

Item 1. Cover Page

MFN Partners Management, LP

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Part 2A of Form ADV: Firm Brochure
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This brochure (“Brochure”) provides information about the qualifications and business practices of MFN Partners Management, LP. If you have any questions about the contents of this brochure, please contact us at legal@mfnpartners.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Additional information about MFN Partners Management, LP also is available on the SEC’s website at www.adviserinfo.sec.gov. An Adviser’s registration with the SEC does not imply a certain level of skill or training.

Item 2. Material Changes

Item 2 is not applicable to MFN Partners Management, LP because this is its initial filing.

Item 3. Table of Contents

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Item 4. Advisory Business

For purposes of this Brochure, the “Investment Manager” means MFN Partners Management, LP, a Delaware Limited Partnership, together (where the context permits) with its affiliated general partner of the Partnership (as defined below) and other affiliates that provide advisory services to and/or receive advisory fees from the Partnership. Such affiliates may or may not be under common control with the Investment Manager, but possess a substantial identity of personnel and/or equity owners with the Investment Manager. These affiliates may be formed for tax, regulatory or other purposes in connection with the organization of the Partnership, or may serve as general partner of the Partnership.

The Investment Manager is expected to provide investment supervisory services to an investment vehicle (the “Partnership”) that is exempt from registration under the Investment Company Act of 1940, as amended (the “1940 Act”) and whose securities are not registered under the Securities Act of 1933, as amended (the “Securities Act”). Any statements regarding what the Investment Manager is doing or will do with respect to the management of the Partnership are based on the types of activities that the Investment Manager expects to engage in during the next year.

The strategy of the Partnership is to invest in securities that can be purchased at a significant discount to underlying economic value. The Partnership seeks to do so by combining investment expertise and the ability to be flexible across a variety of different asset classes, industries and geographies with fundamental analysis, thoughtful consideration of risk, intellectual honesty and a disciplined investment approach. The Investment Manager’s advisory services consist of investigating, identifying and evaluating investment opportunities, structuring, negotiating and making investments on behalf of the Partnership, managing and monitoring the performance of such investments and disposing of such investments.

The Investment Manager provides investment supervisory services to the Partnership in accordance with the investment management agreement (the “Investment Management Agreement”) and the limited partnership agreement of the Partnership (as amended, the “Partnership Agreement”). The Investment Manager and its affiliates may provide investment supervisory services to other clients, including investment funds and managed accounts that may either co-invest with the Partnership or follow investment programs similar to or different from that of the Partnership.

Investment advice is provided directly to the Partnership, subject to the discretion and control of MFN Partners GP, LLC (the “General Partner”), and not individually to the investors in the Partnership. Investment restrictions for the Partnership, if any, are established in the Partnership Agreement, the confidential Private Placement Memorandum of the Partnership (the “Memorandum”), the Investment Management Agreement and/or side letter agreements negotiated with investors in the Partnership (such documents collectively, the Partnership’s “Organizational Documents”).

The principal owners of MFN Partners Management, L.P. are Michael DeMichele and Farhad Nanji. The Investment Manager was established in 2016.

Item 5. Fees and Compensation

The Investment Manager generally receives a Management Fee and the General Partner is allocated a Performance Allocation (each as defined below) from the Partnership. Additionally, consistent with the Organizational Documents of the Partnership, the Partnership typically bears certain out-of-pocket expenses incurred by the Investment Manager in connection with the services provided to the Partnership. Further details about certain common fees and expenses are set forth below.

Management Fee

As compensation for investment supervisory services rendered to the Partnership, the Investment Manager receives from the Partnership a management fee (the “Management Fee”) typically calculated based on the aggregate net asset value of the Partnership. The Management Fee and expenses paid by the Partnership are indirectly borne by investors in the Partnership. The Management Fee billed to and received from the Partnership is payable quarterly in advance.

The precise amount of, and the manner and calculation of, the Management Fee for the Partnership is established by the Investment Manager and is set forth in the Partnership Agreement received by each investor prior to investment in the Partnership. The Management Fee and other fees described herein are generally subject to modification, waiver or reduction by the Investment Manager in its sole discretion, both voluntarily and on a negotiated basis with selected investors via side letter and/or other arrangements, which will be disclosed to other investors in the Partnership. The Investment Manager expects to waive the Management Fee with respect to the Investment Manager, the General Partner, their affiliates, and any of their respective current or former partners, members, shareholders, directors, officers, or employees, and their respective relatives and estate planning and charitable vehicles, which waivers will not be separately disclosed to other investors in the Partnership. Notwithstanding that such investors may not pay the Management Fee, all investors will pay for their pro rata share of certain Partnership Expenses or the pro rata portion of such investor’s expenses will be allocated to the Investment Manager or the General Partner.

The fee structures described herein may be modified from time to time in accordance with the terms of the Partnership Agreement and the Investment Management Agreement. Upon termination of the Investment Management Agreement, the Management Fee that has been prepaid is generally returned on a prorated basis.

Expenses

Investment Manager Expenses

To the extent provided in the Investment Management Agreement, the Investment Manager will pay out of the Management Fee all overhead expenses of an ordinarily recurring nature such as rent, utilities, supplies, secretarial expenses, stationery, charges for furniture, fixtures and equipment, employee benefits including insurance, payroll taxes and compensation of all

personnel of the Investment Manager and other routine administrative expenses relating to the advisory services and facilities provided by the Investment Manager to the Partnership.

Partnership Expenses

Pursuant to the Partnership Agreement, the Partnership will bear out of the capital or income of the Partnership, or partly out of capital and partly out of income, as the General Partner deems fair, all expenses, fees, charges, taxes and liabilities incurred or arising in connection with the conduct of the affairs of the Partnership, or in connection with the management thereof (the “Partnership Expenses”) including but not limited to the following: (i) the payment of the Management Fee; (ii) all fees and expenses (including indemnities) of the custodian, the Partnership’s accountant (including outsourced accounting), auditors, tax consultants, legal advisors, valuation firms, the Partnership’s prime broker (if any) and any other service provider of the Partnership; (iii) administration fees and other expenses charged by or relating to the services of third-party providers of administration services in accordance with the applicable administration agreements; (iv) excluding any analysis expenses and any expenses to be borne by the Investment Manager pursuant to the Partnership Agreement, third-party and out-of-pocket research expenses and market data expenses (including, without limitation, news, quotation, statistics and pricing services; hardware, software, databases and other technical and telecommunications services and equipment used in the investment management and order management processes; and consulting fees in connection with investigating and monitoring potential and existing investments); (v) third-party and out-of-pocket fees and expenses relating to systems and software used in connection with the operation of the Partnership and investment related activities (including, without limitation, any accounting and administrator-like functions that the Investment Manager performs in-house); (vi) expenses relating to the purchase, sale, transmittal, maintenance and administration of the Partnership’s investments and other investment-related expenses, including but not limited to: (A) research and due diligence costs in respect of consummated and unconsummated transactions, broker commissions, interest on margin accounts and other indebtedness, custodial fees and bank service fees, and (B) expenses incurred by or on behalf of the General Partner relating to (i) any review, waiver or amendment of documents by outside counsel related to investments by the Partnership, (ii) employing outside lawyers or consultants in connection with the making, purchasing or restructuring of any investments, (iii) out-of-pocket expenses of the General Partner and its agents, including the reasonable expenses of exercising observation rights (including through a representative), and (iv) all other extraordinary expenses of the General Partner pursuant to the Partnership Agreement; (vii) management, development, profit-sharing or other fees or expenses (including, in certain instances, an operating partner’s operational and overhead expenses) charged by sub-advisors, operating partners or third parties who manage or source certain private investments (including joint ventures, investment companies, partnerships and other pooled investment vehicles); (viii) interest and fees (including, without limitation, commitment, structuring, and underwriting fees) on margin loans, committed loan facilities, total return swaps and other indebtedness; (ix) fees and expenses in connection with any advisory board or committee of the Partnership or the Investment Manager; (x) entity-level taxes (provided that any taxes, interest, penalties or additions to tax and related amounts reimbursed or described in the Partnership Agreement that are attributable to one or more (but less than all) Limited Partners as a result of their status as a Partner may be paid by or on behalf of the Partnership but shall not be treated as Partnership Expenses); (xi) costs and expenses incurred in connection with the

dissolution, winding up, liquidation or termination of the Partnership; (xii) costs and expenses incurred in connection with any meeting of the Partners relating to the Partnership; (xiii) any insurance premiums and other insurance-related expenses for any insurance that the General Partner may cause the Partnership to purchase to insure the Partnership, General Partner, Investment Manager, any other Indemnified Party (as defined below) or any person indemnified by the Partnership against liability in connection with the activities of the Partnership; provided, that, in the event the General Partner seeks primary coverage for acts or omissions for which Indemnified Parties are not entitled to indemnification in accordance with the Partnership Agreement, the Partnership shall not bear the cost of any such coverage; (xiv) any reimbursement of the General Partner or the Investment Manager for the full amount of any Partnership Expenses incurred or advanced by the General Partner or Investment Manager, as applicable, hereunder on behalf of the Partnership, and the General Partner's or Investment Manager's estimate of the Partnership's pro rata share of any Partnership Expenses incurred or advanced by the General Partner or Investment Manager on behalf of the Partnership and other clients of the Investment Manager; (xv) any reasonable issuance expenses, including legal, tax, accounting, filing and other organizational expenses incurred in connection with the formation of the Partnership and related entities, as well as fees and expenses relating to the offer and sale of Interests (including, without limitation, organizational fees and expenses), which may, in the General Partner's sole discretion, be amortized over a sixty (60) month period; and (xvi) all other expenses associated with the operations of the Partnership and its investment activities as the General Partner or the Investment Manager may deem necessary or advisable to incur.

Expenses that would otherwise be payable by the Partnership may be reduced through the use of "soft" or commission dollars, as discussed in Item 12 below.

Allocation of Expenses

In exercising its discretion to allocate fees and expenses, the Investment Manager is faced with a variety of potential conflicts of interest. With respect to allocating expenses, including to the extent not addressed in the Organizational Documents of the Partnership, the Investment Manager will make any such allocation determination in a fair and reasonable manner using its good faith judgment, notwithstanding its interest (if any) in the allocation. The Investment Manager will make any corrective allocations and take any mitigating steps if it determines such corrections are necessary or advisable.

The Investment Manager may, from time to time, enter into arrangements with third-party advisers and consultants who provide services relating to deal-sourcing and investment opportunities. Any fees and expenses associated with such investment opportunities will be allocated consistent with the allocation process described above and, accordingly, may be allocated to the Partnership.

Brokerage Fees

When a broker is used in connection with an investment by the Partnership, the Partnership will incur brokerage and other transaction costs. For additional information regarding brokerage practices, please see Item 12 below.

Item 6. Performance-Based Fees and Side-By-Side Management

With respect to the Partnership, a portion of its profits are allocated to the capital account of the General Partner as a performance allocation (the “Performance Allocation”). The General Partner is a related person of the Investment Manager.

Item 7. Types of Clients

The Investment Manager currently provides investment supervisory services to the Partnership. Investment advice is provided directly to the Partnership and not individually to investors in the Partnership.

Interests in the Partnership are offered pursuant to applicable exemptions from registration under the Securities Act and the 1940 Act. Investors in the Partnership are generally “qualified purchasers” as defined in the 1940 Act, and may include, among others, high net worth individuals, banks, thrift institutions, pension and profit sharing plans, trusts, estates, charitable organizations, university endowments, corporations, not-for-profit organizations, limited partnerships and limited liability companies or other entities.

The Investment Manager does not have a minimum size for the Partnership, but minimum investment commitments may be established for investors in the Partnership.

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

Methods of Analysis and Investment Strategies

Investment Strategy

The strategy of the Partnership is to invest in securities that can be purchased at a significant discount to underlying economic value. The Partnership seeks to do so by combining investment expertise and the ability to be flexible across a variety of different asset classes, industries and geographies with fundamental analysis, thoughtful consideration of risk, intellectual honesty and a disciplined investment approach. Portfolio construction is determined with the long-term preservation of the Partnership’s capital as a paramount objective. In considering the composition of the overall portfolio, the Investment Manager will seek to identify investment opportunities that offer appropriate expected risk/return characteristics. There may be times when the Investment Manager ascertains that the best investment strategy is to be patient and hold cash.

Portfolio Construction

The Partnership has a broad investment mandate that contemplates investing in a range of financial instruments, asset classes and geographic regions, including those with respect to which the Investment Manager may have limited experience. An investment in the Partnership entails various risks, including the speculative nature of the Partnership’s activities; the illiquidity of interests in the Partnership; the illiquidity of certain investments the Partnership may make; the risk that the securities markets may continue indefinitely to undervalue the Partnership’s investments or that the investments may fail to appreciate as anticipated by the Investment Manager; and the fact that

the Partnership may invest in, subscribe for, purchase or otherwise acquire, and/or sell (including short sales) or otherwise dispose of securities and assets of all types, including, without limitation, stock (including preferred and convertible stock as well as common stock of any type), warrants, options, swaps, trade claims, bank debt (including undrawn revolving), bonds, other debt instruments including self-originated loans, currency, futures, derivatives, commodities, contract rights of any kind, royalty interests, non-U.S. securities and other assets (including in emerging and frontier markets), structured investment vehicles, secured and unsecured instruments, asset-backed securities, commercial and residential mortgage-backed securities, real estate and related instruments, other complex financial instruments and rights and distressed assets. The securities in which the Partnership invests include securities which are listed or traded on domestic or non-U.S. exchanges or other trading networks (including over the counter markets), as well as securities that are unlisted and trade infrequently or not at all. Short positions are not expected to constitute a major part of the Partnership's investment activities.

