stock selection. Portfolio Managers construct long and short baskets of equity securities they determine to be mispriced relative to each other, typically with similar characteristics. Portfolios are generally designed to exhibit low beta to equity markets. Beta measures the degree to which an asset's price changes when a reference asset's price changes. For example, a beta greater than one suggests that for every 1% change in the reference asset's price, the asset will move greater than 1%.

The use of "market neutral" or "relative value" hedging or arbitrage strategies should in no respect be taken to imply that the strategy is without risk. Substantial losses may be recognized on "hedge" or "arbitrage" positions, and illiquidity and default on one side of a position can effectively result in the position being transformed into an outright speculation. Every market neutral or relative value strategy involves exposure to some second order risk of the market, such as the implied volatility in convertible bonds or warrants, the yield spread between similar term government bonds, or the price spread between different classes of stock for the same underlying issuer. Further, the "market neutral" strategy may employ limited directional strategies that expose the Fund and the Portfolio Investments to certain market risks.

**Relative Value.** Relative value strategies seek to profit from the mispricing of Instruments, capturing spreads between related Instruments that deviate from their fair value or historical norms. Directional and market exposure is generally held to a minimum or hedged. Strategies that may be utilized in the relative value sector include statistical arbitrage. Statistical arbitrage strategies involve taking advantage of historical price relationships between Instruments. The price relationships are generally simulated with statistical or other mathematical models constructed using historical data. Positions are entered into when the models indicate that there is an opportunity to profit from anticipated price movements.

The relative value and arbitrage markets in which the Fund expects (indirectly through Portfolio Investments) to participate, as well as the other markets and strategies in which the Fund may participate, are extremely competitive. There can be no assurance that the Portfolio Managers and the Portfolio Investments will be able to identify or successfully pursue attractive investment opportunities in this environment. Investors should expect that the Portfolio Investments' investments will involve substantially more company-specific and market risk and associated volatility in the future than in the past, as arbitrage and similar opportunities are further reduced or eliminated. The Portfolio Investments and the Portfolio Managers may compete with many firms that have substantially greater financial resources, more favorable financing arrangements, larger research staffs and more securities traders than are available to such persons.

**Reliance on Fundamental Analysis.** Portfolio Managers may base their trading decisions, in whole or in part, on fundamental analysis. Fundamental trading systems consider factors, such as inflation, trade balances, inventories and interest rates, which do not have an impact on traditional technical trading systems, in an attempt to identify investment opportunities. To the extent that such factors provide mixed or conflicting signals, the fundamental trading systems may not be able to detect and/or accurately predict price trends. There can be no guarantee that the Portfolio Managers' fundamental trading systems will enable the Portfolio Managers to accurately value the financial instruments in which they invest or that any anticipated price trends will materialize with respect to such investments.

**Risk Arbitrage.** The difference between the price paid by the Portfolio Investments for securities of a company involved in an announced deal and the anticipated value to be received for such securities upon consummation of the proposed transaction will often be very small. If it appears likely that a proposed transaction will not be consummated or if it is not consummated or is otherwise delayed, the market price of the target's securities will usually decline sharply, often by more than the Portfolio Investments' anticipated profit.

The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors, including: (a) opposition of the management or shareholders of the target company, which often results in litigation to enjoin the proposed transaction; (b) intervention of a U.S. federal or state regulatory agency or other governmental bodies; (c) efforts by the target company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (d) in the case of a merger, failure to obtain the necessary shareholder approvals; (e) market conditions resulting in material changes in securities prices; and (f) compliance with any applicable laws. To the extent that Portfolio Investments' positions are leveraged, any delays in the consummation of proposed transactions will increase the cost incurred by such Portfolio Investments.

Often a tender or exchange offer is made for less than all of the outstanding securities of an issuer or a higher price is offered for a limited amount of the securities, with the provision that, if a greater number is tendered, securities will be accepted pro rata. Thus, a tendering arbitrageur may have returned a portion of the securities tendered. Since, after completion of the tender offer, the market price of the securities may have declined below its cost, a sale of any returned securities may result in a loss.

Portfolio Investments may invest and trade in securities of companies that the Portfolio Managers believe are undervalued in the sense that, although they are not the subject of an announced tender offer, merger or acquisition transaction, in the Portfolio Managers' view, such companies are potential candidates for such a transaction. In such a case, if the anticipated transaction does not in fact occur, the Portfolio Investments may sell the securities at a loss.

**Capacity Risks.** As a result of the capacity limitations of the Portfolio Managers, it is possible that not all Portfolio Managers utilized by the Advisor for certain clients will be fully utilized (or utilized as the Advisor intends) with respect to the Funds or the Trading Vehicles and there may be portfolio managers that the Advisor may otherwise wish to utilize but cannot because of capacity limitations. In addition, an investor may want to contribute additional capital to the Fund during periods when certain Portfolio Managers may no longer be accepting additional allocations of Notional Buying Power. In such instance, the additional capital would have to be allocated to Portfolio Managers accepting additional allocations of Notional Buying Power. There is no assurance that any of the Portfolio Managers will have the ability to accept additional capital or Notional Buying Power. The Fund's success depends, therefore, not only on the Portfolio Managers which have been allocated Notional Buying Power and its ability to allocate Notional Buying Power successfully among those Portfolio Managers, but also potentially on the Advisor's ability to identify new Portfolio Managers which the Advisor may not be able to do. There is also a risk that the Fund or the Trading Vehicles may not be able to implement the investment strategy as intended

by the Advisor as a result of these capacity limitations or the availability of Portfolio Managers. See also “Conflicts of Interest – Allocation of Investment Opportunities.”

**Small and Medium Capitalization Companies.** Portfolio Investments consist of or invest in the securities of companies with small to medium-sized market capitalizations. While such securities often provide significant potential for appreciation, the securities of certain companies, particularly smaller-capitalization companies, involve higher risks in some respects than do investments in securities of larger companies. For example, prices of small-capitalization and even medium-capitalization securities are often more volatile than prices of large-capitalization securities and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) is higher than for larger, “blue-chip” companies. In addition, due to thin trading in the securities of some small-capitalization companies, an investment in those companies may be illiquid.

**Risks Inherent in International Investments.** Portfolio Investments invest in Instruments of non-U.S. corporations and governments, including those in developing nations and emerging markets. Investing in the Instruments of companies and governments outside of the United States involves certain considerations not usually associated with investing in Instruments of U.S. companies or the U.S. government, including political and economic considerations, such as greater risks of expropriation, nationalization and general social, political and economic instability; imposition of withholding and other taxes on dividends, interest, capital gains and other income; the relatively 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 Portfolio Investments’ investment opportunities or their ability to repatriate funds. Such considerations also apply to, and could increase the risks associated with, holding positions in custodian accounts located in or governed by the laws of other countries. In addition, accounting and financial reporting standards that prevail outside of the United States generally are not as high as U.S. standards and, consequently, less information is typically available concerning companies located outside of the United States than for those located in the United States. Instruments traded on foreign exchanges and the foreign nationals or entities that trade these Instruments are generally not subject to the jurisdiction of the SEC or the CFTC or other securities and commodities laws and regulations of the United States. Accordingly, the protections accorded to the Portfolio Investments under such laws and regulations will be unavailable for transactions on foreign exchanges and with foreign counterparties.

