

**Firm Brochure**  
(Part 2A of Form ADV)

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This Brochure provides information about the qualifications and business practices of Wolverine Asset Management, LLC (“WAM”). If you have any questions about the contents of this brochure, please contact us at (312) 884-4400. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about Wolverine Asset Management, LLC, is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Registration as an investment adviser with the SEC does not imply a certain level of skill or training.

## **Item 2 – Material Changes**

This Brochure was last updated in March 2019. Since the last annual update, effective close of business December 31, 2019, Keri Kelly succeeded Niraj Patel as WAM's Chief Compliance Officer.

Apart from the above, our business has not materially changed since the time of that update; however, certain disclosures have been updated throughout the brochure and should be carefully reviewed in its entirety.

### **Item 3 – Table of Contents**

Item 1 – Cover Page .....	1
Item 2 – Material Changes .....	2
Item 3 – Table of Contents .....	3
Item 4 – Advisory Business .....	4
Item 5 - Fees and Compensation .....	5
Item 6 - Performance-Based Fees and Side-By-Side Management .....	8
Item 7 - Types of Clients .....	8
Item 8- Methods of Analysis, Investment Strategies and Risk of Loss .....	8
Item 9 - Disciplinary Information.....	33
Item 10 - Other Financial Industry Activities and Affiliations .....	34
Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	35
Item 12 - Brokerage Practices .....	37
Item 13 - Review of Accounts .....	39
Item 14 - Client Referrals and Other Compensation .....	40
Item 15 - Custody .....	40
Item 16 - Investment Discretion .....	40
Item 17 - Voting Client Securities .....	40
Item 18 - Financial Information .....	41
Item 19 – Requirements for State-Registered Advisers .....	41

## **Item 4 – Advisory Business**

### **i) Firm Description**

Wolverine Asset Management, LLC (“WAM” or “us” or “we”) was formed in 2001 to provide discretionary investment management services utilizing structural arbitrage and relative value strategies to institutional clients. The indirect principal owners of WAM are Christopher Gust and Robert Bellick.

### **ii) Types of Advisory Services**

WAM offers investment advisory services to institutional clients, including pooled investment vehicles (e.g., hedge funds). WAM serves as the discretionary investment manager to the Wolverine Flagship Funds and the Wolverine Intrinsic Funds (both as defined below) and may in the future serve as the discretionary investment manager to additional pooled investment vehicles, accounts and other arrangements with institutional clients (collectively, the “WAM Funds”). The WAM Funds are offered only to high-net-worth, sophisticated institutional and individual investors.

- The “Wolverine Flagship Funds” include:
  - Wolverine Flagship Fund, LLC (U.S.-domiciled feeder fund)
  - Wolverine Flagship Fund Limited (Cayman-domiciled feeder fund)
  - Wolverine Flagship Fund Trading Limited (a Cayman-domiciled master fund) (“WFFTL”)
- The “Wolverine Intrinsic Funds” include:
  - Wolverine Intrinsic Fund LLC (U.S.-domiciled feeder fund) (“WIFL”)
  - Wolverine Intrinsic Fund Ltd. (Cayman-domiciled feeder fund) (“WIFD”)
  - Wolverine Intrinsic Master Fund Ltd. (a Cayman-domiciled master fund) (“WIMFL”)

The objective of the WAM Funds is to seek returns on capital through the use of arbitrage and relative value strategies.

See Item 8 for a more detailed explanation of the specific strategies implemented by the WAM Funds. All investment and trading activity takes place at the WFFTL level for the Wolverine Flagship Funds and will also take place at the WIMFL level for the Wolverine Intrinsic Funds, however, certain investments may be held at the WIFL and WIFD level in special circumstances. The general purpose of the U.S.-domiciled feeder fund is to accept investments from U.S. taxable investors and the general purpose of the Cayman-domiciled feeder fund is to accept investments from U.S. tax-exempt investors and non-U.S. investors. Transactions entered into by WAM on behalf of WFFTL and the Wolverine Intrinsic Funds are limited to such investments as are outlined in the offering memoranda or any other written agreement between WAM and the WAM Funds. Transactions entered into by WAM on behalf of the WAM Funds are not based on the individual needs of investors in the WAM Funds.

### **iii) Management of Client Assets**

As of March 2020, WAM managed approximately \$2.3 billion in assets on a discretionary basis on behalf of the WAM Funds.