At times a significant amount of the Partnership's investments may be in securities or other assets that are not freely tradeable or are otherwise illiquid. Such investments include interests in private equity investments, real estate, leveraged buyout vehicles and joint ventures, which are typically organized as limited partnerships or limited liability companies, and are managed by third party asset managers that specialize in the particular class of assets under management. The Partnership may also make investments in private investment in public equity ("PIPEs"), which are generally not registered with the SEC until after a certain time period from the date the private sale is completed, Rule 144 securities and other direct assets such as car loans, consumer loans, commodities and non-performing loans.

The Partnership may utilize leverage from time to time but investment results will generally not be dependent on significant borrowed funds. The Partnership will typically obtain leverage in its accounts with its prime broker(s) and through derivatives contracts. The Partnership may also obtain leverage through other means, including, without limitation, other forms of direct and indirect borrowings and other instruments and transactions that are inherently leveraged. Any such borrowing or other leverage may be incurred directly by the Partnership or through other subsidiaries or special purpose vehicles, structured products, or otherwise. The amount of leverage employed at any time will vary (and may vary significantly) at the Investment Manager's discretion as a function of the risk characteristics of the portfolio, investment opportunities, borrowing rates, and other factors determined by the Investment Manager in its sole discretion. The Partnership may borrow or otherwise obtain leverage from such parties as selected by the Investment Manager in its sole discretion. Currently, all of the Partnership's leverage is expected to be provided by its prime broker(s) and affiliates of its prime broker(s).

The Partnership may generally hold cash, cash equivalents, U.S. treasuries or other short-term securities, or money market funds to attempt to minimize counterparty credit exposure and for such other reasons as determined by the Investment Manager in its sole discretion.

In making investment decisions, the Partnership will rely on the advice of the Investment Manager (or its affiliates, as the case may be) rather than any specific objective criteria. There is no guarantee that the Partnership will achieve its investment objective. Prospective investors should be prepared to suffer a significant or even total loss on their invested capital. An investment in the

Partnership involves a high degree of risk, including the risks associated with price volatility and the potential for principal loss. The Partnership could realize substantial losses, rather than gains, from some or all of the positions or strategies described herein. Prospective investors must bear the economic risk of an investment in the Partnership for an indefinite period of time. The ability of investors to withdraw Interests is limited.

Risks

Equity Risk. The market price of securities owned by the Partnership may go up or down, sometimes rapidly or unpredictably. A risk of investing in the Partnership is that the equity securities in the Partnership's portfolio will decline in value due to factors affecting equity securities markets generally or particular industries represented in those markets. The values of equity securities may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Other risks of investing globally in equity securities may include changes in currency exchange rates, exchange control regulations, expropriation of assets or nationalization, imposition of withholding or other taxes, and difficulty in obtaining and enforcing judgments against non-U.S. entities.

Investment in Illiquid Securities. The Partnership may invest part of its assets in restricted investments, subject to the limitations described in the Organizational Documents. The Partnership may also invest in other assets and derivatives which it may not be able to readily sell or dispose of, including securities whose disposition is restricted by securities laws. A withdrawing Limited Partner with an interest in a restricted investment will not receive any amount with respect to such interest until the related restricted investment is realized or deemed realized.

The effect of liquidity risk is particularly pronounced when low trading volume, lack of a market maker, large size of position or legal restrictions (including daily price fluctuation limits or "circuit breakers," or an affiliation with the issuer of a security) limit or prevent the Partnership's ability to initiate a transaction, sell assets or unwind derivative positions at desirable prices. (See "*Risks of Derivative Instruments*" below.) The Partnership is also exposed to liquidity risk when it has an obligation to purchase particular securities (for example, as a result of entering into reverse repurchase agreements, writing a put, or closing out a short position).

Restricted securities cannot be sold without being registered under the Securities Act, unless they are sold pursuant to an exemption from registration (such as Rules 144 or 144A). Securities that are not readily marketable are subject to other legal or contractual restrictions on resale. The Partnership may have to bear the expense of registering restricted securities for resale and the risk of substantial delay in effecting registration. If adverse market conditions were to develop during such period, the Partnership might obtain a less favorable price than that which prevailed when it decided to sell. The Partnership may be unable to sell restricted and other illiquid securities at the most opportune times or at prices approximating the value at which they purchased such securities. If it sells its securities in a registered offering, the Partnership may be deemed to be an "underwriter" for purposes of Section 11 of the Securities Act. In such event, the Partnership may

be liable to purchasers of the securities under Section 11 if the registration statement prepared by the issuer, or the prospectus forming a part of it, is materially inaccurate or misleading, although the Partnership may have a due diligence defense.

These limitations on liquidity of the Partnership's investments could prevent a successful sale thereof, result in delay of any sale, or reduce the amount of proceeds that might otherwise be realized. In addition, the Partnership's holdings in securities for which the relevant market is or becomes less liquid are more susceptible to market value declines. Less liquid securities also may fall more in price than other securities during periods when markets decline generally. Also, because illiquid securities may be difficult to value, the values realized on their sale may differ from the values at which they are carried by the Partnership. Further, the more less-liquid securities the Partnership holds, the more likely it is to honor a withdrawal request in kind.

A portion of the Partnership's investments may consist of securities that are subject to restrictions on resale by the Partnership because they were acquired in a "private placement" transaction or because the Partnership is deemed to be an affiliate of the issuer of such securities. Generally, the Partnership will be able to sell such securities only under Rule 144 under the Securities Act, which permits limited sales under specified conditions, or pursuant to a registration statement under the Securities Act. When restricted securities are sold to the public, the Partnership may be deemed to be an underwriter or possibly a controlling person, with respect thereto for the purposes of the Securities Act and be subject to liability as such under the Securities Act.

In addition to the risks that exist with respect to privately-placed securities, bank loans and other instruments due to the nature of such securities (e.g., risks associated with common stock), privately-placed securities, bank loans and other instruments are often illiquid. Illiquid investments include most investments the disposition of which is subject to substantial legal or contractual restrictions and are generally viewed as investments that cannot be disposed of within seven business days at approximately the amount which the Investment Manager has valued the investments. The Investment Manager may experience significant delays in disposing of illiquid investments and may not be able to sell them for the price the Partnership paid or the price at which the Investment Manager has valued them. Transactions in illiquid investments may entail registration expenses and other transaction costs that are higher than those for transactions in liquid investments.

The Partnership may also, from time to time, possess material, non-public information about a borrower or issuer or the Partnership may be an affiliate of a borrower or an issuer. Such information or affiliation may limit the ability of the Partnership to buy and sell investments.

Corporate Debt. Corporate debt securities are subject to the risk of the issuer's inability to meet principal and interest payments on the obligation and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity. When interest rates rise, the value of corporate debt securities can be expected to decline. Debt securities with longer maturities tend to be more sensitive to interest rate movements than those with shorter maturities.

Fixed-Income Securities. The Partnership may invest in bonds or other fixed-income securities, including, without limitation, commercial paper and "higher yielding" (and, therefore, higher risk)

debt securities. Such securities may be below “investment grade” and may face ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to the issuer’s inability to make timely interest and principal payments. The market values of certain of these lower rated debt securities tend to reflect individual corporate developments to a greater extent than do higher rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher rated securities. Companies that issue lower rated debt securities often are highly leveraged and may not have access to more traditional methods of financing. Trading in such securities may be limited or disrupted by an economic recession, resulting in an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could affect adversely the ability of the issuers of such securities to repay principal and pay interest thereon and, therefore, increase the incidence of default for such securities.

Bank Loans. Risks associated with bank loans include (i) the fact that prepayments may occur at any time without premium or penalty and that the exercise of prepayment rights during periods of declining spreads could cause the Partnership to reinvest prepayment proceeds in lower-yielding investments; (ii) the borrower’s inability to meet principal and interest payments on its obligations (*i.e.*, credit risk); and (iii) price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the borrower and general market liquidity (*i.e.*, market risk). If bank loans become nonperforming, the loans may require substantial workout negotiations or restructuring that may result in, among other things, a substantial reduction in the interest rate and/or a substantial write-down of the principal of the loan. In addition to the risks noted above, due to required third-party consents or other reasons, certain loans may not be purchased or sold as easily or as quickly as publicly traded securities. Moreover, historically, the trading volume in the loan market has not been as liquid as the market for public securities. The Partnership may acquire interests in loans either directly (by way of assignment (“Assignment”)) or indirectly (by way of participation (“Participation”)) or through the acquisition of synthetic securities, structured finance securities or interests in lease agreements that have the general characteristics of loans and are treated as loans for withholding tax purposes. The purchaser, in an Assignment of a loan obligation, typically succeeds to all the rights and obligations of the selling institution (the “Selling Institution”) and becomes a lender under the loan or credit agreement with respect to the debt obligation. In contrast, Participations acquired by the Partnership in a portion of a debt obligation held by a Selling Institution typically result in a contractual relationship only with such Selling Institution, not with the obligor. The Partnership would have the right to receive payments of principal, interest and any fees to which it is entitled under the Participation only from the Selling Institution and only upon receipt by the Selling Institution of such payments from the obligor. In purchasing a Participation, the Partnership generally will have no right to enforce compliance by the obligor with the terms of the loan or credit agreement or other instrument evidencing such debt obligation, nor any rights of setoff against the obligor, and the Partnership may not directly benefit from the collateral supporting the debt obligation in which it has purchased the Participation. As a result, the Partnership would assume the credit risk of both the obligor and the Selling Institution. In the event of the insolvency of the Selling Institution, the Partnership may be treated as a general creditor of the Selling Institution in respect of the Participation and may not benefit from any setoff between the Selling Institution and the obligor. Purchasers of loans are predominately commercial banks, investment funds and investment banks. As secondary market trading volumes increase, new loans frequently contain standardized documentation to facilitate loan trading that may

improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue. Because holders of such loans may be provided confidential information relating to the borrower, the unique and customized nature of the loan agreement and the private syndication of the loan, loans are not purchased or sold as easily as publicly traded securities are purchased or sold. In addition, historically the trading volume in the loan market has been small relative to the market for high yield debt securities.

High Yield Securities. The Partnership may make investments in “high yield” debt and preferred securities which are rated lower than investment grade by the various credit rating agencies (or in comparable non-rated securities). Securities that are rated lower than investment grade are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominantly speculative with respect to the issuer’s capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration of general economic conditions. Because investors generally perceive that there are greater risks associated with lower-rated securities, the yields and prices of such securities may tend to fluctuate more than those for higher-rated securities. The market for lower-rated securities is thinner and less active than that for higher-rated securities, which can adversely affect the prices at which these securities can be sold. In addition, adverse publicity and investor perceptions about lower-rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such lower-rated securities. Securities that are rated BB+ or lower by Standard & Poor’s Ratings Group (“S&P”) or Bal or lower by Moody’s Investors Service (“Moody’s”) are often referred to in the financial press as “junk bonds” and may include securities of issuers in default. “Junk bonds” are considered by the rating agencies to be predominately speculative and may involve major risk exposures such as: (i) vulnerability to economic downturns and changes in interest rates; (ii) sensitivity to adverse economic changes and corporate developments; (iii) redemption or call provisions which may be exercised at inopportune times; and (iv) difficulty in accurately valuing or disposing of such securities.

Convertible Securities. The Partnership may invest in convertible securities, which are debt securities or preferred equity securities that are exchangeable for other debt or equity securities of the issuer at a predetermined price. Convertible securities entitle the holder to receive interest payments paid on corporate debt securities or the dividend preference on preferred equity securities until such time as the convertible security matures or is redeemed or until the holder elects to exercise the conversion privilege. As a result of the conversion feature, convertible securities typically offer lower interest rates than if the securities were not convertible. It is possible that the potential for appreciation on convertible securities may be less than that of a common stock equivalent. Convertible securities may or may not be rated within the four highest categories by S&P and Moody’s and, if not so rated, would not be investment grade. To the extent that convertible securities are rated lower than investment grade or not rated, there would be greater risk as to timely repayment of the principal of, and timely payment of interest or dividends on, those securities. Also, in the absence of adequate anti-dilution provisions in a convertible security, dilution in the value of the Partnership’s holding may occur in the event the underlying stock is subdivided, additional securities are issued, a stock dividend is declared or the issuer enters into another type of corporate transaction which increases its outstanding securities.

Leveraged Companies. The Partnership's investments may include companies whose capital structures have significant leverage. Such investments are inherently more sensitive to declines in revenues and to increases in expenses and interest rates. The leveraged capital structure of such investments will increase the exposure of the portfolio companies to adverse economic factors such as downturns in the economy or deterioration in the condition of the portfolio company or its industry. Additionally, the securities acquired by the Partnership may be the most junior in what will typically be a complex capital structure, and thus subject to the greatest risk of loss.

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

Loan Origination. The Partnership may engage in loan origination activities. Such activities may subject the Partnership, the General Partner or their affiliates to regulatory requirements under the laws of certain jurisdictions. If the Partnership originates loans with the intention of issuing participations to others with respect to the Partnership's exposure to such loans, and if the Partnership is unable to successfully close transactions for such participations, the Partnership will be forced to hold its excess interest in such loans for an indeterminate period of time.

Distressed Investments. The Partnership may invest in the securities and obligations of distressed and bankrupt issuers, including debt obligations that are in covenant or payment default. Such investments generally are considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid, if at all, only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments and the amount of any recovery may be affected by the relative security of the Partnership's investment in the capital structure of the issuer. In certain periods, there may be little or no liquidity in the markets for these securities or instruments. In addition, the prices of such securities or instruments may be subject to periods of abrupt and erratic market movements and above-average price volatility. It may be more difficult to value such securities and the spread between the bid and asked prices of such securities may be greater than normally expected. If the Investment Manager's evaluation of the risks and anticipated outcome of an investment in a distressed security should prove incorrect, the Partnership may lose a substantial portion or all of its investment or it may be required to accept cash and/or securities with a value less than the Partnership's original investment. In addition, distressed investments may be challenged as fraudulent conveyances and amounts paid on the investment may be subject to avoidance as a preference under certain circumstances.