Any of these issues relating to investments in foreign companies and governments may reduce the overall return on investment realized by the Fund, the Portfolio Investments and the investors.

**Interest Rate Risks.** Portfolio Investments’ investment programs include investments in debt securities of government and corporate issuers. These and various other assets, as well as the Fund’s and the Portfolio Investments’ borrowings, will subject the Fund and Portfolio Investments’ to risks associated with movements in interest rates. For example, the Portfolio Investments will be required to manage both curve risk, which is the risk that the slope of the yield curve will vary from the slope assumed in the Portfolio Investment’s strategy, and credit spread risk, which is the risk that the spreads between yields of differently rated issuers will change in a manner that adversely affects the Portfolio Investment’s portfolio. In general, as interest rates fall, a debt security’s price will rise, and as interest rates rise, the security’s price will fall. When interest rates fluctuate, the duration (which is generally based on the weighted average life of the cash flow of a security) may be used as an indication of the degree of change in the debt security’s price. Generally, the bigger its duration value, the larger the change in the debt security’s price for a given movement in interest rates.

**Trade Errors.** On occasion, errors may occur with respect to trades executed on behalf of the Portfolio Managers. Trade errors can result from a variety of situations, including, for example, when the wrong security is purchased or sold, or when the wrong quantity is purchased or sold, and can include large-scale programming and connectivity errors. Trade errors frequently result in losses but may, occasionally, result in gains. The Manager, the Advisor and the Portfolio Managers will endeavor to detect trade errors prior to settlement and correct and/or mitigate them in an expeditious manner. To the extent an error is caused by a third-party, such as a broker, the Manager, the Advisor and the Portfolio Managers may seek to recover any losses associated with such error from such third-party. Each of the Manager, the Advisor and the applicable Portfolio Manager, as the case may be, will determine whether any trade error has resulted from gross negligence or breach of a fiduciary duty on its part, and, unless it finds that to be the case, any losses will be borne by (and any gains will benefit) the Fund and the Trading Vehicles.

**Fixed Income Securities.** Certain Portfolio Investments' investment programs include investments in fixed income securities of U.S. and non-U.S. issuers including, without limitation, bonds, notes, debt instruments, debentures and commercial paper. Fixed income securities pay fixed, variable or floating rates of interest. The value of fixed income securities in which the Fund may invest will change in response to fluctuations in interest rates and general levels of volatility. Generally, when interest rates decline, the value of a long fixed income position can be expected to rise while that of a short fixed income position can be expected to decline. Conversely, when interest rates rise, the value of a long fixed income position can be expected to decline while that of a short fixed income position can be expected to rise. In addition, the value of certain fixed income securities can fluctuate in response to the relative financial condition of the issuer, perceptions of creditworthiness, political stability or soundness of economic policies. Fixed income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (i.e., credit risk), including bankruptcy, and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (i.e., market risk). The maturity and duration of a fixed income instrument also affects the extent to which the price of the security will change in response to these and other factors. Longer term securities tend to experience larger changes than shorter term securities because they are more sensitive to changes in interest rates or in the credit ratings of the issuers. The average duration of a fixed income portfolio measures its exposure to the risk of changing interest rates. A portfolio with a lower average duration generally will experience less price volatility in responses to changes in interest rates as compared with a portfolio with a higher duration.

**U.S. Government Securities.** Certain Portfolio Investments' investment programs include investments in U.S. government securities. U.S. government securities are debt securities (including bills, notes, and bonds) issued by the U.S. Treasury or issued by an agency or instrumentality of the U.S. government which is established under the authority of an Act of U.S. Congress. Such agencies or instrumentalities include, but are not limited to, Fannie Mae, Ginnie Mae (also known as Government National Mortgage Association), the Federal Farm Credit Bank, and the Federal Home Loan Banks. Although all obligations of agencies, authorities and instrumentalities are not direct obligations of the U.S. Treasury, payment of the interest and principal on these obligations may be backed directly or indirectly by the U.S. government. Not all securities issued by the U.S. government and its agencies and instrumentalities however are backed by the full faith and credit of the U.S. Treasury. This support can range from the backing of the full faith and credit of the United States to U.S. Treasury guarantees, or to the backing solely of the issuing instrumentality itself. In the case of securities not backed by the full faith and credit of the United States, the investor must look principally to the agency issuing or guaranteeing the obligation for ultimate repayment, and may not be able to assert a claim against the United States itself in the event the agency or instrumentality does not meet its commitments. The prices of government securities tend to fall as interest rates rise. Securities that have longer maturities tend to fluctuate more in

price in response to changes in market interest rates than do securities with shorter maturities. This risk is usually greater when inverse floaters are held by a Fund or Portfolio Investment. If interest rates fall, it is possible that issuers of callable bonds with high interest coupons will prepay their bonds before their maturity date. If a bond was prepaid during a period of declining interest rates, the applicable Fund or Portfolio Investment may replace the security with a lower yielding security.

**Illiquid or Restricted Investments.** Under certain market and economic conditions, such as during volatile markets or when trading in an instrument or market is otherwise impaired, the liquidity of the Fund's and the Portfolio Investments' portfolio positions may be reduced. In addition, the Fund and the Portfolio Investments may from time to time hold large positions with respect to a specific type of instrument, which may reduce the Fund's and the Portfolio Investments' liquidity. During such times, the Fund and the Portfolio Investments will or may be unable to dispose of certain assets, which would adversely affect the Fund's and the Portfolio Investments' ability to rebalance their portfolios or to meet withdrawal requests. In addition, such circumstances may force the Fund and the Portfolio Investments to dispose of assets at reduced prices, thereby adversely affecting the Fund's and the Portfolio Investments' performances. If there are other market participants seeking to dispose of similar assets at the same time, the Fund and the Portfolio Investments will or may be unable to sell such assets or prevent losses relating to such assets. Furthermore, if the Fund and the Portfolio Investments incur substantial trading losses, the need for liquidity could rise sharply while their access to liquidity could be impaired. In conjunction with a market downturn, the Fund's and the Portfolio Investments' counterparties could incur losses of their own, thereby weakening their financial condition and increasing the Fund's and the Portfolio Investments' credit risk to them.

The Fund and the Portfolio Investments also invest in Instruments that are subject to legal or other restrictions on transfer (including the Fund's interests in the Portfolio Investments). The Fund and the Portfolio Investments may be contractually prohibited from disposing of such investments for a specified period of time. The sale of restricted and illiquid Instruments often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of Instruments eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted Instruments may sell at a price lower than similar Instruments that are not subject to restrictions on resale. The market prices, if any, for such investments tend to be volatile and may not be readily ascertainable, and the Fund and the Portfolio Investments may not be able to sell them when they desire to do so or to realize what they perceive to be their fair value in the event of a sale.