#### **Item 5 - Fees and Compensation**

##### **Wolverine Flagship Funds**

In its capacity as investment adviser to the WFFTL, WAM receives a quarterly management fee ranging from 1% to 1.75% per annum (scales down for larger investments – see below) of the quarter-end net asset value of an investor's interest in the Wolverine Flagship Funds. WAM also is entitled to an annual performance allocation ranging from 20%-30% of any new profits over a "high-water mark" experienced by an investor's interest in the Wolverine Flagship Funds.

WAM, in its sole discretion, may reduce or waive in whole or in part its performance allocation and/or management fee with respect to one or more investors in the Wolverine Flagship Funds, including, without limitation, its affiliates, its and their principals and employees and members of their respective families. In exercising its discretion, WAM has granted management fee reductions to investors for marginal investments in the Wolverine Flagship Funds above three different investment thresholds – \$50 million, \$100 million and \$200 million. At the current time, management fee reductions associated with marginal investments above these thresholds are 0.25%, 0.50% and 0.75%, respectively. The management fee is also further reduced if aggregate investment in the WFFTL by third-party investors exceeds \$1.75 billion. In addition, WAM offers investors in the Wolverine Flagship Funds two alternative fee structures: (i) for investments in excess of \$200 million, the management fee is 1.25% and the performance allocation is subject to a hurdle amount; and (ii) for investments in excess of \$250 million, the fee structure is based on the cumulative return and volatility of the investor's performance within the Wolverine Flagship Funds. The details of such fee structures are in the offering memoranda or are available directly from WAM upon request.

##### **Wolverine Intrinsic Funds**

In its capacity as investment adviser to the Wolverine Intrinsic Funds, WAM receives a quarterly management fee of 1.75% per annum of the quarter-end net asset value of an investor's interest in the Wolverine Intrinsic Funds. WAM also is entitled to an annual performance allocation of 20% of any new profits over a "high-water mark" experienced by an investor's interest in the Wolverine Intrinsic Funds. WAM, in its sole discretion, may reduce or waive in whole or in part its performance allocation and/or management fee with respect to one or more investors in the Wolverine Flagship Funds, including, without limitation, its affiliates, its and their principals and employees and members of their respective families.

Management fees are paid quarterly in arrears. If an investor withdraws from a WAM Fund other than during an applicable withdrawal period, the management fee for such partial period will be prorated. Performance allocations are paid annually in arrears based on the year-end net asset value of the WAM Funds. If an investor withdraws from a WAM Fund other than during an applicable withdrawal period, the performance allocation will be calculated and deducted at such

withdrawal date. Investors in the Wolverine Flagship Funds may be subject to an early redemption charge of 2% or 3% in certain classes offered in the Wolverine Flagship Funds.

WAM Funds may invest in each other. In such cases, WAM waives, adjusts or offsets management fees and performance allocations as necessary to avoid the layering or duplication of fees.

### Expenses

WAM bears its *pro rata* portion of all of the WAM Funds' expenses related to its investment activities, including brokerage commissions and other costs of executing transactions, "bid-ask" spreads, mark-ups, investment expenses and all other expenses (including, without limitation, all commissions, clearing fees, custody fees, foreign exchange fees, valuation and portfolio pricing, interest charges, financing charges and applicable withholding and other taxes) related to the acquisition, disposition and restructuring of the WAM Funds' investments, the costs of trading, research and/or data screens, as well as risk management and data services and systems (including, without limitation, the costs of utilizing and/or supporting risk-reporting technology required by consultants retained by or on behalf of institutional investors), investment-related legal expenses, investment research expenses (including, without limitation, conferences, research-related travel and due diligence expenses related to research-vendor selection, and the costs of research-related publications and periodicals), and due diligence expenses related to maintaining service-provider relationships with the WAM Funds (including any travel-related due diligence costs), including the cost and expense related to organizing any SPV operating as a subsidiary of the WAM Funds and their investment activities.

WAM also pays for its own direct administrative and operating expenses as may be incurred (and its share of the direct administrative and operating expenses applicable to the WAM Funds and any "trading company" operating as a subsidiary of the WAM Funds), including the Administrator's fees, Directors' fees, legal fees, audit, appraisal, financing and accounting fees, taxes and any similar amounts, fees and expenses of the WAM Funds' "partnership representative," governmental charges and duties, costs of fulfilling bonding requirements under ERISA (as defined herein), if applicable, as well as the costs of maintaining accounts and of preparing and distributing reports. Expenses incurred in connection with the ongoing offering of shares, including the expenses of updating this brochure, are borne by the WAM Funds. The WAM Funds also will be responsible for their non-recurring extraordinary expenses, including without limitation, expenses of litigation and related legal fees and expenses. To the extent expenses to be borne by the WAM Funds are paid by WAM, WAM will be reimbursed for such expenses, unless WAM in its sole discretion, waives such reimbursement. WAM pays for its overhead and administrative expenses, including employee salaries and employee benefits and expenses related to office space, utilities, computer equipment and software.