Real Estate Risks. As the Partnership may invest in real-estate related investments (including so-called "real estate investments trusts" or "REITs"), the net asset value of the Partnership's portfolio

can be expected to change in light of factors affecting the real estate industry, including the supply of real property in certain markets, overbuilding, changes in zoning laws, casualty or condemnation losses, delays in completion of construction, changes in operating costs and property taxes, levels of occupancy, adequacy of rent to cover operating expenses, possible environmental liabilities, regulatory limitations on rent, fluctuations in rental income, increased competition and other risks related to local and regional economic conditions.

The market value of real-estate related investments also may be affected by changes in interest rates, macroeconomic developments, and social and economic trends. For instance, during periods of declining interest rates, some mortgage REITs may hold mortgages that the mortgagors elect to prepay, which prepayment may reduce the yield on securities issued by those REITs. Some REITs have relatively small market capitalizations, which can tend to increase the volatility of the market price of their securities.

Equity REITs may be affected by any changes in the value of the underlying property owned by the trusts, while mortgage REITs may be affected by the quality of any credit extended. REITs are also subject to the risk of fluctuations in income from underlying real estate assets, poor performance by the REIT's manager and the Investment Manager's inability to effectively manage cash flows generated by the REIT's assets, prepayments and defaults by borrowers, self-liquidation, adverse changes in the tax laws, and, with respect to U.S. REITs, their failure to qualify for the special tax treatment granted to REITs under the U.S. Internal Revenue Code of 1986, as amended (the "Code") or to maintain their exemption from investment company status under the 1940 Act. If a REIT were not to be eligible for the favorable tax treatment afforded to REITs under the Code, it would be subject to federal income tax, thus reducing its value.

By investing in REITs indirectly through the Partnership, investors will bear not only their proportionate share of the expenses of the Partnership, but also, indirectly, similar expenses of REITs. In addition, REITs depend generally on their ability to generate cash flow to make distributions to investors. Investments in REITs are subject to risks associated with the direct ownership of real estate.

The Partnership may also engage operating partners to manage day-to-day operations of certain real estate interests and other interests. These operations are expected to be performed by the operating partner's personnel, not by personnel of the Investment Manager or any of its affiliates and the Investment Manager does not expect to exercise day-to-day control over or management of the operating partners. In addition, operating partners may identify potential investment opportunities to the Investment Manager.

While operating partners may co-invest in and receive a share of the profits from the assets they manage, there is a risk that their interests may not be directly aligned with those of the Partnership and their decisions, actions or omissions may adversely affect the Partnership. Because operating partners may manage assets held by the Partnership and assets not held by the Partnership, operating partners may face conflicts of interest between choices that may favor one investment over another, as well as decisions regarding devotion of time and resources. When the Partnership invests in joint ventures, including those with operating partners, or pooled investment vehicles, the Limited Partners bear the cost of management and performance fees to third parties in addition to the fees of the Investment Manager and its affiliates. The Partnership also may provide loans,

which may be non-recourse to the borrower, to third-party asset managers to fund capital commitments related to these investments and to operating partners to fund operating expenses.

Asset-Backed Securities. The Partnership may take long and/or short positions in asset-backed securities (“ABS”) (including mortgage-backed securities (“MBS”)) which can be highly volatile and illiquid. Asset-backed securities are bonds or notes backed by loans or other financial assets which are subject to delinquency, foreclosure and loss, which could result in losses to the Partnership. The ability of a borrower to repay a loan underlying an asset-backed security is dependent upon the income or assets of the borrower. A number of factors, including a general economic downturn, acts of God, terrorism, social unrest and civil disturbances, may impair borrowers’ abilities to repay their loans. Additional risks associated with asset-backed securities include:

ABS are comprised of underlying assets such as home equity loans, auto loans, credit card receivables and student loans, and unlike MBS, ABS generally do not have the benefit of a security interest in such collateral. ABS are bonds backed by pools of loans and other receivables, and are issued through special purpose vehicles that are bankruptcy remote from the issuer of the collateral. The credit quality of an ABS transaction depends on the performance of the underlying assets. To protect ABS investors from the possibility that some borrowers could miss payments or even default of their loans, ABS often include various forms of credit enhancement.

The value of some ABS is subject to interest-rate risk and prepayment risk. A change in interest rates can affect the pace of payments on the underlying loans, which in turn, affects total return on the securities. ABS also carry credit or default risk. If many borrowers on the underlying loans default, losses could exceed the credit enhancement level and result in losses to investors in an ABS transaction. Additionally, ABS have structure risk due to a unique characteristic known as early amortization, or early payout, risk. Built into the structure of most ABS are triggers for early payout, designed to protect investors from losses. These triggers are unique to each transaction and can include: a big rise in defaults on the underlying loans, a sharp drop in the credit enhancement level, or even the bankruptcy of the originator. Once early amortization begins, all incoming loan payments are used to pay investors as quickly as possible.

Because some of the Partnership’s investments may have returns which are based on or relate to the performance of ABS, these other investments will be subject to many of the same risks as ABS, although possibly to different degrees.

- **Subordinated tranches.** The Partnership may make investments in subordinated asset-backed securities which could subject the Partnership to increased risk of losses. In general, losses on an asset securing a loan included in a securitization will be borne first by the equity holder of the asset, then by a cash reserve fund or letter of credit provided by the borrower, if any, and then by the “first loss” subordinated security holder. In the event of default and the exhaustion of any equity support, reserve fund, letter of credit and any classes of securities junior to those in which the Partnership invests, the Partnership may not be able to recover all of the investment in the securities it purchases. In addition, if the underlying portfolio of assets has been overvalued by the originator, or if the values subsequently decline and, as a result, less collateral is available to satisfy interest and principal payments due on the related asset-backed securities, the securities in which the

Partnership invests may effectively become the “first loss” position behind the more senior securities, which may result in significant losses to the Partnership.

- **Non-performing loans.** The Partnership may make investments in securities backed by loans which may be at the time of their acquisition, or may become after acquisition, non-performing loans. In the event of any default under a loan underlying a security held by the Partnership, there exists a risk of loss with respect to any deficiency between the value of the collateral and the principal and accrued interest of the loan, which could have a material adverse effect on the security. Other non-performing loans may require workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate and/or a substantial write-down of the original principal amount of such loans. Further, even if a restructuring were successfully accomplished, a risk exists that upon maturity of such loans, replacement financing will not be available and such loans may not be repaid. In the event of the bankruptcy of a borrower, the loan to that borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), the lien securing the loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law, and realizing any value under such circumstances can be an expensive and lengthy process that could have a substantial negative effect on the anticipated return on the loan and on the security backed by such loan.
- **Illiquid markets.** The Partnership may invest in asset-backed securities that are traded in private, unregistered transactions that are subject to restrictions on resale or otherwise have no established trading market. As a result, the Partnership’s ability to vary its portfolio in response to changes in economic and other conditions may be relatively limited. Such securities may also be subject to other legal restrictions on resale, transfer, pledge or other disposition which will make them infrequently traded and less liquid than publicly traded securities. This may make it difficult for the Partnership to liquidate such investments if the need arises. In addition, if the Partnership must liquidate all or a portion of its investments quickly, it may realize significantly less than the value at which it has previously recorded the investments.

Mortgage-Backed Securities. The Partnership may take long and/or short positions in MBS (*i.e.*, asset-backed securities backed by residential or commercial mortgage loans). The yield and payment characteristics of MBS differ from traditional debt securities. Interest and principal prepayments are made more frequently, usually monthly, over the life of the mortgage loans and principal generally may be prepaid at any time because the underlying mortgage loans generally may be prepaid at any time. Faster or slower prepayments than expected on underlying mortgage loans can dramatically alter the yield to maturity of a mortgage-backed security, and early repayment of principal on some mortgage-related securities may expose a distressed mortgage fund to a lower rate of return upon reinvestment of principal.

The value of most MBS, like traditional debt securities, tends to vary inversely with changes in interest rates. When interest rates rise, the value of MBS generally will decline; however, when interest rates decline, the value of MBS with prepayment features may not increase as much as other fixed income securities because prepayment of mortgages tends to accelerate during periods

of declining interest rates. The rate of prepayments on underlying mortgages will affect the price and volatility of MBS, and may shorten or extend the effective maturity of the security beyond what was anticipated at the time of purchase. If unanticipated rates of prepayment on underlying mortgages increase the effective maturity of an MBS, the volatility of the security can be expected to increase. The value of such securities may fluctuate in response to the market's perception of the creditworthiness of the issuers. Further, prepayments shorten the time over which the Partnership receives income at the higher rate. When mortgage loans underlying mortgage-backed securities held by the Partnership are prepaid, the Partnership then reinvests the prepaid amounts in other income securities, the yields of which will reflect interest rates prevailing at the time. Therefore, the Partnership's ability to hold higher-yielding MBS will be adversely affected by decreasing interest rates, and to the extent that prepayments occur, the Partnership may be forced to reinvest in securities that have lower yields. Alternatively, during periods of rising interest rates, MBS securities are often more susceptible to extension risk than traditional debt securities (*i.e.*, rising interest rates could cause property owners to prepay their mortgages more slowly than expected when the security was purchased by the Partnership, which may further reduce the market value of such security and lengthen the duration of the security).

The value of MBS may be substantially dependent on the servicing of the underlying asset pools, and are therefore subject to risks associated with the negligence by, or defalcation of, their servicers. In certain circumstances, the mishandling of related documentation may also affect the rights of security holders in and to the underlying collateral. The insolvency of entities that generate receivables or that utilize the assets may result in added costs and delays in addition to losses associated with a decline in the value of underlying assets.

Because many of the Partnership's investments (*e.g.*, collateralized debt obligations and collateralized mortgage obligations) will have returns which are based on or relate to the performance of MBS, these other investments will be subject to many of the same risks as MBS, although possibly to different degrees.

Recent developments in the market for many types of mortgage products (including MBS) have resulted in substantially reduced liquidity for these assets. Although this reduction in liquidity has been most acute with regard to sub-prime assets, there has been an overall reduction in liquidity across the credit spectrum of mortgage products. Dislocations in the sub-prime mortgage sector, and weakness in the broader financial market, could adversely affect the Partnership and one or more lenders, which could result in increases in borrowing costs, reductions in liquidity and reductions in the value of the investments. Adverse financial conditions could affect one or more of the counterparties providing repurchase agreement funding for a mortgage-backed securities portfolio and could cause those to be unwilling or unable to provide financing. This could potentially limit the Partnership's ability to finance its investments and operations, increase financing costs and reduce liquidity. This risk is exacerbated if a substantial portion of the Partnership's repurchase agreement financing is provided by a relatively small number of counterparties. If one or more major market participants fails or withdraws from the market, it could negatively impact the marketability of all fixed income securities, including government mortgage securities, and this could reduce the value of the securities in the Partnership's portfolio, thus reducing the net book value. Furthermore, if one or more counterparties are unwilling or unable to provide ongoing financing, the Partnership could be forced to sell its investments at a time when prices are depressed.

Investment in Non-U.S. Securities. The Partnership may invest in non-U.S. issuers or securities traded outside the United States. Such investments may be subject to a greater risk than U.S. investments due to non-U.S. economic, political and legal developments, including favorable or unfavorable changes in currency exchange rates, exchange control regulations (including currency blockage), expropriation of assets or nationalization, imposition of taxes on dividends, interest payments, capital gains, or other income, the need for approval by government or other authorities to make investments, and possible difficulty in obtaining and enforcing judgments against non-U.S. entities and other factors beyond the control of the Investment Manager. Furthermore, issuers of non-U.S. securities are subject to different, often less comprehensive, accounting, reporting or disclosure requirements than U.S. issuers. The securities markets of some countries in which the Partnership may invest have substantially less volume than those in the United States, and securities of certain companies in these countries are less liquid and more volatile than securities of comparable U.S. companies. Accordingly, these markets may be subject to greater influence by adverse events generally affecting the market, and by large investors trading significant blocks of securities, than is usual in the United States. Brokerage commissions and other transaction costs on securities exchanges in non-U.S. countries are generally higher than in the United States. Non-U.S. securities settlements may in some instances be subject to delays and related administrative uncertainties. In some countries there are restrictions on investments or investors such that the only practicable way for the Partnership to invest in such markets is by entering into swaps or other derivative transactions with its prime brokers or others. Such transactions involve counterparty risks which are not present in the case of direct investments and which may not be controllable by the Investment Manager.

Investments in Emerging and Frontier Markets. The Partnership may invest in emerging and frontier markets in Asia, Latin America, Eastern Europe and Africa. Investments in emerging and frontier markets involve a greater degree of risk than investing in developed countries. Among other things, emerging and frontier market investments may be subject to the following risks: less publicly available information; more volatile markets and unstable market conditions, changes in interest rates, availability of credit and inflation rates; less liquidity or available credit; uncertainty in enforceability of documents; changes in local laws and regulations (including nationalization of industries); political or economic instability (including wars, terrorist acts or security operations); the relatively small size of the securities markets in such countries and the low volume of trading and less strict securities market regulation; less favorable tax or legal provisions; price controls and other restrictive governmental actions; changes in or non-approval of tariffs or other fees or rates charged, potential severe inflation or other serious adverse economic developments; unstable currency; expropriation of property; confiscatory taxation; imposition of withholding and other taxes on income or gross sales proceeds or dispositions; fluctuations in the rate of exchange between currencies, non-convertibility of currencies which can result in the inability to repatriate funds, costs associated with currency conversion; and certain government policies that may restrict the Partnership's investment opportunities. The foregoing may result in lack of liquidity and in price volatility.