**Non-U.S. Investments.** Certain Portfolio Managers engage in trading of non-U.S. Instruments and on exchanges outside the United States. Many non-U.S. financial markets are not as developed or as efficient as those in the U.S., and as a result, liquidity will or can be reduced for the Fund's or the Portfolio Investments' investments. Trading on such exchanges is not regulated by any United States governmental agency and may involve certain risks not applicable to trading on United States exchanges. For example, some foreign exchanges are "principals' markets" in which performance is the responsibility only of the individual member with whom the trader has entered into a trade and not of an exchange or clearing organization. Moreover, such trading will be subject to whatever regulatory provisions are applicable to transactions effected outside the United States, whether on foreign exchanges or otherwise. Trading on foreign exchanges involves the additional risks of expropriation, burdensome or confiscatory taxation, moratoriums and investment controls, or political or diplomatic events that might adversely affect the Fund's or the Portfolio Investments' trading activities. The risks of investing in non-U.S. securities and other Instruments may also include reduced and less reliable information about issuers and markets, less stringent accounting standards, illiquidity of securities and markets and higher brokerage commissions and custody fees. Furthermore, foreign trading is also subject to the risk of changes in the exchange rate between U.S. dollars and the currencies in which Instruments traded on such exchanges are settled. Some

foreign futures exchanges require margin for open positions to be converted to the “home currency” of the contract. Additionally, some brokerage firms have imposed this requirement for all foreign futures markets traded, whether or not it is required by a particular exchange. Whenever margin is held in a foreign currency, the Fund or the Portfolio Investments are exposed to potential gains or losses if exchange rates fluctuate. Although the CFTC is prohibited by statute from promulgating rules that govern in any respect any rule, contract term or action of any foreign commodity exchange, the CFTC has full authority to regulate the sale of foreign futures contracts within the United States and has adopted regulations that may restrict the Fund or the Portfolio Investments and the contracts and markets on which the Fund or the Portfolio Investments trade, which may have an impact on the Fund’s or the Portfolio Investments’ future performance results.

**Highly Volatile Markets.** The prices of certain Instruments in which the Fund and Portfolio Investments will invest can be highly volatile. Price movements of the Instruments in which the Portfolio Investments’ assets will be invested in 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. The Fund and the Portfolio Investments are subject to the risk of failure of any of the exchanges on which their positions trade or of their clearinghouses. In addition, governments from time to time intervene in certain markets, directly and by regulation, particularly in currencies, futures and options. Such intervention is often intended to directly influence prices and may, together with other factors, cause some or all of these markets to move rapidly in the same direction. The effect of such intervention is often heightened by a group of governments acting in concert.

**Short Sales Risks.** The Fund’s and the Portfolio Investments’ investment portfolios include short positions. Short selling involves selling securities which may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from a decline in the price of a particular security to the extent that such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which the Fund and the Portfolio Investments engage in short sales depends upon the Advisor’s and the Portfolio Managers’ investment strategies and opportunities. 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 Fund and the Portfolio Investments of buying those securities to cover the short position. There can be no assurance that the Fund and the Portfolio Investments will be able to maintain the ability to borrow securities sold short. In such cases, the Fund and the Portfolio Investments 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 security necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

**Limited Diversification and/or Risk Management Failures.** The Fund’s portfolio could become significantly concentrated in a limited number of Portfolio Investments, issuers, types of Instruments, assets, industries, sectors, strategies, countries, or geographic regions, and any such concentration of risk may increase losses suffered by the Fund. Limited diversification could expose the Fund to losses disproportionate to market movements in general. While the Advisor generally attempts to control risks and diversify the Fund’s portfolio, risks associated with different assets will be correlated in unexpected ways, with the result that the Fund faces concentrated exposure to certain risks. In addition, many other investment funds pursue similar strategies, which creates the risk that many funds would be forced to liquidate positions at the same time, reducing liquidity, increasing volatility, and exacerbating losses. Although the Advisor attempts to identify, monitor, and manage significant risks, these efforts do not take



all risks into account, and there can be no assurance that these efforts will be effective. Many risk management techniques are based on observed historical market behavior, but future market behavior may be entirely different. Any inadequacy or failure in the Advisor's risk management efforts could result in material losses for the Fund.

**Hedging Transactions.** The Fund and the Portfolio Investments utilize Instruments, 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 and the Portfolio Investments' investment portfolios resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect the Fund's and the Portfolio Investments' unrealized gains in the value of the Fund's and the Portfolio Investments' investment portfolios; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in the Fund's and the Portfolio Investments' portfolios; (v) hedge against directional trades; (vi) hedge the interest rate or currency exchange rate on any of the Fund's and the Portfolio Investments' liabilities or assets; (vii) protect against any increase in the price of any Instruments the Fund and the Portfolio Investments' anticipate purchasing at a later date; or (viii) for any reason that the Advisor and the Portfolio Managers deems appropriate.

The success of the Fund's and the Portfolio Investments' hedging strategy will depend, in part, upon the Advisor's and the Portfolio Managers' ability to correctly assess the degree of correlation between the performance of the Instruments used in the hedging strategy and the performance of the portfolio investments being hedged. Since the characteristics of many Instruments change as markets change or time passes, the success of the Fund's and Portfolio Investments' hedging strategies will also be subject to the Advisor's and Portfolio Managers' ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While the Fund and Portfolio Investments' may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Fund and Portfolio Investments than if they had not engaged in such hedging transactions. For a variety of reasons, the Advisor or Portfolio Managers may not seek to establish a perfect correlation between the hedging Instruments utilized and the portfolio holdings being hedged. Such an imperfect correlation may prevent the Fund and the Portfolio Investments from achieving the intended hedge or expose the Fund and Portfolio Investments to risk of loss. The Fund and Portfolio Investments will not be required to hedge any particular risk in connection with a particular transaction or their portfolios generally. Moreover, the portfolios of the Fund and the Portfolio Investments will always be exposed to certain risks that may not be adequately hedged. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the Fund's and Portfolio Investments' portfolio holdings.

**Derivatives.** The Fund and the Portfolio Investments use derivative Instruments, including (among others) convertible bonds, convertible preferred stock, options (including speculative positions such as buying and writing call options and put options on either a covered or an uncovered basis), futures, forward contracts, repurchase agreements, reverse repurchase agreements and many different types of swaps involving payments based on a wide range of risks. Certain of the Portfolio Investments may use derivatives extensively.

In many cases, derivatives provide the economic equivalent of leverage by magnifying the potential gain or loss from an investment in much the same way that incurring indebtedness would. Many derivatives provide exposure to potential gain or loss from a change in the market price of a financial instrument (or a basket or index) or other event or circumstance in a notional amount that greatly exceeds the amount of cash or assets required to establish or maintain the derivative contract. Accordingly, relatively small price movements in the underlying Instruments or other events or circumstances may result in immediate and substantial losses to the Portfolio Investment and the Fund. In some cases, the Fund's and the Portfolio

Investments' exposure under a derivative contract will be limited to the amount invested (for example, when the Fund or the Portfolio Investment buys a call option). In other cases, the derivative contract will create an open-ended obligation (for example, when the Fund or the Portfolio Investment writes a call option). Many derivatives, particularly those negotiated over-the-counter, are substantially illiquid or could become illiquid under certain market conditions. As a result, it may be difficult or impossible to determine the fair value of the Fund's or the Portfolio Investments' interest in such contracts. Many derivative contracts involve exposure to the credit risk of the counterparty, because the Fund or the Portfolio Investment acquires no direct interest in the underlying Instrument, but instead depends on the counterparty's ability to perform under the contract. Further, if and when the Fund or a Portfolio Investment takes economic exposure through a derivative, it generally will not have any voting rights and may not be able to pursue legal remedies that would be available if it invested directly in the underlying Instrument.