The WAM Funds' operating expenses include, without limitation: (i) brokerage commissions and other costs of executing transactions, including externally incurred costs of establishing computer and systems connections with the WAM Funds' brokers and counterparties; (ii) the installation, implementation and maintenance of order management and execution management systems and software; (iii) investment expenses and all other expenses (including, without limitation, all commissions, clearing fees, valuation and portfolio pricing, interest charges, financing charges and applicable withholding and other taxes) related to the purchase, sale,

transmittal or custody of trading assets and related items, as well as costs and expenses associated with obtaining and maintaining U.S. and non-U.S. firm and individual regulatory licenses and exchange memberships; (iv) the costs of trading, research and/or data screens, as well as risk management and data services and systems (including, without limitation, the costs of utilizing and/or supporting risk-reporting technology required by consultants retained by or on behalf of institutional investors); (v) tax preparation and “Partnership Representative” fees and expenses; (vi) any taxes (and similar amounts) and duties payable in any jurisdiction in connection with the WAM Funds’ trading and operations; (vii) custody fees and expenses; (viii) insurance premiums (including, without limitation, Errors & Omissions, Directors & Officers and general liability insurance); (ix) legal, accounting, auditing and other professional fees and expenses, including, without limitation, fees and expenses incurred by a third-party investor representative committee (if applicable), the costs of negotiating trade-related and account-specific counterparty documentation, and risk, intellectual property-related, and other consulting fees that are related to the WAM Funds and its operations; (x) administrative costs (including, without limitation, the fees and out-of-pocket expenses of the administrator and its agents as well as any other third-party administrator which WAM may select for the WAM Funds), establishing computer and systems connectivity with the administrator and other third-party service providers, the costs of agency, transfer agency, accounting verification (if any) and/or investor registrar services and the costs of middle- and back-office support as provided by the administrator; (xi) the costs and fees attributable to any third-party proxy voting service or consultant; (xii) the cost and fees attributable to third-party consultants which provide advice to WAM relating to the operation of the WAM Funds (other than in respect of its investment strategies); (xiii) any other operating or administrative expenses related to accounting, research, third-party consultants and reporting that are related to the WAM Funds and its operations; (xiv) all other costs related to the WAM Funds’ investments; (xv) costs and expenses relating to the WAM Funds, the WAM Funds’ and WAM’s U.S. and non-U.S. registration, regulatory and self-regulatory filings (including, without limitation, Forms 13D, 13F, 13G, 13H, PF, ADV and CPO-PQR, and other filings and reports the preparation and submission of which currently or in the future may be required of WAM under applicable law), reporting, registrations and memberships, compliance, including, without limitation, costs of compliance programs, third-party compliance consultants, actual and “mock” examinations, regulatory and governmental inquiries, subpoenas and proceedings (in each case, whether involving the WAM Funds or WAM in its capacity as investment manager/managing member of the WAM Funds); (xvi) investment research expenses; (xvii) due diligence expenses related to maintaining service-provider relationships with the WAM Funds (including any travel-related due diligence costs); (xviii) the WAM Funds’ *pro rata* share of the annual fees and expenses of the directors; (xix) costs associated with the ongoing offering of the WAM Funds; (xx) costs resulting from any entities used in the course of the WAM Funds’ trading and investing; and (xxi) any indemnification payments.

For the avoidance of doubt and without limitation, “research” as used in this section includes: communications with advisors, counsel, experts and consultants; research services; reports; publications; data; analysis; advice; conferences; management and shareholder meetings; and any travel related to the foregoing, in each case relating to, without limitation, general or specific research topics relating to macroeconomic factors, trends, markets, geographic sectors, industries and particular companies, transactions and investments, regardless of whether any such transaction or investment is ultimately closed, acquired or completed.