The economies of emerging and frontier markets may differ favorably or unfavorably from the economy of developed countries in such respects as growth of gross domestic product, rate of inflation, currency depreciation, asset reinvestment, resource self-sufficiency and balance of payments position. In addition, emerging and frontier market countries may have a greater risk of default on external debt when their economies experience a downturn. These risks of sovereign

default could adversely affect the value of the Partnership's portfolio. Further, emerging and frontier markets are generally heavily dependent upon international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. The economies of certain emerging and frontier markets may be based predominantly on only a few industries and may be vulnerable to changes in trade conditions and may have higher levels of debt or inflation.

Companies in emerging and frontier countries are generally subject to less stringent and less uniform accounting, auditing and financial reporting standards, practices and disclosure requirements than those applicable to companies in developed countries. In particular, valuation of assets, depreciation, exchange differences, deferred taxation, contingent liabilities and consolidation may be treated differently from accounting standards in more developed countries. Consequently, there is less publicly available information about an emerging or frontier country company than about a company in a developed market.

Certain issuers located in emerging and frontier markets, such as banks and other financial institutions, may be subject to less stringent regulations than would be the case for issuers in developed countries and, therefore, investments in these entities potentially carry greater risk. In addition, the Partnership's investment opportunities in certain emerging and frontier markets may be restricted by legal limits on foreign investment in local securities or restrictions on the ability to convert currency or to take currencies out of certain countries.

In emerging and frontier markets, there is often less governmental supervision and regulation of business and industry practices, stock exchanges, over-the-counter markets, brokers, dealers, counterparties and issuers than in other more established markets. Any regulatory supervision which is in place may be subject to manipulation or control. Some emerging and frontier market countries do not have mature legal systems comparable to those of more developed countries. Moreover, the process of legal and regulatory reform may not be proceeding at the same pace as market developments, which could result in investment risk. Legislation to safeguard the rights of private ownership may not yet be in place in certain areas, and there may be the risk of conflict among local, regional and national requirements. In certain cases, the laws and regulations governing investments in securities may not exist or may be subject to inconsistent or arbitrary appreciation or interpretation. Both the independence of judicial systems and their immunity from economic, political or nationalistic influences remain largely untested in many countries. The Partnership may also encounter difficulties in pursuing legal remedies or in obtaining and enforcing judgments in non-U.S. courts.

Trade Claims Risks. An investment in trade claims is speculative and carries a high degree of risk. Trade claims are illiquid instruments which generally do not pay interest and there can be no guarantee that the debtor will ever be able to satisfy the obligation on the trade claim. Such claims are typically unsecured and may be subordinated to other unsecured obligations of a debtor, and generally are subject to defenses of the debtor with respect to the underlying transaction giving rise to the trade claim. Although the Investment Manager endeavors to protect against such risks in connection with the evaluation and purchase of claims, trade claims are subject to risks not generally associated with standardized securities and instruments due to the idiosyncratic nature of the claims purchased. These risks include the risk that the debtor may contest the allowance of

the claim due to disputes the debtor has with the original claimant or the inequitable conduct of the original claimant, or due to administrative errors in connection with the transfer of the claim. Recovery on allowed trade claims also may be impaired if the anticipated dividend payable on unsecured claims in the bankruptcy is not realized or if the timing of the bankruptcy distribution is delayed. As a result of the foregoing factors, trade claims are also subject to the risk that if the Partnership does receive payment, it may be in an amount less than what the Partnership paid for or otherwise expects to receive in respect of the claim.

Additionally, there can be restrictions on the purchase, sale, and/or transferability of trade claims during all or part of a bankruptcy proceeding. The markets in trade claims generally are not regulated by U.S. federal securities laws or the SEC. The purchase and sale of trade claims are generally consummated by written contract between the parties and contain customary language regarding the return of a portion of the purchase price in the event that all or a portion of the claim is disallowed or rejected. Because trade claims are unsecured, holders of trade claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding.

Because they are not negotiable instruments, trade claims are typically less liquid than negotiable instruments. Given these factors, trade claims often trade at a discount to other *pari passu* instruments.

Risks of Reorganization Transactions. The Partnership may invest in the securities of companies involved in mergers, consolidations, liquidations and reorganizations or as to which there exist tender or exchange offers (collectively, “Reorganization Transactions”). The expected gain on a particular investment in a company involved in a Reorganization Transaction may be less than the potential loss if the transaction is unexpectedly aborted. The anticipated consummation of each transaction is also relevant because the period of time that the Partnership’s assets may be invested in securities of a company involved in a Reorganization Transaction will affect the rate of return realized by the Partnership. The Partnership generally will not invest its assets in a Reorganization Transaction unless the Investment Manager determines that the probability of a timely and successful completion of the transaction offsets any risks associated with possible delays in its successful completion. The Investment Manager may invest the Partnership’s assets in negotiated (or “friendly”) reorganizations, or in non-negotiated (or “hostile”) takeover attempts. There can be no assurance that any Reorganization Transaction proposed at the time the Partnership makes an investment will be consummated or will be consummated on the terms and within the timeframe contemplated. To the extent the Partnership participates in Reorganization Transactions, the Partnership may become more actively involved in the affairs of the issuer than may be typical for other investors, which may result in increased legal expenses and/or other costs to the Partnership.

Pooled Investment Vehicles and Pass-Through Entities. The Partnership may invest or take short positions in pooled investment vehicles and pass-through entities, including affiliated or third-party unregistered investment vehicles, investment companies registered under the 1940 Act, master limited partnerships and real estate investment trusts (“Pooled Investment Vehicles”). These Pooled Investment Vehicles may be subject to fees, including other asset-based or performance-based compensation. In addition, such investments may have limited liquidity and any investment by the Partnership in such vehicles will have the risks inherent in the instruments in which such vehicles invest.

Company Ownership and Special Purpose Entity Risks. The Partnership may hold a controlling interest in companies in which it has invested. The Partnership may be perceived as controlling, participating in the management of or influencing the conduct of such companies due to of its ownership, representation on the board of directors or other governing body and/or contractual rights. As a result, the Partnership's assets could be exposed generally to claims (*e.g.*, arising from environmental, pension or Foreign Corrupt Practices Act exposure) by such company, its other stakeholders, creditors, governmental agencies or other third parties. Such liability may not be limited to any particular asset, such as the investment giving rise to the liability, and may exceed the value of the particular investment giving rise to the liability. In addition, the General Partner may use special-purpose entities in connection with certain transactions. Similar considerations may apply to these special-purpose entities. In addition, the bona fides of such entities may be subject to later challenge based on a number of theories, including veil piercing or substantive consolidation. Accordingly, investors could find their Interests adversely impacted by a liability arising from a particular investment.

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

Control Positions. By purchasing securities of an issuer directly, the Partnership generally does not intend to do so for the purpose of influencing or controlling management of the issuer, but rather generally intends to do so for investment purposes. However, the Partnership may seek to influence or control management. Such actions may include investing in a potential takeover, leveraged buy-out or reorganization or investment in other entities organized in order to purchase securities for the purpose of influencing or controlling management. The Partnership may also seek to influence or control management by, for example, discussing formally or informally with management different operating strategies, proposing shareholder resolutions, engaging in a proxy contest, serving on a board of directors or serving on a creditors' committee established in connection with a company's insolvency. To the extent the success of an investment is based (in whole or in part) on the Partnership's ability to influence or control management, such success will be dependent upon, among other things: (i) the Investment Manager's ability to properly identify issuers that have securities prices that can be improved through corporate and/or strategic action; (ii) the Partnership's ability to acquire securities of such issuers in the requisite quantity and at the appropriate price; (iii) the ability of the Partnership to build its position in accordance with applicable regulations; (iv) the receptiveness of the management of such issuers and other stakeholders to the Investment Manager's proposals; and (v) favorable movements in the market

price of any such issuer's securities in response to any actions taken by such issuer. There can be no assurance that any of the foregoing will occur.

Risks of Master Limited Partnerships. Risks of investments in securities of master limited partnerships ("MLPs") include, risks related to limited control and limited voting rights with respect to matters germane to MLPs, risks related to potential conflicts of interest between an MLP and the general partner of such MLP, including those arising from performance-based compensation payments, cash flow risks, dilution risks and risks related to the general partner's right to require unit-holders to sell their common units at an undesirable time or price. To the extent the Partnership invests in MLPs, such investments may be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly traded securities. In addition, certain tax risks are associated with investments in MLPs.

Investment in Small Companies. There is no limitation on the size or operating experience of the companies in which the Partnership may invest. Some small companies in which the Partnership may invest may lack management depth or the ability to generate internally or obtain externally the funds necessary for growth. Companies with new products or services could sustain significant losses if projected markets do not materialize. Further, such companies may have, or may develop, only a regional market for products or services and may be adversely affected by purely local events. Such companies may be small factors in their industries and may face intense competition from larger companies and entail a greater risk than investment in larger companies.

Leverage. The Investment Manager may utilize leverage in investing the Partnership's assets, including through engaging in trading on margin by borrowing funds and pledging securities as collateral. While such use of borrowed funds increases returns if the Partnership earns a greater return on the incremental investments purchased with borrowed funds than it pays for such funds, the use of leverage decreases returns if the Partnership fails to earn as much on such incremental investments as it pays for such funds. The effect of leverage may therefore result in a greater decrease in the net asset value of the Partnership than if the Partnership were not so leveraged. Any use by the Partnership of short-term margin borrowings will result in certain additional risks to the Partnership. For example, the securities pledged to brokers to secure the Partnership's margin accounts could be subject to a "margin call," pursuant to which the Partnership would be required to either deposit additional funds with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. A sudden, precipitous drop in value of the Partnership's assets accompanied by corresponding margin calls could force the Partnership to liquidate assets quickly, and not for what the Investment Manager perceives to be their fair value, in order to pay off its margin debt. In addition, the Partnership may engage in certain derivative transactions which implicitly contain leverage and subject the Partnership to the same risks discussed above.

Hedging. The Partnership may utilize certain financial instruments (including derivatives) and investment techniques for risk management or hedging purposes. There is no assurance that such risk management and hedging strategies will be successful, as such success will depend on, among other factors, the Investment Manager's ability to predict the future correlation, if any, between the performance of the instruments utilized for hedging purposes and the performance of the investments being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the Partnership's hedging strategies may also be subject to the

Investment Manager's ability to correctly readjust and execute hedges in an efficient and timely manner. There is also a risk that such correlation will change over time rendering the hedge ineffective. It may be more difficult to hedge a position in a smaller cap issuer than a larger-cap issuer. The Partnership's portfolio is not expected to be completely hedged at all times and at various times the Investment Manager may elect to be more fully hedged and at other times hedged only to a limited extent, if at all. Accordingly, the Partnership's assets may not be adequately protected from market volatility and other conditions.

Risks of Derivative Instruments. The Partnership may engage in a variety of derivative transactions. A derivative is a financial contract the market value of which depends upon, or is derived from, the value of underlying assets, reference rates or indices. Derivatives may relate to securities, commodities, currencies, currency exchange rates, interest rates, inflation rates and related indices, and include futures, non-U.S. currency contracts, swap contracts, options on securities and indices, options on futures contracts, options on swap contracts, forward contracts, contracts for differences, interest rate caps, floors and collars, repurchase or reverse repurchase agreements and other over-the-counter contracts. The Partnership may use derivatives for many purposes, including as a substitute for direct investment, as a way to adjust its exposure to various securities, markets and currencies without actually having to sell existing investments and/or make new investments, and as a means to hedge other investments and to manage liquidity and excess cash.

The use of derivatives involves the risk that their value may not change as expected relative to changes in the value of the assets, rates or indices they are designed to track. In addition, all derivative instruments involve risks that are in addition to, and potentially greater than, the risks of investing directly in securities and other more traditional assets, including:

- **Management Risks.** Derivative products are specialized instruments that require investment techniques and risk analyses different from those associated with equities and fixed income securities. The use of a derivative requires an understanding not only of the underlying instrument but also of the derivative itself. In particular, the use and complexity of derivatives require the maintenance of adequate controls to monitor the transactions entered into and the ability to assess the risk that a derivative adds to the Partnership's portfolio.
- **Counterparty Risks.** This is the risk that a loss may be sustained by the Partnership as a result of the failure of the other party to a derivative (usually referred to as a "counterparty") to comply with the terms of the derivative contract. The Partnership may post or receive collateral related to changes in the market value of a derivative. The Partnership also may invest in derivatives that (i) do not require the counterparty to post collateral, (ii) require collateral but that do not provide for the Partnership's security interest in it to be perfected, (iii) require significant upfront deposits unrelated to the derivatives' fundamental fair (or intrinsic) value, or (iv) do not require that collateral be regularly marked-to-market. When a counterparty's obligations are not fully secured by collateral, the Partnership runs a greater risk of not being able to recover what it is owed if the counterparty defaults. Even when derivatives are required by contract to be collateralized, the Partnership typically will not receive the collateral for one or more days after the collateral is required to be posted.