Many derivatives also involve substantial legal risk and uncertainty, because the terms of the contract are or can be difficult to draft, apply, interpret and enforce, particularly in the context of unforeseen market conditions or events. In many cases, the counterparty has discretion (either pursuant to the express terms of the contract or in practice) to interpret the contract, make required calculations and demand or withhold payments in the manner most favorable to the counterparty and most unfavorable to the Fund or a Portfolio Investment. An adverse interpretation or calculation under one derivative contract could trigger cross-defaults with other contracts and could have a materially adverse effect on the Fund's or a Portfolio Investment's liquidity and performance. Any dispute concerning a derivative contract could be expensive and time consuming to resolve, particularly given the potential for complex and novel legal issues and the involvement of multiple legal jurisdictions. Even a favorable resolution could come too late to prevent cross-defaults, trading losses, and material liquidity problems.

The Portfolio Investments may take advantage of opportunities with respect to certain other derivative Instruments that are not presently 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 objective of the Portfolio Investments and legally permissible. Special risks may apply to Instruments that are invested in by the Portfolio Investments in the future that cannot be determined at this time or until such Instruments are developed or invested in by the Portfolio Investments. Certain swaps, options and other derivative Instruments will 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.

**Commodities/Futures Contracts.** Commodity trading strategies involve the buying and selling of futures and/or futures options in global interest rates, currencies, stock indices, commodities and other Instruments to profit from trends and other non-random market movements. Managed futures strategies involve trading in futures and currencies globally, generally using systematic or discretionary approaches based on identified trends.

The value of futures contracts depends upon the price of the Instruments, such as commodities, underlying them. The prices of futures contracts are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, investments in futures contracts are also subject to the risk of the failure of any of the exchanges on which the Fund's and the Portfolio Investments' positions trade or of their clearing houses or counterparties.

Futures positions can be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or

“daily limits.” Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Fund and the Portfolio Investments from promptly liquidating unfavorable positions and subject the Fund and the Portfolio Investments to substantial losses or from entering into desired trades. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

**Forward Contracts.** Forward contracts and options thereon, unlike futures contracts, are not currently 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 forward markets 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 the Portfolio Managers would otherwise recommend, to the possible detriment of the Fund and the Portfolio Investments. Market illiquidity or disruption could result in significant losses to the Fund and the Portfolio Investments.

**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 less the premium received and gives up the opportunity for gain on the underlying security above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The Instruments necessary to satisfy the exercise of an uncovered call option can be unavailable for purchase, except at much higher prices, thereby reducing or eliminating the value of the premium. Purchasing Instruments to cover the exercise of an uncovered call option can cause the price of the Instruments to increase, thereby exacerbating the loss. The buyer of a call option assumes the risk of losing its entire premium investment in the call option.

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

**Stock Index Options.** The Fund and the Portfolio Investments may or do also purchase and sell call and put options on stock indices listed on securities exchanges or traded in the over-the-counter market for the purpose of realizing their investment objectives or for the purpose of hedging their portfolios. A stock index or index option fluctuates with changes in the market values of the stocks included in the index. The effectiveness of purchasing or writing stock index options for hedging purposes will depend

upon the extent to which price movements in the Fund's and the Portfolio Investments' portfolios correlate with price movements of the stock indices selected. Because the value of an index option depends upon movements in the level of the index rather than the price of a particular stock, whether the Fund or the Portfolio Investment realizes gains or losses from the purchase or writing of options on indices depends upon movements in the level of stock prices in the stock market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular stocks. Accordingly, successful use by the Fund and the Portfolio Investments of options on stock indices will be subject to the Advisor's and the Portfolio Managers' ability to correctly predict movements in the direction of the stock market generally or of particular industries or market segments. This requires different skills and techniques than predicting changes in the price of individual stocks.

**Swap Agreements.** The Fund and the Portfolio Investments may or do enter into swap agreements and options on swap agreements ("swaptions"). Swap agreements are individually negotiated and can be structured to include exposure to a variety of different types of investments, asset classes or market factors. A Portfolio Investment, for instance, may enter into swap agreements with respect to interest rates, credit defaults, currencies, securities, indexes of securities and other assets or other measures of risk or return. Depending on their structure, swap agreements may increase or decrease such Portfolio Investment's exposure to, for example, long-term or short-term interest rates (in the United States or abroad), non-U.S. currency values, credit spreads, corporate borrowing rates, or other factors such as security prices, baskets of equity securities or inflation rates. Swap agreements can take many different forms and are known by a variety of names. The Fund is not limited to any particular form of swap agreement if consistent with the Fund's investment objective and policies.

Swap agreements tend to shift the Fund's and the Portfolio Investments' investment exposures from one type of investment to another. For example, if a Portfolio Investment agrees to exchange payments in dollars for payments in non-U.S. currency, the swap agreement would tend to decrease such Portfolio Investment's exposure to U.S. interest rates and increase its exposure to non-U.S. currency and interest rates. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the Fund's and the Portfolio Investments' portfolios. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency, individual equity values or other factors that determine the amounts of payments due to and from the Fund and the Portfolio Investments. If a swap agreement calls for payments by the Fund or a Portfolio Investment, the Fund or the Portfolio Investment must be prepared to make such payments when due. In addition, if a counterparty's creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses by the Fund and the Portfolio Investments.

Whether the Fund's and the Portfolio Investments' use of swap agreements or swaptions will be successful will depend on the Advisor's and Portfolio Managers' ability to select appropriate transactions for the Fund and the Portfolio Investments. Swap transactions are or may be highly illiquid and may increase or decrease the volatility of the Fund's and the Portfolio Investments' portfolios. Moreover, the Fund and the Portfolio Investments' bear the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty. The Fund and the Portfolio Investments will also bear the risk of loss related to swap agreements, for example, for breaches of such agreements or the failure of the Fund and the Portfolio Investments 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 the Fund's and the Portfolio Investments' ability to terminate existing swap transactions or to realize amounts to be received under such transactions.

**Equity Swaps.** The Portfolio Investments may or do make use of equity swaps. A swap is a contract under which two parties agree to make periodic payments to each other based on the value of a security, specified interest rates, an index or the value of some other instrument, applied to a stated or “notional” amount. An equity swap is a customized derivative instrument that entitles the counterparty to certain payments on the gain or loss on the value of an underlying equity security. Equity swaps are subject to various types of risk, including market risk, liquidity risk, counterparty credit risk, legal risk and operations risk.