New WAM Funds may incur organizational expenses to be reimbursed to WAM and will be, for net asset value purposes, amortized on the books of the WAM Funds against the Net Asset

Value of the WAM Funds over a period of sixty (60) months. Such treatment may be a divergence from GAAP. The amortization of organizational expenses for financial statement (but not Net Asset Value) purposes may be accelerated in WAM's discretion in order to avoid a qualified opinion on the WAM Funds' financial statements. In the event that the WAM Funds are wound up and liquidated prior to the completion of the amortization of organizational expenses, the unamortized portion of such organizational expenses will be deemed amortized on an accelerated basis from the date that the WAM Funds determine to commence its liquidation through the effective date of liquidation. For the avoidance of doubt, no organizational expenses shall be paid by any affiliated fund.

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

As described above, WAM is entitled to an annual performance allocation equal to the fee structures described above in Item 5 with respect to the WAM Funds. The performance allocations may give WAM an incentive to trade in a more risky or speculative manner than would otherwise be the case if WAM was only compensated based on a percentage of assets. In addition, WAM may receive increased compensation under the performance allocations based on unrealized appreciation as well as realized gains experienced by the WAM Funds. WAM, however, believes that the use of performance allocations on new profits (i.e., above a high-water mark), which is standard practice in the hedge fund industry, helps to align the interests of WAM and its principals with those of investors in the WAM Funds.

#### **Item 7 - Types of Clients**

WAM serves as the discretionary investment adviser to the WAM Funds. Investments in the WAM Funds are made available only to "accredited investors" (as defined in Regulation D under the Securities Act of 1933, as amended, or "1933 Act") and "qualified purchasers" (or "knowledgeable employees"), as defined in the Investment Company Act of 1940 (the "Investment Company Act"). The minimum investment required by the WAM Funds is \$2 million, which may be reduced in WAM's sole discretion.

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

##### **i) Methods of Analysis**

WAM attempts to capture returns on capital through the purchase of securities below their theoretical fair value and through the prudent reduction of related sources of risk. By using this approach, WAM believes that price variations will be minimized and returns will be captured as theoretically mispriced securities accrete to fair value.

Some of the strategies employed by WAM include: (i) capital structure arbitrage, which is a relative value strategy focused on capturing investment opportunities across corporate capital structures; (ii) event-driven arbitrage, which is a strategy that seeks to capture excess risk premium in companies that are expected to experience a corporate transaction or other catalyst that affects the value of their securities; (iii) net asset value arbitrage, which seeks to generate returns by exploiting short-term and medium-term mean reversion in closed-end fund discounts; (iv) relative value equity trades, which are developed using quantitative, top-down and bottom-up fundamental research; and



(v) volatility arbitrage, which encompasses a variety of trading disciplines including relative value, convexity and liquid indices and aims to generate performance that is uncorrelated to the market. Risks associated with these strategies include equity market risk, market volatility risk, interest rate risk, credit risk and liquidity risk.

WAM's investment strategies are under continuous development and evolution. WAM anticipates that it will continue to add and/or remove strategies to the WAM Funds in the future. The composition of WAM's portfolio can be expected to change, possibly materially, over time, as the arbitrage and relative value strategies implemented by WAM continue to evolve.

## **ii) Investment Strategies**

### **Wolverine Flagship Funds**

The Wolverine Flagship Funds' investment objective is to seek returns on capital primarily through the use of arbitrage, relative value, and various macro strategies. WAM currently offers the following investment strategies, some or all of which may be employed opportunistically for the Wolverine Flagship Funds:

*Capital Structure Arbitrage.* Capital structure arbitrage is a relative value strategy focused on capturing investment opportunities across corporate capital structures. The Investment Manager looks for mispriced securities or assets and either buys a security if it is underpriced or sells short (sell without owning) a security if it is overpriced. The Investment Manager seeks out mispriced securities by determining the fair value of the securities using a combination of theoretical valuation and trading judgment based on the Investment Manager's experience in the marketplace. This strategy primarily uses corporate bonds, preferred securities and warrants, as well as listed equities, options and futures.

*Event-Driven.* Event-driven is a strategy that seeks to capture excess risk premium in companies that are expected to experience a corporate transaction or other catalyst that affects the value of their securities. These events may include mergers and acquisitions, tender offers, asset sales, spinoffs, debt refinancing, reorganizations, bankruptcies, litigation, and capital-markets transactions. Risk factors that complicate the strategy include deal termination/adjustment, deal timing, election/proration uncertainty, deal financing, the existence of multiple acquirers, the actions of other security holders, market dynamics, and the outcome of court proceedings or litigation. Event-driven investing may include, but is not limited to, merger arbitrage (also known as risk arbitrage), catalyst-driven credit investing, special situation investing and distressed investing.