- **Documentation Risks.** Many derivative instruments are also subject to documentation risk, which is the risk that ambiguities, inconsistencies or errors in the documentation relating to a derivative transaction may lead to a dispute with the counterparty or unintended investment results. Because the contract for each over-the-counter derivative transaction is individually negotiated, the counterparty may interpret contractual terms (*e.g.*, the definition of default) differently than the Partnership, and if it does, the Partnership may decide not to pursue its claims against the counterparty to avoid the cost and unpredictability of legal proceedings. The Partnership, therefore, may be unable to obtain payments the Investment Manager believes are owed to the Partnership under derivative instruments or those payments may be delayed or made only after the Partnership has incurred the cost of litigation.
- **Illiquidity Risks.** If a derivative transaction is particularly large or if the relevant market is illiquid (as is the case with many over-the-counter derivatives), it may not be possible to initiate a transaction or liquidate a position at an advantageous price. Less liquid derivative instruments also may fall more in price than other securities during market falls. During periods of market disruptions, the Partnership may have a greater need for cash to provide collateral for large swings in the mark-to-market obligations arising under the derivative instruments used by the Partnership.
- **Leverage Risks.** Because many derivatives have a leverage component (*i.e.*, a notional value in excess of the assets needed to establish or maintain the derivative position), adverse changes in the value or level of the underlying asset, rate or index can result in a loss substantially greater than the amount invested in the derivative itself.
- **Derivatives Regulation.** In addition, the U.S. government has enacted legislation that provides for new regulation of the derivatives market, including clearing, margin, reporting, and registration requirements, which could restrict the Partnership's ability to engage in derivatives transactions or increase the cost or uncertainty involved in such transactions. The European Union (and some other countries) are implementing similar requirements, which will affect the Partnership when it enters into a derivatives transaction with a counterparty organized in that country or otherwise subject to that country's derivatives regulations. Because these requirements are new and evolving (and some of the rules are not yet final), their ultimate impact remains unclear.

Under recently adopted rules and regulations, transactions in some types of swaps (including interest rate swaps and credit default swaps on North American and European indices) are required to be centrally cleared. In a transaction involving those swaps ("cleared derivatives"), the Partnership's counterparty is a clearing house rather than a bank or broker. Since the Partnership is not a member of a clearing house and only members of a clearing house ("clearing members") can participate directly in the clearing house, the Partnership holds cleared derivatives through accounts at a clearing member. In cleared derivatives positions, the Partnership makes payments (including margin payments) to and receives payments from a clearing house through accounts at clearing members. Clearing members guarantee performance of their clients' obligations to the clearing house.

In some ways, cleared derivative arrangements are less favorable to funds than bilateral arrangements, for example, by requiring that funds provide more margin for their cleared derivatives positions. Also, as a general matter, in contrast to a bilateral derivatives position, following a period of notice to the Partnership, a clearing member at any time can require termination of an existing cleared derivatives position or an increase in margin requirements above those required at the outset of a transaction. Clearing houses also have broad rights to increase margin requirements for existing positions or to terminate those positions at any time. Any increase in margin requirements or termination of existing cleared derivatives positions by the clearing member or the clearing house could interfere with the ability of the Partnership to pursue its investment strategy. Further, any increase in margin requirements by a clearing member could expose the Partnership to greater credit risk to its clearing member, because margin for cleared derivatives positions in excess of a clearing house's margin requirements typically is held by the clearing member. Also, the Partnership is subject to risk if it enters into a derivatives transaction that is required to be cleared (or that the Investment Manager expects to be cleared), and no clearing member is willing or able to clear the transaction on the Partnership's behalf. In those cases, the position might have to be terminated, and the Partnership could lose some or all of the benefit of the position, including loss of an increase in the value of the position and loss of hedging protection.

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

The U.S. government and the European Union have adopted mandatory minimum margin requirements for bilateral derivatives. Such requirements could increase the amount of margin the Partnership needs to provide in connection with its derivatives transactions and, therefore, make derivatives transactions more expensive.

These and other new rules and regulations could, among other things, further restrict the Partnership's ability to engage in, or increase the cost to the Partnership of, derivatives transactions, for example, by making some types of derivatives no longer available to the Partnership or otherwise limiting liquidity.

- **Other Risks.** Other risks in using derivatives include the risk of mispricing or incorrect valuation of derivatives. Many derivatives, in particular over-the-counter derivatives, are complex and their valuation often requires modeling and judgment, which increases the risk of mispricing or incorrect valuation. The pricing models used may not produce

valuations that are consistent with the values the Partnership realizes when it closes or sells an over-the-counter derivative. Valuation risk is more pronounced when the Partnership enters into over-the-counter derivatives with specialized terms because the market value of those derivatives in some cases is determined in part by reference to similar derivatives with more standardized terms. Incorrect valuations may result in increased cash payment requirements to counterparties, over- and/or under- collateralization, and/or errors in calculation of the Partnership's net asset value.

The Partnership's use of derivatives may not be effective or have the desired result. Derivatives involve the risk that their value may not change as expected relative to changes in the value of the assets, rates or indices they are designed to track. The risk may be more pronounced when outstanding notional amounts in the market exceed the amounts of the referenced assets. Derivatives are also subject to currency and other risks. Moreover, suitable derivatives may not be available in all circumstances and there can be no assurance that the Partnership will be able to identify or employ a desirable derivatives transaction at any time or from time to time, or that any such transactions will be successful. For example, the economic costs of taking some derivatives positions may be prohibitive. In addition, the Investment Manager may decide not to use derivatives to hedge or otherwise reduce the Partnership's risk exposures, potentially resulting in losses for the Partnership.

Counterparties to derivatives contracts may have the right to terminate such contracts if the Partnership's net asset value declines below a certain level over a specified period of time. The exercise of such a right by the counterparty could have a material adverse effect on the Partnership's operations.

The Partnership's use of derivatives may be subject to special tax rules and could generate additional taxable income for investors. In addition, the tax treatment of the Partnership's use of derivatives may be unclear because there is little case or other law interpreting the terms of most derivatives or determining their tax treatment.

Options. The Partnership may invest in options. Purchasing put and call options, as well as writing such options, are highly specialized activities and entail greater than ordinary investment risks. Although an option buyer's risk is limited to the amount of the original investment for the purchase of the option, an investment in an option may be subject to greater fluctuation than is an investment in the underlying securities. In theory, an uncovered call writer's loss is potentially unlimited, but in practice the loss is limited by the term of existence of the call. The risk for a writer of a put option is that the price of the underlying securities may fall below the exercise price. The ability to trade in or exercise options may be restricted in the event that trading in the underlying securities interest becomes restricted. Unlike exchange-traded options, which are standardized with respect to the underlying instrument, expiration date, contract size, and strike price, the terms of over-the-counter options (options not traded on exchanges) are generally established through negotiation with the other party to the option contract. While this type of arrangement allows the Partnership greater flexibility to tailor an option to its needs, over-the-counter options generally involve greater credit risk than exchange-traded options, which are guaranteed by the clearing organization of the exchanges where they are traded.

Futures and Related Options. The Investment Manager may buy and sell futures contracts and related options on behalf of the Partnership. A futures contract is an agreement between two parties to buy and sell a specific quantity of a commodity (including a securities index or an interest-bearing security) for a set price at a future date. The Partnership may also buy and sell call and put options on futures or on securities indexes in addition to or as an alternative to purchasing or selling futures contracts, or, to the extent permitted by applicable law, to earn additional income. The use of futures and options involves certain special risks. Futures and options transactions involve costs and may result in losses. Certain risks arise because of the possibility of imperfect correlations between movements in the prices of futures and options and movements in the prices of the underlying securities, securities index, currencies or other commodities or of the securities or currencies in the Partnership's portfolio which are the subject of the hedge (to the extent the Partnership uses futures and options for hedging purposes). The successful use of futures and options further depends on the Investment Manager's ability to forecast market or interest rate movements correctly. Other risks arise from the Partnership's potential inability to close out its futures or options positions, and there can be no assurance that a liquid secondary market will exist for any futures contract or option at a particular time. The use of futures and options for purposes other than hedging is regarded as speculative. Certain regulatory requirements may also limit the Partnership's ability to engage in futures and options transactions.

Forward Contracts. A forward contract is a contract to buy or sell an underlying security or currency at a pre-determined price on a specific future date. The initial terms of the contract are set so that the contract has no value at the outset. Forward prices are obtained by taking the spot price of a security or currency and adding to it the cost of carry. No money is transferred upon entering into a forward contract and the trade is delayed until the specified date when the underlying security or currency is exchanged for cash. Subsequently, as the price of the underlying security or currency moves, the value of the contract also changes, generally in the same direction. Forward contracts involve a number of the same characteristics and risks as futures contracts but there also are several differences. Forward contracts are not market traded, and are not necessarily marked to market on a daily basis. They settle only at the pre-determined settlement date. This can result in deviations between forward prices and futures prices, especially in circumstances where interest rates and futures prices are positively correlated. Second, in the absence of exchange trading and involvement of clearing houses, there are no standardized terms for forward contracts. Accordingly, the parties are free to establish such settlement times and underlying amounts of a security or currency as desirable, which may vary from the standardized provisions available through any futures contract. Finally, forward contracts, as two party obligations for which there is no secondary market, involve counterparty credit risk not present with futures.

Swaps. The Partnership may utilize swaps and other derivative transactions to seek to achieve the objectives of the Partnership and the Partnership intends currently to obtain all or a substantial portion of its exposure through one or more swaps with its prime broker. Notional amounts of swap transactions are not subject to any limitations, and swap contracts may expose the Partnership to unlimited risk of loss. Swaps may be used as an alternative to futures contracts. To the extent the Partnership invests in repos, swaps, forwards, futures, options and other "synthetic" or derivative instruments, counterparty exposures can develop and the Partnership takes the risk of nonperformance by the other party on the contract. This risk may differ materially from those

entailed in exchange-traded transactions which generally are supported by guarantees of clearing organizations, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default. In the international securities markets, the existence of less mature settlement structures and systems can result in settlement default and exposure to counterparty credits.

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

Short Sales. The Investment Manager may make short sales of investment securities on behalf of the Partnership. In a short sale, the seller sells a security that it does not own, typically a security borrowed from a broker or dealer. Because the seller remains liable to return the underlying security that it borrowed from the broker or dealer, the seller must purchase the security prior to the date on which delivery to the broker or dealer is required. The making of short sales exposes the Partnership to the risk of liability for the market value of the security that is sold, which is an unlimited risk due to the lack of an upper limit on the price to which a security may rise. In addition, there can be no assurance that securities necessary to cover a short position will be available for purchase or that securities will be available to be borrowed by the Partnership at reasonable costs. If a request for return of borrowed securities occurs at a time when other short sellers of the security are receiving similar requests, a "short squeeze" can occur, and the Partnership may be compelled to replace borrowed securities previously sold short with purchases on the open market at the most disadvantageous time, possibly at prices significantly in excess of the proceeds received in originally selling the securities short. The SEC has in the past adopted interim rules requiring reporting of all short positions above a certain *de minimis* threshold and is expected to adopt rules requiring monthly public disclosure of short positions in the future. In addition, other non-U.S. jurisdictions where the Partnership may trade have adopted reporting requirements. If the Partnership's short positions or its strategy become generally known, it could have a significant effect on the Investment Manager's ability to implement its investment strategy. In particular, it would make it more likely that other investors could cause a "short squeeze" in the securities held short by the Partnership forcing the Partnership to cover its positions at a loss. Such reporting requirements may also limit the Investment Manager's ability to access management and other personnel at certain companies where the Investment Manager seeks to take a short position.

In addition, if other investors engage in copycat behavior by taking positions in the same issuers as the Partnership, the cost of borrowing securities to sell short could increase drastically and the availability of such securities to the Partnership could decrease drastically. Such events could make the Partnership unable to execute its investment strategy. The SEC has adopted restrictions on the short sale of securities which fall more than 10 percent in a given day (referred to as the “circuit breaker” or “modified uptick rule”). If the SEC were to adopt additional restrictions on short sales, such restrictions could restrict the Partnership’s ability to engage in short sales in certain circumstances, and the Partnership may be unable to execute its investment strategy as a result. The SEC and regulatory authorities in other jurisdictions may adopt (and in certain cases have adopted) bans on short sales of certain securities in response to market events. Bans on short selling may make it impossible for the Partnership to execute certain investment strategies and may have a material adverse effect on the Partnership’s ability to achieve its investment objective and generate returns. In addition, engaging in short selling may increase the risk of the Partnership becoming subject to government investigation.

Repurchase Agreements, Reverse Repurchase Agreements and Similar Transactions. Repurchase agreements afford the Partnership the opportunity to earn a return on temporarily available cash without market risk, although the Partnership bears the risk of a seller’s failure to meet its obligation to pay the repurchase price when it is required to do so. Such a default may subject the Partnership to expenses, delays and risks of loss including: (i) possible declines in the value of the underlying security while the Partnership seeks to enforce its rights thereto; (ii) possible reduced levels of income and lack of access to income during this period; and (iii) the inability to enforce its rights and the expenses involved in attempted enforcement.

If the buyer in a reverse repurchase agreement files for bankruptcy or becomes insolvent, the Partnership’s use of proceeds from the sale of its securities may be restricted while the other party or its trustee or receiver determines whether to honor the Partnership’s right to repurchase the securities. Furthermore, in that situation the Partnership may be unable to recover the securities it sold in connection with a reverse repurchase agreement and as a result would realize a loss equal to the difference between the value of the securities and the payment it received for them. This loss would be greater to the extent the buyer paid less than the value of the securities the Partnership sold to it (e.g., a buyer may only be willing to pay \$95 for a bond with a market value of \$100). The Partnership’s use of reverse repurchase agreements also subjects the Partnership to interest costs based on the difference between the sale and repurchase price of a security involved in such a transaction. Additionally, repurchase agreements and reverse repurchase agreements entail the same risks as over-the-counter derivatives. These include the risk that the counterparty to the agreement may not be able to fulfill its obligations, as discussed under “*Risks of Derivative Instruments*” and “*Counterparty Risk*,” that the parties may disagree as to the meaning or application of contractual terms, or that the instrument may not perform as expected.