**Underlying Funds.** A Fund or Trading Vehicle can invest in one or more underlying private investment funds (“Underlying Funds”). To the extent the Fund or Trading Vehicle invests in one or more Underlying Funds, the Advisor will not receive the same level of transparency and information from such Underlying Funds as it receives from or regarding other Portfolio Investments in managed accounts. Investments in Underlying Funds are also less liquid than investments in managed accounts and will be subject to the terms and conditions of each such Underlying Fund. As a result, the Fund or Trading Vehicle will not be able to liquidate its interest or make withdrawals from an Underlying Fund as quickly as it may liquidate positions in or make withdrawals from a managed account. There are other potential liquidation, capacity, and exposure risks when client assets are invested in managed accounts as well as Underlying Funds. The Fund or Trading Vehicle and the Advisor generally will not have complete control over the management of the Underlying Funds or the investment and other decisions made by the Portfolio Managers of such Underlying Funds, and the Fund or Trading Vehicle and the Advisor may have even less such control over the management of the Underlying Funds or the investment and other decisions made by the Portfolio Managers of such Underlying Funds compared to the managed accounts.

**Counterparty Risks.** The Fund and the Portfolio Investments enter into many transactions with third parties in which the failure or delay of a third party to perform its obligations under a contract with the Fund or a Portfolio Investment could have a material adverse effect on the Fund or such Portfolio Investment. The Fund and certain of the Portfolio Investments generally do not perform extensive credit analyses on their counterparties.

Substantially all of the Fund’s and the Portfolio Investments’ exchange-traded financial Instruments are held in accounts maintained for the Fund and the Portfolio Investments by their prime brokers and/or other financial institutions. The Fund and the Portfolio Investments also have substantial exposure to other counterparties in connection with derivatives, securities lending and other contract-based transactions. There is a risk that any of the Fund’s or the Portfolio Investments’ counterparties could become insolvent. Most of the Fund’s and the Portfolio Investments’ counterparties are brokerage firms or commercial banks, which are subject to various laws and regulations in various jurisdictions that are designed to protect their customers in the event of their insolvency. In many cases, however, the Fund and the Portfolio Investments will not be considered “customers” of these institutions for purposes of such laws and regulations. Further, a substantial portion of the Fund’s and the Portfolio Investments’ assets held by prime brokers and/or other counterparties may not be held in segregated accounts. The Fund’s and the Portfolio Investments’ assets generally are held in the name of the prime broker or custodian or nominee, rather than in the Fund’s name, which may limit (legally or in practice) their ability to exercise voting rights, pursue legal remedies or dispose of positions. In any event, the practical effect of the applicable contracts, laws and regulations and their application to the Fund’s and the Portfolio Investments’ assets if a counterparty becomes insolvent will be subject to substantial limitations and uncertainties. As an example, firms with exposure to Lehman Brothers arising out of prime brokerage arrangements or derivative transactions are facing limited prospects for recovery as well as substantial uncertainty and delay. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of a counterparty’s insolvency on the Fund, the Portfolio Investments and their assets. Investors

should assume that the insolvency of any of the Fund's or the Portfolio Investments' prime brokers or other counterparties would result in the loss of all or a substantial portion of the Fund's or Portfolio Investment's assets held by such prime broker or counterparty.

**Regulated Industries.** Certain of the Portfolio Investments are invested, directly or indirectly, in industries subject to extensive federal, state and local regulations. Changes in regulations, including restrictions on the manner that such companies carry out their businesses and determine the rates they will charge, may have an adverse impact the Portfolio Investments. In addition, governmental regulations may not be predictable and will be subject to political, economic, social and/or market developments.

**Initial Public Offerings.** The Portfolio Managers purchase securities of companies in initial public offerings or shortly after those offerings are complete. Special risks associated with these Instruments include a limited number of shares available for trading, lack of a trading history, lack of investor knowledge of the issuer, and limited operating history. These factors may contribute to substantial price volatility for the shares of these companies. The limited number of shares available for trading in some initial public offerings may make it more difficult for a Portfolio Manager to buy or sell significant amounts of shares without an unfavorable effect on prevailing market prices. In addition, some companies in initial public offerings are involved in relatively new industries or lines of business, which may not be widely understood by investors. Some of these companies may be undercapitalized or regarded as developmental stage companies, without revenues or operating income, or near-term prospects of achieving revenues or operating income.

Moreover, the Funds or any class thereof and/or certain investors in the Funds may be limited as to the amount of new issue allocations it/they can receive while other investors may not be restricted at all and may be entitled to receive or may actually receive a larger portion of any new issue allocation. Conversely, the Manager may determine to restrict or limit the Funds or any class thereof as a whole from purchasing new issues.

**Execution Risks.** The Fund's trading strategy depends on its ability to select and invest in a combination of Portfolio Investments, Portfolio Managers and Instruments selected by the Advisor through the Fund's investment in the Trading Vehicles. Each Portfolio Investment's trading strategy will similarly depend on its ability to select and invest in a combination of Instruments selected by its Portfolio Manager. Should the Fund's or a Portfolio Investment's trading orders and investment decisions not be executed in a timely and efficient manner, the Fund or Portfolio Investment might be able to acquire only some, but not all, of the components of such position, or if the overall position were to need adjustment, the Fund or Portfolio Investment might not be able to make such adjustment. In such an event, the Fund or Portfolio Investment would not be able to achieve the position selected by the Advisor or a Portfolio Manager, as applicable, and might incur a loss in liquidating its position.

In executing transactions on behalf of the Portfolio Investments, the Advisor anticipates that Portfolio Managers will select broker/dealers that they believe offer the best net result to the Portfolio Investments. In making this determination, a Portfolio Manager generally will take into account, among other items, the price charged (including applicable brokerage commissions or dealer spreads), the size of the order, the difficulty of execution and the operational facilities of the firm involved. Although a Portfolio Manager generally is expected to seek competitive commission rates and spreads, it may conclude that the payment of the lowest commissions or spreads may not always be consistent with the best interests of the applicable Portfolio Investment. For example, a Portfolio Manager may enter into "soft dollar" arrangements with broker/dealers whereby such Portfolio Manager receives research and/or other brokerage services for its use in managing a Portfolio Investment. Such services typically include furnishing analyses, reports and information concerning issuers, industries, securities, geographic regions, economic factors and trends, as well as effecting securities transactions and performing functions

incidental thereto (such as clearance and settlement). Any such “soft dollar” arrangements should be entered into by a Portfolio Manager only in instances where the Portfolio Manager determines in good faith that such arrangement is consistent with the overall responsibilities of such Portfolio Manager to the applicable Portfolio Investment.

**Leverage Risks.** The Trading Vehicles and/or the Portfolio Investments use substantial leverage in their investment programs and borrow funds from brokers, banks, counterparties and other lenders to finance their trading operations. Such leverage will be achieved, as applicable, through, among other methods, purchases of Instruments on margin and the use of options, futures, forward contracts, repurchase and reverse repurchase agreements, swaps and securities lending transactions. The use of leverage generally involves a high degree of risk. In order to secure its various financing arrangements, a Trading Vehicle or a Portfolio Investment may grant guaranties and pledge or otherwise transfer to lenders any of its assets, including specific assets, pools of assets, or interests in subsidiary entities. Investors in the Trading Vehicles and Portfolio Investments, such as the Fund, are equity holders, and their rights are, therefore, junior to and generally subject to the satisfaction of the prior claims of all creditors.