*NAV Arbitrage.* The NAV arbitrage strategy consists of the Closed-end Fund Arbitrage strategy and the REIT Arbitrage strategy. The Closed-end Fund Arbitrage strategy seeks to generate returns by exploiting short-term and medium-term mean reversion in closed-end fund discounts. The strategy actively trades in closed-end funds. The strategy is intended to be market-neutral by hedging out NAV risk primarily with exchange-traded funds ("ETFs"). The REIT Arbitrage strategy seeks to capture relative differentials in price-to-book ratios of mortgage, property and commercial REITs. The strategy takes long and short positions in equities while hedging net exposures to the underlying assets with MBS and interest rate futures.

*Relative Value Equity.* Relative value equity trades are developed using quantitative, top-down and bottom-up fundamental research. Trading opportunities are ranked and sized based on Sharpe ratio analysis, as a standalone investment, as well as its contribution to the overall portfolio. Trades are structured with an intent to achieve the highest possible risk-reward using both equity and options. Risk management also plays a key role in the portfolio construction process by dissecting exposures into key components (systematic, residual, and catalyst based), and creating a framework to enumerate and control portfolio risk. Potential outcomes are further assessed utilizing model-based probability distribution, historical portfolio back-testing, and scenario and sensitivity analysis.

*Volatility.* The volatility strategy deploys a variety of proprietary volatility strategies including systematic, discretionary, and tail-risk strategies. These strategies encompass a variety of trading disciplines including relative value, convexity and liquid indices. The strategy seeks to exploit both low- and high-frequency pricing dislocations across related derivative securities by using a proprietary technology platform to execute candidate trades and attempt to optimize trading costs. The main objective of the volatility strategy is to generate performance that is uncorrelated to the market.

#### Wolverine Intrinsic Funds

The Wolverine Intrinsic Funds' investment objective is to generate attractive risk-adjusted absolute returns with low correlation to equities, credit, and other traditional asset classes, primarily through the use of derivatives-based trading strategies. WAM may employ one or more of the strategies discussed above with respect to the Wolverine Intrinsic Funds, however, it will primarily focus on employing the *Volatility* strategy that was previously employed within WFFTL that has moved to WIMFL. WFFTL gets exposure to the volatility strategy via its direct investment into WIMFL.

WAM currently offers the following investment strategies, some or all of which may be employed opportunistically for the Wolverine Intrinsic Funds:

*Index:* WAM identifies and implements attractive options-based trading positions across a spectrum of global indexes. Typically, these are highly liquid indexes derived from large market capitalization equities or their related derivatives. Returns are generated from the differential between the prices of the options themselves and the cost of their associated derivatives-based replicating portfolio.

*Relative Value:* WAM invests in derivatives positions across products, where respective valuation and risk characteristics have offsetting features. Examples include: vega-neutral dispersion products, like correlation swaps and geometric baskets, as well as bank re-insurance trades sourced from structured product hedging demand. The return differential between the single-product positions is the key determinant of strategy performance.

*Lay-Off:* WAM invests opportunistically in an attempt to harvest mean reversion from liquidity-based dislocations in various derivative securities, particularly options. Typical trades are arbitrage positions across options of mechanically related exchange-traded products and positions that offset liquidity demand from end customer order flow. Returns are largely driven by the rate of price mean reversion.

*Securities:* WAM invests in attractive equity-linked instruments such as warrants and mandatorily convertible preferred shares. Returns stem from differences between implied and realized volatilities, cash flows paid by the securities, and differences between implied and realized financing differentials.

#### Other

For additional discussion related to WAM's use of the same or similar investment strategies on behalf of the WAM Funds, please see Item 10.

### **iii) Risks**

WAM's trading strategies are speculative and involve significant risks. There can be no assurance that WAM will achieve its investment objective on behalf of its clients. In fact, many of the practices utilized by WAM such as short selling and leverage can, in certain circumstances, exacerbate the adverse impact of particular transactions and conditions on our investment program and consequently the performance of the WAM Funds. Investors in the WAM Funds must be prepared to lose all or substantially all of their investment. Some of the material risks of an investment in the WAM Funds and/or associated with WAM's investment strategies are as follows:

*Inherent Limitations of Disclosure.* The descriptions of WAM's strategies, the markets in which the WAM Funds trade, the risk factors and conflicts of interest involved in doing so and other aspects of the WAM Funds' operations are subject to material inherent limitations and do not purport to be complete. In investing in the WAM Funds, shareholders are entrusting their capital, on essentially a "blind pool" basis, to the subjective, discretionary market judgment of WAM trading in changing, volatile and uncertain markets pursuant to strategies which can only be described in broad and non-specific terms. No one should invest in the WAM Funds who is not — irrespective of the disclosures made — capable of understanding and evaluating the risks of such an investment.