Risks of Sovereign Debt Investments. Investments in sovereign or quasi-sovereign debt involve the risk that the governmental entities responsible for repayment may be unable or unwilling to pay interest and repay principal when due. A governmental entity’s ability and willingness to repay interest and repay principal in a timely manner may be affected by a variety of factors, including its cash flow, the size of its reserves, its access to foreign exchange, the relative size of its debt service burden to its economy as a whole, and political constraints. Investments in sovereign or quasi-sovereign debt involve the risk that the governmental entities responsible for

repayment may be unable or unwilling to pay interest and repay principal when due. Sovereign debt risk is greater for fixed income securities issued or guaranteed by emerging and frontier countries, including as a result of financial or political instability. Investments in quasi-sovereign issuers are subject to the additional risk that the issuer may default independently of its sovereign. Governmental entities may also depend on expected disbursements from non-U.S. governments, multilateral agencies and others to reduce principal and interest arrearages on their debt. The commitment on the part of these governments, agencies and others to make such disbursements may be conditioned on a governmental entity's implementation of economic reforms and/or economic performance and the timely service of such debtor's obligations. Failure to implement such reforms, achieve such levels of economic performance or repay principal or interest when due may result in the cancellation of such third parties' commitments to lend funds to the governmental entity, which may further impair such debtor's ability or willingness to service its debts in a timely manner. Consequently, governmental entities may default on their sovereign debt. Holders of sovereign debt may be requested to participate in the rescheduling of such debt and to extend further loans to governmental entities. There is no bankruptcy proceeding by which sovereign debt on which governmental entities have defaulted may be collected in whole or in part.

Depository Receipts. The Partnership may purchase sponsored or unsponsored American Depositary Receipts, European Depositary Receipts and Global Depositary Receipts (collectively "Depository Receipts") typically issued by a bank or trust company which evidence ownership of underlying securities issued by a corporation. Generally, Depository Receipts in registered form are designed for use in the U.S. securities market and Depository Receipts in bearer form are designed for use in securities markets outside the U.S. Depository Receipts may not necessarily be denominated in the same currency as the underlying securities into which they may be converted. Depository Receipts may be issued pursuant to sponsored or unsponsored programs. In sponsored programs, an issuer has made arrangements to have its securities trade in the form of Depository Receipts. In unsponsored programs, the issuer may not be directly involved in the creation of the program. Although regulatory requirements with respect to sponsored and unsponsored programs are generally similar, in some cases it may be easier to obtain financial information from an issuer that has participated in the creation of a sponsored program. Accordingly, there may be less information available regarding issuers of securities' underlying unsponsored programs and there may not be a correlation between such information and the market value of the Depository Receipts. Because the value of a Depository Receipt is dependent upon the market price of an underlying non-U.S. security, Depository Receipts are subject to most of the risks associated with investing in non-U.S. securities directly. (See "*Investment in Non-U.S. Securities.*") Depository Receipts may also be subject to liquidity risk. (See "*Liquidity Risk.*")

ETFs. The Partnership may invest in exchange-traded funds ("ETFs"). ETFs are hybrid investment companies that may be registered as open-end investment companies or unit investment trusts ("UITs") but possess some of the characteristics of closed-end funds. Some of the ETFs in which the Partnership may invest typically hold a portfolio of common stocks that is intended to track the price and dividend performance of a particular index. The Partnership may also invest in actively-managed ETFs. The market price for ETF shares may be higher or lower than the ETF's net asset value. The sale and redemption prices of ETF shares purchased from the issuer are based on the issuer's net asset value. Investments in ETFs entail certain additional risks. Investments in ETFs involve the risk that the ETF's performance may not track the performance of the index (if any) the ETF is designed to track. Unlike an index, an ETF incurs administrative expenses and

transaction costs in trading securities. In addition, the timing and magnitude of cash inflows and outflows from and to investors buying and redeeming shares in the ETF could create cash balances that cause the ETF's performance to deviate from the index (which remains "fully invested" at all times). Performance of an ETF and the index it is designed to track also may diverge because the composition of the index and the securities held by the ETF may occasionally differ. In addition, ETFs often use derivatives to track the performance of the relevant index and, therefore, investments in those ETFs are subject to the same derivatives risks discussed above.

Concentration of Investments. The Partnership's assets may not be diversified. At times, a single investment or a group of similar investments may exceed 30% or more of the Partnership's net asset value. Any such non-diversification would increase the risk of loss to the Partnership if there was a decline in the market value of any security or sector in which the Partnership had invested a large percentage of its assets. Investment in a non-diversified fund will generally entail greater risks than investments in a diversified fund.

Lack of Liquidity in Markets. The markets for many securities and other investments are thinly traded from time to time. This lack of liquidity and market depth could disadvantage the Partnership, both in the realization of the prices which are quoted and in the execution of orders at desired prices or in desired quantities. Also, U.S. and non-U.S. securities exchanges and the SEC and other regulatory authorities have authority to suspend trading in a particular security without notice.

Financial Market Fluctuations. General fluctuations in the market prices of securities may affect the value of the investments held by the Partnership. Instability in the securities markets will also likely increase the risks inherent in the Partnership's investments. There is no guarantee that ordinary and prudent precautions for natural and other disasters will provide an effective connection between the Investment Manager and markets in the event of large-scale disruptions in the United States or, alternatively, in the countries where the Investment Manager executes trades.

Market Disruption and Geopolitical Risk. The success of the Partnership's investment activities will be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of the Partnership's investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). The Partnership is subject to the risk that geopolitical and other events (e.g., wars and terrorism) will disrupt securities markets and adversely affect global economies and markets, thereby decreasing the value of the Partnership's investments. The financing available to the Partnership from its banks, dealers and other counterparties will typically be reduced in disrupted markets. Such a reduction may result in substantial losses to the Partnership. Sudden or significant changes in the supply or prices of commodities or other economic inputs (e.g., the marked decline in oil prices that began in late 2014) may have material and unexpected effects on both global securities markets and individual countries, regions, sectors, companies, or industries, which could significantly reduce the value of the Partnership's investments.

Terrorism in the United States and around the world has increased geopolitical risk. The terrorist attacks on September 11, 2001 resulted in the closure of some U.S. securities markets for four days, and similar attacks are possible in the future. Securities markets may be susceptible to market

manipulation (*e.g.*, the manipulation of the London Interbank Offered Rate (“LIBOR”)) or other fraudulent trading practices, which could disrupt the orderly functioning of markets or reduce the value of investments traded in them, including investments of the Partnership. Instances of fraud and other deceptive practices committed by senior management of certain companies in which the Partnership invests may negatively affect the value of the Partnership’s investments. In addition, when discovered, financial fraud may contribute to overall market volatility, which can negatively impact the Partnership’s investment program. Financial fraud may also impact the rates or indices underlying the Partnership’s investments.

The outcome of the 2016 US Presidential election has also increased uncertainty regarding future political, legislative or administrative changes that may impact the Investment Manager, the General Partner, the Partnership or its investors and its portfolio companies. Significant uncertainty remains in the market regarding the consequences of the election, and the range and potential implications of possible political, regulatory, economic and market outcomes are difficult to predict. Uncertainty regarding the consequences of the election may have an adverse effect or may cause volatility in the US or global economies and currency and financial markets in the short or long term, as well as the values of the Partnership’s investments and the Partnership’s ability to execute its investment strategy or the financial prospects of its portfolio companies. Such changes could impact the laws and regulations applicable to the Investment Manager, the General Partner, the Partnership, or their portfolio companies. While certain of such changes could beneficially impact the Partnership or certain portfolio companies, other changes may more beneficially impact competitors of the Partnership or portfolio companies, or could adversely impact the Partnership, the portfolio companies, or Limited Partners. The effect of any future regulatory change on the Partnership could be adverse.

While the U.S. government has always honored its credit obligations, a default by the U.S. government (as has been threatened in recent years) would be highly disruptive to the U.S. and other securities markets and could significantly reduce the value of the Partnership’s investments. Similarly, political events within the United States at times have resulted, and may in the future result, in a shutdown of government services, which could adversely affect the U.S. economy, decrease the value of many Partnership investments, and increase uncertainty in or impair the operation of the U.S. or other securities markets. Uncertainty surrounding the sovereign debt of several European Union countries, as well as the continued existence of the European Union itself, has disrupted and may continue to disrupt markets in the United States and around the world. If a country changes its currency or leaves the European Union or if the European Union dissolves, the world’s securities markets likely will be significantly disrupted. Substantial government interventions (*e.g.*, currency controls) also could adversely affect the Partnership.

War, terrorism, economic uncertainty and related geopolitical events have led, and in the future may lead, to increased short-term market volatility and may have adverse long-term effects on U.S. and world economies and markets generally. Likewise, natural and environmental disasters, such as the earthquake and tsunami in Japan in early 2011, and systemic market dislocations of the kind surrounding the insolvency of Lehman Brothers in 2008, if repeated, would be highly disruptive to economies and markets, adversely affecting individual companies and industries, securities markets, interest rates, credit ratings, inflation, investor sentiment and other factors affecting the market value of the Partnership’s investments. During such market disruptions, the Partnership’s exposure to the risks described elsewhere in this Memorandum likely will increase.

Market disruptions, including sudden government interventions, can also prevent the Partnership from implementing its investment program (including with respect to the Partnership's ability to enter and exit investments) and achieving its investment objective. For example, a market disruption may adversely affect the ordinary functioning of the securities markets and may cause the Partnership's derivatives counterparties to discontinue offering derivatives on some underlying commodities, securities, reference rates, commodities or indices or to offer them on a more limited basis. To the extent the Partnership has focused its investments in a particular region, adverse geopolitical and other events in that region could have a disproportionate impact on the Partnership.

Counterparty Risk. The Partnership is exposed to counterparty risk to the extent it uses over-the-counter derivatives, enters into repurchase agreements, lends its portfolio securities or allows a prime broker, if any, or an over-the-counter derivative counterparty to retain possession of collateral. If a counterparty fails to meet its contractual obligations, goes bankrupt, or otherwise experiences a business interruption, the Partnership could miss investment opportunities or otherwise hold investments it would prefer to sell, resulting in losses for the Partnership. The Partnership is not subject to any limits on its exposure to any one counterparty nor to a requirement that counterparties maintain a specific rating by a nationally recognized rating organization to be considered for potential transactions. To the extent that the Investment Manager's view with respect to a particular counterparty changes (whether due to external events or otherwise), existing transactions are not required to be terminated or modified. Counterparty risk is pronounced during unusually adverse market conditions and is particularly acute in environments (like those of 2008) in which financial services firms are exposed to systemic risks of the type evidenced by the insolvency of Lehman Brothers and subsequent market disruptions. In addition, during those periods, the Partnership may have a greater need for cash to provide collateral for large swings in its mark-to-market obligations under the derivatives in which it has invested. The Partnership may invest in derivatives and/or execute a significant portion of its securities transactions through a limited number of counterparties and events that affect the creditworthiness of any of those counterparties may have a pronounced effect on the Partnership. Counterparty risk will be particularly pronounced at times when the Partnership is relying on its prime broker(s) for exposure through swaps, including at launch. In addition, the creditworthiness of a counterparty may be adversely affected by greater than average volatility in the markets, even if the counterparty's net market exposure is small relative to its capital. The Investment Manager evaluates the creditworthiness of the counterparties to the Partnership's transactions or their guarantors at the time the Partnership enters into a transaction. The Partnership is not restricted from dealing with any particular counterparty or from concentrating any or all transactions with one counterparty. The ability of the Partnership to transact business with any one of a number of counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Partnership.

Additionally, new transactions may be entered into with a counterparty that is no longer considered eligible if the transaction is primarily designed to reduce the overall risk of potential exposure to that counterparty (for example, re-establishing the transaction with a lesser notional amount).

There can be no assurance that a counterparty will be able or willing to satisfy its obligations to pay settlement payments or to otherwise meet its obligations, especially during unusually adverse

market conditions. The Partnership typically may only close out over-the-counter transactions with the relevant counterparty, and may only transfer a position with the consent of the particular counterparty. When a counterparty's obligations are not fully secured by collateral, then the Partnership is essentially an unsecured creditor of the counterparty. If a counterparty defaults, the Partnership will have contractual remedies, but there is no assurance that a counterparty will be able to meet its obligations pursuant to such contracts or that, in the event of default, the Partnership will succeed in enforcing contractual remedies. Counterparty risk still exists even if a counterparty's obligations are secured by collateral because the Partnership's interest in collateral may not be perfected or additional collateral may not be promptly posted as required. Counterparty risk also may be more pronounced if a counterparty's obligations exceed the amount of collateral held by the Partnership (if any), the Partnership is unable to exercise its interest in collateral upon default by the counterparty, or the termination value of the instrument varies significantly from marked-to-market value of the instrument. To the extent the Partnership allows a prime broker, if any, or any over-the-counter derivative counterparty to retain possession of any collateral, the Partnership may be treated as an unsecured creditor of such counterparty in the event of the counterparty's insolvency.