Trading Vehicles and Portfolio Investments obtain more leverage from their prime brokers, counterparties, and other lenders than is generally available to U.S. investors through ordinary margin lending arrangements and the amount of leverage will vary. As a result, the leverage available to the Trading Vehicles and Portfolio Investments for their investments will generally be limited only by the credit decisions of their lenders. There can be no assurance, however, that such lenders will continue past arrangements or approve new extensions of credit to the Trading Vehicles and Portfolio Investments at the levels requested. Any restriction on the availability of credit from such lenders could adversely affect a Trading Vehicle and/or a Portfolio Investment’s performance. Any leverage targets are guidelines and/or anticipated portfolio characteristics and are not prohibitions or limitations.

The use of margin, derivatives and short-term borrowings results in substantial interest and financing costs to the Trading Vehicles and Portfolio Investments and creates additional risks. Specifically, a Trading Vehicle or a Portfolio Investment may use substantially all of its capital for margin and collateral deposits. If the value of a Trading Vehicle or a Portfolio Investment’s Instruments positions falls below the margin or collateral levels required by a prime broker or other counterparty, additional margin or collateral deposits would be required. If the Trading Vehicle or Portfolio Investment is unable to satisfy any margin or collateral call, then the prime broker or other counterparty could terminate transactions, liquidate the Trading Vehicle’s or Portfolio Investment’s positions in some or all the Instruments that are in the Trading Vehicle’s or Portfolio Investment’s margin or collateral account and otherwise cause the Trading Vehicle or Portfolio Investment to incur significant losses. The failure to satisfy a margin or collateral call, or the occurrence of other material defaults under margin or other financing agreements, may trigger cross-defaults under the Trading Vehicle’s or Portfolio Investment’s agreements with other brokers, lenders, clearing firms or counterparties, multiplying the adverse impact to the Trading Vehicle or Portfolio Investment. In addition, because the use of leverage will allow the Trading Vehicles or Portfolio Investments to control positions worth significantly more than their investments in those positions, the amount that the Trading Vehicles or Portfolio Investments may lose in the event of adverse price movements will be high in relation to the amount of their investments.

In the event of a sudden drop in the value of a Trading Vehicle or a Portfolio Investment’s assets, such Trading Vehicle or Portfolio Investment might not be able to liquidate assets quickly enough to satisfy its margin or collateral requirements or other contractual obligations. In that event, the Trading Vehicle or Portfolio Investment may become subject to claims of financial intermediaries that extended margin loans or other types of credit. Such claims could exceed the value of such assets of the Trading Vehicle or Portfolio Investment. The banks, dealers and other counterparties that provide financing to the Trading

Vehicles or Portfolio Investments can apply essentially discretionary margin, haircut, financing and collateral valuation policies. Changes by banks, dealers and other counterparties in any of the foregoing may result in large margin or collateral calls, loss of financing and forced liquidations of positions at disadvantageous prices. There can be no assurance that the Trading Vehicles or Portfolio Investments will be able to secure or maintain adequate financing, without which they may not be viable.

**Convertible Securities.** The Fund and/or the Portfolio Investments invest in convertible securities. 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 generally (i) have higher yields than common stocks, but lower yields than comparable non-convertible securities, and are subject to interest rate fluctuations (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed income characteristics and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases. The value of a convertible security is a function of its “investment value” (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its “conversion value” (the security’s worth, at market value, if converted into the underlying common stock). A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases as the convertible security approaches maturity.

**Currency Risks.** The Portfolio Investments invest in securities markets which may involve many different currencies and engage in speculative trading in currencies themselves. In many cases, investments in currencies are made through Instruments that involve embedded leverage, magnifying the risks associated with such investments. Fluctuations in relative values of currencies could cause material losses for the Portfolio Investments and the Fund.

**Borrowings by a Fund; Guaranties.** If permitted under its offering documents, a Fund (directly or through a Trading Vehicle) may obtain a credit facility for the following purposes: (i) in limited circumstances, for certain investments when the Advisor believes that limited capacity exists for an investment opportunity that it believes is attractive for the Fund; (ii) satisfying permitted withdrawals; (iii) paying ongoing Fund expenses; (iv) for the purchase or sale of Instruments (including the purchase or sale of Instruments on margin) and to pledge Instruments as collateral; or (v) for such other purposes as the Advisor or its manager may determine. As a result of the indebtedness described above, the Fund, and, ultimately, the investors, will or may be subject to similar risks as described above under “Leverage Risks.” The Manager of a Fund and/or the Advisor may separately enter into a credit facility to fund certain non-customary operating and/or overhead costs (excluding, for example, ordinary payroll and other ordinary expenses). The cost of any such credit facility shall be borne directly or indirectly by the Fund. The Funds or a Trading Vehicle may guarantee the obligations of the Advisor or certain affiliates of the Advisor under credit facilities or other agreements entered into for the benefit (in whole or part) of the relevant Fund. In such cases, the Fund or the Trading Vehicle would be subject to the risk that the primary obligor defaults under the credit facility or other agreement and the Fund or Trading Vehicle would be responsible for the obligations under such credit facility or other agreement as if it had entered into such facility or agreement directly. In the event a Fund or a Trading Vehicle is a guarantor, it may not be the sole beneficiary of the products or services purchased or otherwise obtained through the use of the credit facility or other agreement. In addition, by their nature, certain expenses, products and services may be deemed to be in connection with the Fund, directly or indirectly, as well as other clients. Accordingly, due to the nature of the Advisor’s advisory business, as applicable, the Advisor, affiliates of the Advisor and/or other clients of the Advisor may receive a benefit, directly or indirectly, from such



Fund or Trading Vehicle guaranties but may not be subject to the obligations, or otherwise bear the costs, of such credit facilities or other agreements.

**Economic Conditions.** Changes in economic conditions, including, for example, interest rates, inflation rates, currency and exchange rates, industry conditions, competition, technological developments, trade relationships, political and diplomatic events and trends, tax laws and innumerable other factors, can affect substantially and adversely the investment performance of a client's account. None of these conditions is or will be within the control of the Advisor, and no assurances can be given that the Advisor can or will anticipate these developments.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the Advisor or the integrity of the Advisor's management personnel. The Advisor and the Advisor's management personnel do not have any information applicable to this Item. However, an owner and Non-Executive Chairman of the Advisor, Steven B. Schonfeld, consented to an offer of settlement and consent in 2008 with NYSE Arca Equities, Inc. (a self-regulatory organization) involving a violation of such SRO's rules in connection with the activities of a now dissolved former affiliated broker-dealer. Such matter is disclosed in the Advisor's Form ADV Part 1A, Item 11E.(2) and (4) and the accompanying DRP.

## **Item 10 – Other Financial Industry Activities and Affiliations**

As discussed in Item 4 – Advisory Business, Portfolio Managers can include internal individual supervised persons trading on behalf of the Advisor. One Portfolio Manager is owned by an affiliate of the Advisor, but is not a supervised person of the Advisor and is not registered under the Advisor's SEC investment adviser registration. Such Portfolio Manager is managed by an unaffiliated third-party and no officers of the Advisor are officers of such Portfolio Manager. The Advisor has an incentive to use such Portfolio Manager and treat such Portfolio Manager more favorably than other unaffiliated Portfolio Managers with respect to capacity, compensation, expenses, or otherwise because it is an affiliate of the Advisor. There can be no assurance that overall or for any particular term or expense that it may not be more favorable in its treatment of such Portfolio Manager versus other unaffiliated Portfolio Managers or that another similar unaffiliated Portfolio Manager may not have been obtainable on terms more favorable to a particular fund or Trading Vehicle, as applicable. Given that such Portfolio Manager is an affiliate of the Advisor, the Advisor has a potential disincentive to use an unaffiliated portfolio manager for the provision of such services and terminate the services provided by such Portfolio Manager.