Counterparty risk with respect to derivatives will be affected by new rules and regulations affecting the derivatives market. As described under "*Risks of Derivative Instruments*," some derivatives transactions are required to be centrally cleared, and a party to a cleared derivatives transaction is subject to the credit risk of the clearing house and the clearing member through which it holds its cleared position, rather than the credit risk of its original counterparty to the derivatives transaction. Credit risk of market participants with respect to derivatives that are centrally cleared is concentrated in a few clearing houses, and it is not clear how an insolvency proceeding of a clearing house would be conducted and what impact an insolvency of a clearing house would have on the financial system. A clearing member is obligated by contract and by applicable regulation to segregate all funds received from customers with respect to cleared derivatives transactions from the clearing member's proprietary assets. However, all funds and other property received by a clearing member from its customers with respect to cleared derivatives are generally held by the clearing member on a commingled basis in an omnibus account, and the clearing member may invest those funds in certain instruments permitted under the applicable regulations. Therefore, the Partnership might not be fully protected in the event of the bankruptcy of the Partnership's clearing member because the Partnership would be limited to recovering only a *pro rata* share of all available funds segregated on behalf of the clearing member's customers for a relevant account class. Also, the clearing member is required to transfer to the clearing house the amount of margin required by the clearing house for cleared derivatives, which amounts are generally held in an omnibus account at the clearing house for all customers of the clearing member. Regulations promulgated by the CFTC require that the clearing member notify the clearing house of the initial margin provided by the clearing member to the clearing house that is attributable to each customer. However, if the clearing member does not accurately report the Partnership's initial margin, the Partnership is subject to the risk that a clearing house will use the Partnership's assets held in an omnibus account at the clearing house to satisfy payment obligations of a defaulting customer of the clearing member to the clearing house. In addition, clearing members generally provide to the clearing house the net amount of variation margin required for cleared swaps for all of its customers in the aggregate, rather than individually for each customer. The Partnership is therefore subject to the risk that a clearing house will not make variation margin payments owed to the Partnership if another customer of the clearing member has suffered a loss and is in default, and

the risk that the Partnership will be required to provide additional variation margin to the clearing house before the clearing house will move the Partnership's cleared derivatives transactions to another clearing member. In addition, if a clearing member does not comply with the applicable regulations or its agreement with the Partnership, or in the event of fraud or misappropriation of customer assets by a clearing member, the Partnership could have only an unsecured creditor claim in an insolvency of the clearing member with respect to the margin held by the clearing member.

Custodial Risk. The Partnership's prime broker(s) and custodian(s) will have custody of the Partnership's securities, cash, distributions and rights accruing to the Partnership's securities accounts. SEC rules require prime brokers to maintain physical possession and control of fully paid securities held in the Partnership's account and to establish certain reserves for the benefit of customers. However, subject to these limitations, the prime brokers generally have the ability to loan, pledge, and rehypothecate the securities in the Partnership's account, as is typical market practice, and may have insufficient assets to meet all of its obligations to customers in the event of an insolvency of the prime brokers. In such an event, the Partnership would typically not have a right to recover its securities held by the prime brokers, but would rather have only an unsecured claim against the prime brokers and participate *pro rata* with other customers of the prime brokers in the proceeds of the sale of customer securities. Because securities of the Partnership held by brokers will generally not be held in the Partnership's name, a failure of such broker is likely to have a greater adverse impact on the Partnership than if such securities were registered in the Partnership's name. Also, even if the prime brokers do have sufficient assets to meet all customer claims, there could be a delay before the Partnership receives assets to satisfy its claims. In order to manage the risks associated with prime broker insolvency, the Partnership may establish relationships with multiple prime brokers. However, there can be no assurance that the Partnership will be able to establish or maintain such relationships. In addition, the Partnership may not be able to identify potential solvency concerns with respect to the Partnership's prime brokers or to transfer assets from one prime broker to another prime broker in a timely manner. Investors should assume that the insolvency of any of the Partnership's prime broker(s), other brokers or banks or clearing corporations may result in the loss of all or a substantial portion of the Partnership's assets or in a significant delay in the Partnership having access to those assets.

The prime broker(s) may hold the Partnership's securities through third parties such as clearing corporations, other brokers or banks. In addition, the Partnership may hold securities, cash and other assets directly with banks or other third parties not associated with the prime brokers. As a result, the Partnership may be subject to credit risk with respect to such third parties, as well as with respect to the prime brokers. In addition, certain of the Partnership's assets may be held by non-U.S. affiliates of the Partnership's prime brokers and entities other than the prime brokers. Assets held by such non-U.S. affiliates may be subject to legal regimes that provide fewer or different investment protections than the U.S. Also, even if the Partnership's prime broker or such other third parties do have sufficient assets to meet all claims, there could be a delay before the Partnership receives assets to satisfy its claims.

The Partnership may change the brokerage arrangements described in this Memorandum at any time without notice to the Limited Partners. There are likely to be operational and other delays associated with changes in prime brokerage arrangements.

Valuation Risk. The Investment Manager will establish and follow policies from time to time to value investments. Accordingly, there is a risk that capital markets may continue indefinitely to undervalue the Partnership's investments or that such investments may fail to appreciate as the Investment Manager anticipated. This risk may be greater for small and medium-sized companies, which could be more vulnerable to adverse developments and are less liquid to trade.

The Partnership expects to invest in securities, industries and asset classes that other investors disfavor or fail to consider. Limited Partners are subject to the risk that such a contrarian strategy may be unsuccessful and, to the extent that unfavorable economic and investment conditions continue for an extended period, that the Partnership may not achieve its objectives.

Portfolio Turnover. The Partnership has not placed any limit on the rate of portfolio turnover, and portfolio securities may be sold without regard to the time they have been held when, in the opinion of the Investment Manager, investment considerations warrant such action. A high rate of portfolio turnover involves correspondingly greater expenses (including with respect to transaction costs, as discussed below) than a lower rate, may act to reduce the Partnership's investment gains, or create a loss for Limited Partners and may result in increased taxable costs for Limited Partners depending on the tax provisions applicable to such investors.

Transaction Execution and Costs. As the Investment Manager expects to actively manage the Partnership's portfolio, purchases and sales of investments may result in higher transaction costs to the Partnership. The successful application of the Partnership's investment strategy will depend, in part, upon the quality of execution of transactions, such as the ability of broker-dealers to execute orders on a timely and efficient basis. Although the Partnership will seek to utilize brokerage firms that will afford superior execution capability to the Partnership, there is no assurance that all of the Partnership's transactions will be executed with optimal quality. Furthermore, due to the degree of trading, total commission charges and other transaction costs may be expected to be high. The level of commission charges, as an expense of the Partnership, may therefore be expected to be a factor in determining future profitability of the Partnership.

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

Speculative Investment Strategy. By its nature, all investing, including by the Partnership, is speculative. There is no assurance that the Partnership will achieve its investment objective. The Investment Manager's assessment of the short-term or long-term prospects of investments may not prove accurate. No assurance can be given that any investment strategy implemented by the

Investment Manager on behalf of the Partnership will be successful, and Partners may suffer a significant loss of their invested capital.

Terrorism and Catastrophe Risks. The Partnership may be subject to the risk of loss arising from exposure that it may incur, directly or indirectly, due to the occurrence of various events, including, without limitation, hurricanes, earthquakes, and other natural disasters, terrorism and other catastrophic events.

Investment Process; Due Diligence. Before making investments, the Investment Manager intends to conduct due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. Such due diligence is expected to often include complex business, financial, tax, accounting and legal issues. When conducting due diligence and making an assessment regarding an investment, the Investment Manager will rely on the resources reasonably available to it, which in some circumstances, whether or not known to the Investment Manager at the time, may not be sufficient, accurate, complete or reliable. Due diligence may not reveal or highlight matters that could have a material adverse effect on the value of an investment.

Cybersecurity. With the increased use of technologies such as the Internet and the dependence on computer systems to perform necessary business functions, the Partnership and its service providers (including the Investment Manager) may be prone to operational and information security risks resulting from cyber-attacks and/or other technological malfunctions. In general, cyber-attacks are deliberate, but unintentional events may have similar effects. Cyber-attacks include, among other things, stealing or corrupting data maintained online or digitally, preventing legitimate users from accessing information or services on a website, releasing confidential information without authorization, and causing operational disruption. Successful cyber-attacks against, or security breakdowns of, the Partnership, the Investment Manager or a custodian or other third-party service provider may adversely affect the Partnership or investors. For instance, cyber-attacks may affect the Partnership's ability to calculate its net asset value, cause the release of private investor information or confidential Partnership information, impede trading, expose Partnership, Investment Manager or investor assets to theft or embezzlement, cause reputational damage, and subject the Partnership to regulatory fines, penalties or financial losses, reimbursement or other compensation costs, and additional compliance costs. While the Investment Manager has established business continuity plans and systems designed to prevent cyber-attacks, there are inherent limitations in such plans and systems including the possibility that certain risks have not been identified.

Systems Risks. The Partnership may rely on computer programs to evaluate certain securities and other investments, to monitor the Partnership's portfolio, to trade, clear and settle securities transactions, and to generate asset, risk management and other reports that are utilized in the oversight of the Partnership's activities. In addition, certain of the Partnership's and the Investment Manager's operations interface with or depend on systems operated by third parties, including loan servicers, custodians and prime brokers, and the Investment Manager may not always be in a position to verify the risks or reliability of such third-party systems. These programs or systems may be subject to certain defects, failures or interruptions, including, but not limited to, those caused by computer 'worms,' viruses and power failures. Such failures could cause settlement of trades to fail, lead to inaccurate accounting, recording or processing of trades, and cause inaccurate reports, which may affect the Partnership's ability to monitor its investment portfolio and risk.

Any such defect or failure could cause the Partnership to suffer financial loss, the disruption of its business, liability to clients or third parties, regulatory intervention or reputational damage.

Trade Errors. On occasion, errors may occur with respect to trades executed on behalf of the Partnership. 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 (*e.g.*, 1,000 shares instead of 10,000 shares are traded). Trade errors frequently result in losses but may, occasionally, result in gains. The General Partner and the Investment Manager 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 General Partner and the Investment Manager may seek to recover any losses associated with such error from such third party. The General Partner or the Investment Manager, as the case may be, will determine whether any trade error has resulted from gross negligence on its part, and, unless it finds that to be the case, any losses will be borne by (and any gains will benefit) the Partnership. The General Partner and the Investment Manager will establish internal policies regarding the manner in which such determinations are to be made, but investors should be aware that, in making such determinations, the General Partner and the Investment Manager will have a conflict of interest. Generally, the Investment Manager and General Partner will not be held accountable for trade errors that do not breach the standard of care set forth above.

Performance Allocation. The General Partner and certain officers, directors, employees and other related persons are expected to hold interests in the Partnership. However, the General Partner's Performance Allocation may create an incentive for the General Partner and the Investment Manager to cause the Partnership to make investments that are riskier or more speculative than would be the case in the absence of such allocation. In addition, because the Performance Allocation is calculated on a basis that includes unrealized appreciation of the Partnership's assets, it may be greater than if the Performance Allocation were based solely on realized gains.

Availability of Investment Strategies. The success of the Partnership's investment and trading activities will depend on the ability of the General Partner and the Investment Manager (including members of the investment team) to identify overvalued and undervalued investment opportunities and to exploit price discrepancies in global capital markets. In addition, many of the markets in which the Partnership invests are extremely competitive for attractive investment opportunities. Identification and exploitation of the investment strategies to be pursued by the Partnership involves a high degree of uncertainty. No assurance can be given that the General Partner and the Investment Manager (including members of the investment team) will be able to identify or successfully pursue suitable investment opportunities in which to deploy all of the Partnership's capital. A reduction in overall market volatility and liquidity, as well as other market factors, may reduce the pool of profitable investment strategies for the Partnership.

Misconduct of Employees and of Third Party Service Providers. Misconduct by employees of the Investment Manager or by third party service providers to the Partnership, including any algorithm author, could cause significant losses to the Partnership. Employee misconduct may include binding the Partnership to transactions that present unacceptable risks and unauthorized activities or concealing unsuccessful activities (which, in either case, may result in unknown and unmanaged risks or losses). Losses could also result from actions by third party service providers, including, without limitation, failing to record transactions or improperly performing its responsibilities as

administrator. In addition, employees and third party service providers may improperly use or disclose confidential information, which could result in litigation or serious financial harm, including limiting the Partnership's business prospects. Although the Investment Manager has adopted measures reasonably designed to prevent and detect employee misconduct and to select reliable third party providers, such measures may not be effective in all cases.

Other Possible Risks. There is no assurance that the above list is complete or that there are no other material risks that may exist now or may arise in the future. The Partnership has a broad investment mandate and will make investments using strategies and financial techniques with significant risk characteristics. Further, the Partnership's investment mandate contemplates making investments in a range of financial instruments, asset classes and geographic regions, including those with respect to which the Investment Manager initially may have limited experience. No guarantee is made that the investment objectives of the Partnership will be realized. The Partnership will have the discretion to supplement its principal investment strategy by making investments in any other securities or assets that the Investment Manager believes may offer attractive trading or investment opportunities. The Partnership may invest in such securities and instruments for investment purposes, liability management purposes and/or as part of hedging and arbitrage strategies. In implementing the Partnership's investment program, the Investment Manager may utilize whatever investment, hedging, arbitrage or financing techniques it deems to be advisable (including participating in existing or future government-sponsored financing programs), regardless of whether any such technique is specifically described herein, is currently in existence or is hereafter created.

Item 9. Disciplinary Information

Item 9 is not applicable to the Investment Manager.

Item 10. Other Financial Industry Activities and Affiliations

Related General Partner

The General Partner has claimed an exemption from registration as a commodity pool operator with respect to the Partnership, pursuant to Rule 4.13(a)(3) under the Commodity Exchange Act, as amended.

Neither the Investment Manager nor any of its partners or employees is registered, nor does any of the foregoing have any applications pending to register, with the SEC as a broker-dealer or a registered representative of a broker-dealer.

Michael DeMichele and Farhad Nanji are both key personnel of the General Partner and the Investment Manager.