Schonfeld Strategic Management LLC, an affiliate of the Advisor, serves as the Manager of a private investment fund and certain trading vehicles advised by the Advisor and is a registered Commodity Pool Operator. Schonfeld FE Partners LLC serves as the Manager of a private investment fund advised by the Advisor and is exempt from registration as a Commodity Pool Operator. The Advisor is also exempt from registration as a Commodity Trading Advisor. Certain affiliates of the Advisor like the foregoing Managers are considered "special purposes vehicles" (i.e., managers) for private investment funds managed by the Advisor and are subject to the Adviser's oversight. An affiliate of the Advisor provides

technology and administrative products and services to the Advisor and its affiliates, Trading Vehicles and fund clients as set forth in the fund's offering documents.

## **Item 11 – Code of Ethics**

The Advisor has adopted a Code of Ethics for itself and all employees and supervised persons of the Advisor describing its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, gifts and entertainment items, and personal securities trading procedures, among other things. All access persons of the Advisor must acknowledge the terms of the Code of Ethics annually, and as amended.

Client assets may be invested in the Trading Vehicles which are advised and managed by the Advisor and its affiliates. Also certain affiliates of the Advisor are clients and their assets are managed on a discretionary basis with client assets in the Trading Vehicles. The Advisor manages these conflicts of interest by disclosure to clients and managing the Trading Vehicles pursuant to its fiduciary obligations under the Investment Advisers Act of 1940.

The Advisor's Code of Ethics also addresses conflicts of interest between personal trading and client trading. The Advisor, its affiliates and their officers, directors and employees may trade for their own accounts in certain securities which are recommended to and/or purchased for Advisor's clients. The Code of Ethics is designed so that the Advisor may monitor the personal securities transactions to protect clients. The Code requires reporting of personal trading information and pre-clearance of transactions in equity and equity-linked securities and private placements and generally prohibits purchasing securities in initial public offerings. Nonetheless, because the Code of Ethics in some circumstances would permit personnel to invest in the same securities as clients, there is a possibility that persons might benefit from market activity by a client in a security held by such person. Personal trading is monitored under the Code of Ethics to reasonably minimize or prevent conflicts of interest between Advisor and its clients.

Subject to regulatory requirements relating to investor eligibility, officers and other Advisor personnel may invest their personal funds in the private investment funds advised by the Advisor.

The Advisor generally does not effect principal transactions for client accounts. In the event any such transaction(s) occur, each will be done in accordance with applicable regulatory requirements, including prior consent by the client or an independent representative acting on the client's behalf. The Advisor or a Portfolio Manager may engage in transactions in which it causes the Fund (or its Trading Vehicle) to purchase Instruments from, or sell Instruments to, the Fund or funds or managed accounts managed by the Manager, the Advisor or a Portfolio Manager and/or their affiliates (as applicable) ("cross-trades") for purposes of portfolio rebalancing or for other reasons as may arise from time to time. Neither the Advisor nor a Portfolio Manager (as applicable) will take brokerage commissions or otherwise be specially compensated for effecting these cross-trades. The Advisor and each Portfolio Manager (as applicable) intends that cross-trades will, to the best of its ability, reflect the market value of the security or other instrument being purchased or sold, and the cross-trade will be subject to the Advisor's or the Portfolio Manager's duty of best execution, as applicable. Prior to effecting any cross-trade, the Advisor or the Portfolio Managers (as applicable) will make a good faith determination that the transaction is in the best interests of the Fund and other clients as applicable.

The Advisor will not effect agency cross transactions. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

Advisor's clients or prospective clients may request a copy of the Advisor's Code of Ethics by contacting Thomas L. Wynn, Chief Compliance Officer, at (212) 909-1623 or [twynn@schonfeldstrategic.com](mailto:twynn@schonfeldstrategic.com).

## **Item 12 – Brokerage Practices**

The Advisor does not adhere to any specific allocation criteria or other formulas in selecting brokers and will weigh a combination of the criteria described herein. In selecting brokers, the Advisor need not solicit competitive bids, does not have an obligation to seek the lowest available commission cost and may select a broker which charges brokerage commissions in excess of that which another broker might have charged for effecting the same transaction. The Advisor does not select brokers on the basis of the commission rates only, and thus a client may be deemed to be paying for brokerage and/or research provided by the broker which is or may be deemed to be included in the commission rate. The extent to which commission rates or net prices charged by brokers reflect the value of research provided and other products and services received cannot be readily determined. The Advisor will make a good faith determination that the amount of commission is reasonable in relation to the value of the brokerage and research received, viewed in terms of either the specific transaction or series of transactions or the Advisor's overall responsibility to its clients. Research and other products and services may be used by the Advisor in servicing some or all of its clients.

Private funds (or Trading Vehicles, as applicable) enter into prime brokerage arrangements with one or more prime brokers. The Advisor and/or the Portfolio Managers select brokers to execute portfolio transactions on behalf of the Trading Vehicles. Generally, the Advisor or its affiliate selects the custodians that hold the assets of a fund(s) or Trading Vehicle(s), as the case may be. The brokers, prime brokers and custodians can be replaced and other brokers, prime brokers and custodians may be retained at any time without the consent of clients. In selecting brokers and negotiating commission rates, the Advisor or a Portfolio Manager can take into account the financial stability and reputation of brokerage firms, and the research, brokerage or other services provided by such brokers. A fund or Trading Vehicle may have more than one prime broker.

The Advisor and its affiliates and the Portfolio Managers will also look at factors such as price, the ability of the brokers to effect the transactions, the brokers' facilities, reliability and financial responsibility, execution and routing services and brokerage or research services ("soft dollar items") provided by such brokers.

Generally, the Advisor expects to use soft dollars, and engage Portfolio Managers whose use of soft dollars will be, within Section 28(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), Section 28(e) establishes a safe harbor (the "Section 28(e) safe harbor" or "safe harbor") allowing investment managers to use client funds, by way of commission dollars, to purchase certain "brokerage and research services." Pursuant to such safe harbor, the brokerage and research services must provide lawful and appropriate assistance to the investment manager in the performance of its investment decision-making responsibilities. The Advisor or Portfolio Managers may allocate transactions to brokers

in consideration of such brokers' provision of, or payment of the cost of, certain services that are of benefit to the applicable Trading Vehicles and/or other clients of the Advisor or Portfolio Manager. In such circumstances, portfolio transactions are allocated to brokers in consideration of such factors as price, the ability of the brokers to effect the transactions, the brokers' facilities, reliability and financial responsibility, and any research, investment management-related and/or brokerage products and services provided by such brokers. Accordingly, if the Advisor or a Portfolio Manager determines in good faith that the amount of commissions charged by a broker is reasonable in relation to the value of the brokerage and research or investment management-related services and equipment provided by such broker, the Advisor or a Portfolio Manager may pay commissions to such broker in an amount greater than the amount another broker might charge.