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

Code of Ethics

The Investment Manager has adopted a written Code of Ethics that is applicable to all of its partners/members, officers and employees, as well as officers and employees of its affiliates and certain independent contractors (collectively, “Investment Manager Personnel”). The Code of Ethics, which is designed to comply with Rule 204A-1 under the Investment Advisers Act of 1940 (as amended, the “Advisers Act”), establishes guidelines for professional conduct and personal trading procedures, including certain pre-clearance and reporting obligations. Investment Manager Personnel and their families and households may purchase investments for their own accounts, including the same investments as may be purchased or sold for the Partnership, subject to the terms of the Code of Ethics. Under the Code of Ethics, Investment Manager Personnel are also required to file certain periodic reports with the Investment Manager’s Chief Compliance Officer as required by Rule 204A-1 under the Investment Managers Act. The Code of Ethics helps the Investment Manager detect and prevent potential conflicts of interest.

Investment Manager Personnel who violate the Code of Ethics may be subject to remedial actions, including, but not limited to, profit disgorgement, fines, censure, demotion, suspension or dismissal. Investment Manager Personnel are also required to promptly report any violation of the Code of Ethics of which they become aware. Investment Manager Personnel are required to annually certify compliance with the Code of Ethics.

A copy of the Code of Ethics is available to any client or prospective client upon written request to: legal@mfnpartners.com.

Conflicts of Interest

Management of the Partnership. The employees and members of the General Partner and the Investment Manager are not obligated to devote their full time to the Partnership, but will devote such time as, in the judgment of the General Partner, the conduct of the Partnership’s business shall reasonably require.

The Investment Manager and its affiliates may provide investment advice to other clients, including investment funds and managed accounts that may either co-invest with the Partnership or follow investment programs similar to or different from that of the Partnership (each, a “Related Fund”). In addition, the Investment Manager, its affiliates and the investment professionals thereof may have investments in other Related Funds or interests in the performance of other Related Funds which pose conflicts of interest. Conflicts of interest among the Partnership and the other Related Funds may exist, which include, but are not limited to, those described herein.

By reason of the investment advisory and other activities of the General Partner and its affiliates, the General Partner or its affiliates may acquire confidential information or otherwise be restricted (including any voluntary restriction) from initiating transactions in certain securities. It is acknowledged and agreed that, except as required by law, the General Partner’s affiliates may not be free to divulge, or to act upon, any such confidential information with respect to their

performance of their responsibilities to the Partnership and that, due to such a restriction, the General Partner or its affiliate may be prevented from initiating a transaction on behalf of the Partnership that it otherwise might have initiated.

Allocation of Investment Opportunities by the Partnership and other Related Funds. The Investment Manager may organize Related Funds. Purchase and sale orders generally will be combined for Related Funds with each entity paying its *pro rata* share of the total commission and paying or receiving its *pro rata* share of the total cost or sales proceeds. From the standpoint of the Partnership, simultaneous identical portfolio transactions for the Partnership and the other Related Funds may decrease the prices received, and increase the prices required to be paid, by the Partnership for its portfolio sales and purchases.

There may be a conflict of interest in the allocation of investment opportunities among the Partnership and other Related Funds. Absent contractual requirements to the contrary, the Investment Manager and its affiliates will generally have sole discretion to allocate investment opportunities in a manner that the Investment Manager and its affiliates determine, in good faith, to be fair and equitable under the circumstances to all the entities involved, including based on such entities' investment objectives and strategies. There can be no assurances that an investment opportunity which comes to the attention of the Investment Manager and its affiliates will not be allocated wholly or primarily to other Related Funds, with the Partnership being unable to participate in such investment opportunity or participating only on a limited basis. If, in the sole discretion of the Investment Manager, the Partnership, the Partnership and/or one or more other Related Funds should not participate in a particular investment opportunity for tax or regulatory reasons, such investment opportunity will be allocated only to the Related Funds not affected by such tax or regulatory reasons. To the extent an investment is not allocated *pro rata*, the Partnership could incur a disproportionate amount of income or loss related to such investment relative to the other Related Funds.

The Partnership could be disadvantaged because of activities conducted by the General Partner, Investment Manager or their affiliates for the other Related Funds as a result of, among other things: legal restrictions on the combined size of positions which may be taken for all accounts managed by the Investment Manager or its affiliates, thereby limiting the size of the Partnership's position; and the difficulty of liquidating an investment for more than one account where the market cannot absorb the sale of the combined positions. In addition, there may be circumstances under which the Investment Manager or its affiliates will consider participation by other Related Funds in investment opportunities in which the Investment Manager does not intend to invest, or intends to invest only on a limited basis, on behalf of the Partnership. The Investment Manager and its affiliates will evaluate for the Partnership and other Related Funds a variety of factors which may be relevant in determining whether a particular situation or strategy is appropriate and feasible for the Partnership or another Related Fund at a particular time, including the nature of the investment opportunity taken in the context of the other investments at the time, the liquidity of the investment relative to the needs of the particular entity, the investment or regulatory limitations on the particular entity and the transaction costs involved. Because these considerations may differ for the Partnership and one or more of the other Related Funds in the context of any particular investment opportunity, investment activities of the Partnership and the other Related Funds may differ considerably from time to time.

Transactions with Affiliates. The Partnership Agreement allows the Partnership to participate in transactions in which the General Partner or the Investment Manager (or any of their employees, members and/or principals or any limited partner) is directly or indirectly interested. In connection with such transactions, the Partnership, on the one hand, and the General Partner, Investment Manager, their employees, members and/or principals or limited partners, on the other hand, may have conflicting interests. The General Partner and the Investment Manager may also face conflicts of interest in connection with purchase or sale transactions (involving an investment by the Partnership) with an affiliate of the Partnership (including other Related Funds), including with respect to the consideration offered by, and the obligation of, the General Partner or the Investment Manager and such other affiliate.

Although other Related Funds may pursue investment objectives that are similar to the Partnership, the portfolios of the Partnership and such other Related Funds may differ as a result non-*pro rata* allocations, of purchases and redemptions being made at different times and in different amounts, as well as because of different tax and regulatory considerations. The Partnership may enter into cross-trades (*i.e.*, purchases and sales with other Related Funds), including “rebalancing” transactions with other Related Funds that have the same investment objectives as the Partnership when contributions or redemptions of capital to or from either the Partnership or the other Related Funds change the ratio of Partnership assets to the assets of other Related Funds. The purpose of any such rebalancing transactions would be to bring each Related Fund’s exposure to a commonly held investment into line with each Related Fund’s percentage of total equity under management. The Partnership could be a purchaser or a seller in such rebalancing transactions. All “rebalancing” transactions: (i) would be effected for cash consideration at the current fair value of the particular securities, (ii) would not involve restricted securities or securities for which market quotations are not readily available, and (iii) if executed through a broker, generally would not involve any brokerage commission fee (except for customary transfer fees and brokerage fees for transactions involving U.S. options or certain non-U.S. equities or where some or all of a position is in a swap) or other remuneration.

Personal Trading. The Organizational Documents do not prohibit the General Partner, the Investment Manager, or their respective general partners, or their employees, members and/or principals or any other partner from buying or selling securities or commodity interests for their own account. The records of any such trades by the Investment Manager, its general partners, or its employees, members and/or principals will not be open to inspection by the Limited Partners. The Investment Manager maintains compliance policies and procedures, including personal trading policies, which are designed to reduce potential conflicts of interest. With respect to such personal accounts, the Investment Manager, its general partners or its employees, members and/or principals may not take investment positions in the securities of companies invested in by the Partnership.

Side Letter Agreements

In accordance with the Partnership Agreement, the General Partner, in its sole discretion, is permitted to enter into separate agreements with Limited Partners setting forth the terms of investment by such Limited Partners in the Partnership, subject, in certain instances, to the rights of other Limited Partners to obtain additional rights granted by such agreements. Among other

things, such agreements may provide for Management Fees, Performance Allocations, liquidity terms and/or transparency rights more favorable than are available to other investors.

Other Potential Conflicts

The Organizational Documents of the Partnership establish complex arrangements among the Partnership, the Investment Manager, investors, and other relevant parties. From time to time, questions may arise regarding certain parties' rights and obligations in certain situations, some of which may not have been contemplated upon the negotiation and execution of such documents. In some instances, the operative provisions of the Organizational Documents, if any, may be broad, unclear, general, conflicting, ambiguous, and vague and may allow for multiple reasonable interpretations. In other instances, there may not be a directly applicable provision. While the Investment Manager will construe the relevant provisions in good faith and in a manner consistent with its fiduciary duty and legal obligations, the interpretations used may not be the most favorable to the Partnership or its investors.

Item 12. Brokerage Practices

In order to meet its fiduciary duties to the Partnership, the Investment Manager has adopted written policies to address issues that might arise with respect to purchasing, holding, and selling publicly traded securities.

Selection of Brokers and Dealers

The Investment Manager is solely responsible for choosing the broker or brokers used for each securities transaction for the Partnership. In negotiating commission rates and selecting broker/dealers, the Investment Manager seeks the best available combination of execution and price (which includes the cost of the transaction) and shall take into account all factors it deems relevant, including by way of illustration but not limited to the financial stability and reputation of the particular broker/dealer, the ability to achieve prompt and reliable executions at favorable prices, the operational efficiency with which transactions are effected and the brokerage and research services provided by such broker/dealer, among other factors. It is noted that since commission rates are generally negotiable, selecting brokers on the basis of considerations which are not limited to applicable commission rates may at times result in higher transaction costs than would otherwise be obtainable.

The Investment Manager believes that valuable brokerage and research services can be provided to the Partnership by brokerage firms effecting transactions for the Partnership. Accordingly, the Investment Manager may not seek lower brokerage commissions to the extent that doing so might detract from the provision of such brokerage and research services. Brokerage and research services may either be obtained from brokerage firms or obtained from third parties and paid for by the Investment Manager and subsequently charged to the Partnership and the other Related Funds pro rata based on their relative capital balances. Brokerage and research services may include, but are not limited to, written (including electronic) information and analyses concerning specific securities, companies or sectors; news, quotation, statistics and pricing services, as well as discussions with research personnel and consultants; and hardware, software, databases and other technical and telecommunications services and equipment utilized in the investment

management process and consulting fees in connection with investigating and monitoring potential and existing investments. Research services, whether obtained by the use of commissions arising from the Partnership's portfolio transactions or paid for by the Investment Manager and charged to the Partnership and the other Related Funds as described above, may be used by the Investment Manager for the benefit of other Related Funds.

The Investment Manager is entitled to use "soft" or commission dollars generated by the Partnership to pay certain expenses which would otherwise be payable by the Partnership, which payments the Investment Manager intends will fall within the parameters of Section 28(e) of the Exchange Act.

Item 13. Review of Accounts Oversight and Monitoring

The Investment Manager regularly reviews and analyzes its existing positions to attempt to identify issues early on and to take action where necessary. The Partnership's portfolio of investments is reviewed by a team of investment professionals. The team generally includes senior management and other investment professionals of the Investment Manager.

Reporting

Investors in the Partnership typically receive, among other things, a copy of audited financial statements of the relevant Partnership within 120 days after the fiscal year end of the Partnership, as well as quarterly performance reports as soon as reasonably practicable after each fiscal quarter end. The Investment Manager and the applicable General Partner, if any, will from time to time, in their sole discretion, provide additional information relating to the Partnership to one or more investors in the Partnership as they deem appropriate.

Item 14. Client Referrals and Other Compensation

For details regarding economic benefits provided to the Investment Manager by non-clients, including a description of related material conflicts of interest and how they are addressed, please see Item 11 above.

Item 15. Custody

The Investment Manager expects to be deemed to have custody of the Partnership's assets as a result of its authority over such assets. The Partnership's financial statements are subject to an annual audit by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and the audited financial statements of the Partnership will be distributed to each investor within 120 days of the Partnership's fiscal year end. The Partnership's audited financial statements are prepared in accordance with U.S. generally accepted accounting principles.

Item 16. Investment Discretion

Investment advice is provided directly to the Partnership, subject to the direction and control of the General Partner, and not individually to the investors in the Partnership. Services are provided

to the Partnership in accordance with the Investment Management Agreement and/or the other Organizational Documents of the Partnership. Investment restrictions for the Partnership, if any, are generally established in the Organizational Documents of the Partnership.

Item 17. Voting Client Securities

The Investment Manager has established written policies and procedures setting forth the principles and procedures by which the Investment Manager votes or gives consent with respect to securities owned by the Partnership (“Votes”). The guiding principle by which the Investment Manager votes all Votes is to vote in the best interests of the Partnership by maximizing the economic value of the relevant Partnership’s holdings, taking into account the relevant Partnership’s investment horizon, the contractual obligations under the relevant Investment Management Agreements or comparable documents, and all other relevant facts and circumstances at the time of the vote. The Investment Manager does not permit Voting decisions to be influenced in any manner that is contrary to, or dilutive of, this guiding principle.

It is the Investment Manager’s general policy to vote or give consent on all matters presented to security holders in any Vote. However, the Investment Manager reserves the right to abstain on any particular Vote or otherwise withhold its vote or consent on any matter if, in the judgment of the Investment Manager’s Chief Compliance Officer (the “CCO”) or the relevant Investment Manager investment professional, the costs associated with voting such Vote outweigh the benefits to the Partnership or if the circumstances make such an abstention or withholding otherwise advisable and in the best interests of the Partnership.

The Partnership generally cannot direct the Investment Manager’s Vote.

A copy of the Investment Manager’s proxy voting policy is available to any client or prospective client upon written request to: legal@mfnpartners.com.

Item 18. Financial Information

The Investment Manager does not require prepayment of management fees more than six months in advance or have any other events requiring disclosure under this item of the Brochure.

Item 19. Requirements for State-Registered Investment Managers

Item 19 is not applicable to the Investment Manager.