In the cases where it selects brokers and negotiates commission rates, consistent with its duty of best execution, the Advisor or a Portfolio Manager will take into account a number of factors, including, among others, the financial stability, reliability and reputation of brokerage firms, the size and type of the transaction, execution capabilities, the difficulty of execution, commission rate/net pricing, the broker's expertise with the particular financial instrument, the broker's ability to handle a block order and other brokerage and research products and services provided by such brokers. In selecting brokers, the Advisor will consider the value of brokerage (such as efficiency of execution, order routing, clearing and settlement services) and research products and services (collectively, "research") received by a broker, either directly provided by the broker (proprietary research), or paid for by the broker to be provided by others (third party research). By its receipt and use of research or certain brokerage services the Advisor or a Portfolio Manager may be considered to be receiving "soft dollar" benefits from the brokers it utilizes. The Advisor, however, does not participate in any formal soft dollar arrangements, earn soft dollar credits or pay specific additional brokerage commissions for research or other types of soft dollar benefits. To the extent the receipt of research or brokerage by the Advisor or a Portfolio Manager are deemed to be soft dollar benefits, such benefits fall within the safe harbor of Section 28(e) of the Securities Exchange Act of 1934.

Research under Section 28(e) that the Advisor or a Portfolio Manager receives and may incorporate into its investment decisions and recommendations may be in written, electronic or oral form and may include, among other things, research concerning market, economic and financial data, a particular aspect of economics or on the economy in general, statistical information, pricing information and performance measurement services, analyses concerning specific securities, instruments, companies, industries or sectors and market, economic and financial studies and forecasts. To the extent that such products and services are obtained, the Advisor and Portfolio Managers will be receiving a benefit by reason of the direction of commissions.

The Advisor believes that overall clients benefit from the Advisor's receipt of research although research may not be used by the Advisor in servicing all of its clients or any particular client. In addition, some research may not necessarily be used by the Advisor or Portfolio Manager in servicing the client(s) whose commission dollars may be deemed to have provided for such research. A client may not, in any particular instance, be the direct or indirect beneficiary of the specific brokerage or research products and services provided.

The Advisor or Portfolio Manager may have an incentive to select a broker based on the fact that it will receive research. Therefore, the Advisor or Portfolio Manager may have a conflict of interest between its duty to obtain best execution for a client and its interest in receiving such benefits. The Advisor's or a Portfolio Manager's expenses could increase materially if it attempted to generate such additional information and services on its own. The Advisor at least annually evaluates its brokerage practices and

the reasonableness of commissions paid by its clients. The extent to which commission rates charged by brokers reflect the value of brokerage and research received cannot be readily determined. Although the commission rates charged by such brokers are generally deemed to not specifically reflect such additional benefits, the commission rates charged by such brokers may be higher or lower than other brokers.

### **Item 13 – Review of Accounts**

The Advisor monitors compliance with the investment objectives of its clients on an ongoing basis but at least monthly. The Advisor receives real-time or intraday information regarding Trading Vehicle accounts. As set forth in the fund's offering documents, investors in a private investment fund advised by the Advisor will receive periodic information, which shall include fund performance information, and copies of the annual audited financial statements for the fund.

### **Item 14 – Client Referrals and Other Compensation**

Except as set forth with respect to certain soft dollar benefits in Item 12, the Advisor will not receive any economic benefits from any a non-client for providing investment advisory services to the Advisor's clients.

The Advisor or one of its affiliates may from time to time enter into referral or placement agent agreements with third-party marketing firms, including third party consultants, solicitors, placement agents and others ("Solicitors"), whereby such Solicitors agree to solicit and refer prospective clients or qualified investors. Any arrangements with Solicitors will be disclosed to the prospective clients or investors involved prior to them becoming advisory clients or admitting them as fund investors. Depending on the arrangement, the Solicitor may be compensated by a particular fund as permitted by the fund's offering documents (*e.g.*, if the referred investor is a strategic investor), by the referred client or investor, or by the Advisor (and/or its affiliate) by paying a portion of its management fees, performance- based compensation or otherwise. Solicitation arrangements with respect to advisory clients shall comply with SEC Rule 206(4)-3 as applicable. A fund's offering documents will contain provisions applicable to Solicitors and fund investors.

### **Item 15 – Custody**

The Advisor and/or its affiliates have entered into agreements with qualified custodians to maintain custody of client assets as required by Rule 206(4)-2 under the Investment Advisers Act of 1940. While the Advisor does not maintain physical custody of any client funds or securities, its affiliates will act as the manager of private investment funds advised by the Advisor, and, therefore, pursuant to the SEC's custody rule (Rule 206(4)-2), the Advisor (through its affiliate) does have custody of such client assets.

Pursuant to the custody rule, audited financial statements will be delivered to each fund investor within 120 days of the end of each fiscal year, and the Advisor is, therefore, exempt from certain other requirements of the SEC's custody rule.

## **Item 16 – Investment Discretion**

As stated above in Item 4- Advisory Business, the Advisor primarily provides discretionary advisory services to private investment funds and to certain of the Advisor's affiliates. The investment advisory agreement between the Advisor and a client specifies whether the Advisor is delegated discretionary or non-discretionary authority over the client's account. In limited cases, the Advisor also provides non-discretionary advisory services to an affiliate.

Under a discretionary advisory agreement, the Advisor has full power and authority to invest the assets of the client (including a private investment fund or a Trading Vehicle) on a discretionary basis and to act as the client's attorney-in-fact in furtherance of such advisory services.

The Advisor's exercise of discretion is governed by (and if applicable, limited by) the relevant investment advisory agreement, the relevant private fund offering documents and its fiduciary duty.

Generally, advisory agreements will be renewed automatically for successive one-year periods as of December 31 of each year unless the Advisor gives sixty (60) days' prior written notice of its intention not to renew the agreement. Advisory agreement may be terminated as set forth therein (generally by prior written notice or upon events of default).

## **Item 17 – Voting Client Securities**

To the extent the Advisor has been delegated proxy voting authority on behalf of its clients, the Advisor will comply with its proxy voting policies and procedures that are designed to ensure that in such cases where the Advisor votes proxies with respect to client securities, such proxies are voted in the best interests of its clients. The Advisor does not vote all proxies and generally only votes those non-standard or non-customary proxies in cases where client accounts hold a material position in the company. The Advisor's clients are not permitted to direct their votes in a particular solicitation.

If a material conflict of interest between the Advisor and a client exists, the Advisor will determine whether voting in accordance with the guidelines set forth in the proxy voting policies and procedures is in the best interests of the client or take some other appropriate action.

A copy of the Advisor's voting procedures and information about how the Advisor will vote proxies can be obtained by contacting Thomas L. Wynn, Chief Compliance Officer, at (212) 909-1623 or [twynn@schonfeldstrategic.com](mailto:twynn@schonfeldstrategic.com).

## **Item 18 – Financial Information**

Certain investment advisers are required in this Item to provide you with certain financial information or disclosures. The Advisor has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.