*Risk of Loss or Low Returns.* There can be no assurance the WAM Funds will achieve their objectives. Furthermore, WAM may expand the WAM Funds' portfolio into new market sectors, instruments and strategies. Consequently, the WAM Funds' investment record at any given time may not be representative of its current or future investment approach. Investors may lose all or substantially all of their investment in the WAM Funds, or may achieve financial returns that are below their expectations and below the returns achieved by other investment strategies. ***Past performance is not necessarily indicative of future results.***

*General Market Conditions.* While it is possible for the WAM Funds current and potential strategies to be profitable during both upward and downward market cycles, there are certain market conditions in which different strategies have a materially reduced likelihood of success. It is impossible to predict future market conditions, and certain market conditions could be materially adverse to the prospects for the WAM Funds. The particular or general types of market conditions in which the WAM Funds may incur losses or experience unexpected performance volatility cannot be predicted, and the WAM Funds may materially underperform other investment funds with substantially similar investment objectives and approaches. Moreover, a fundamental component of WAM's strategies will generally attempt to hedge market or other risks inherent in the WAM Funds' portfolio. WAM may determine that it is economically unattractive, or otherwise

undesirable, to hedge certain risks (and instead may rely on diversification or other strategies in order to maximize portfolio value and control such risks.

*Nature of Investments.* WAM has broad discretion in making investments for the WAM Funds. Investments generally consist of equity and debt securities, derivatives and other assets that may be affected by business, financial market or legal uncertainties. There can be no assurance that WAM will correctly evaluate the nature and magnitude of the various factors that could affect the value of and return on investments. Prices of investments may be volatile, and a variety of factors that are inherently difficult to predict, such as U.S. or non-U.S. economic and political developments, may significantly affect the results of the WAM Funds' activities and the value of its investments.

*Market Disruptions; Governmental Intervention.* The global financial crises of 2008-2009 witnessed pervasive and fundamental disruptions to the global financial markets that have led to extensive and unprecedented governmental intervention. Such intervention was in certain cases implemented on an "emergency" basis, suddenly and substantially eliminating market participants' ability to continue to implement certain strategies or manage the risk of their outstanding positions. Future disruptions may result in similar government interventions. As one would expect given the complexities of the financial markets and the limited time frame within which governments have felt compelled to take action, such interventions are often unclear in scope and application, resulting in confusion and uncertainty which in itself has been materially detrimental to the efficient functioning of the markets as well as previously successful investment strategies.

The WAM Funds may incur major losses in the event of disrupted markets, and other extraordinary events in which historical pricing relationships become materially distorted. The risk of loss from pricing distortion is compounded by the fact that in disrupted markets many positions may become illiquid, making it difficult or impossible to close out positions against which the markets are moving. The financing available to the WAM Funds from its banks, dealers and other counterparties is typically reduced in disrupted markets. Such a reduction may result in substantial losses to the WAM Funds. Market disruptions may from time to time cause dramatic losses for the WAM Funds, and such events can subject otherwise historically low-risk strategies to unprecedented volatility and risk.

*Effect of Speculative Position Limits.* The CFTC and U.S. futures exchanges as well as certain non-U.S. exchanges (the "Futures Exchanges") impose limits referred to as "speculative position limits" on the maximum net long or net short speculative positions that any person may hold or control in any particular futures or options contract traded on the Futures Exchanges. For example, the CFTC currently imposes speculative position limits on a number of agricultural commodities (e.g., corn, oats, wheat, soybeans and cotton) and the Futures Exchanges currently impose speculative position limits on many other futures and options contracts. The WAM Funds could be required to liquidate positions it holds in order to comply with position limits or may not be able to fully implement trading instructions generated by its trading models, in order to comply with position limits. Any such liquidation or limited implementation could result in substantial costs to the WAM Funds.

*Possible Positive Correlation with Stocks and Bonds.* Although the WAM Funds have a relative value orientation and seeks to be profitable regardless of whether broader market indices rise or fall, certain of the WAM Funds' investments are correlated with the general equity and bond

markets. Even investments that are intended to be uncorrelated to the equity and/or bond markets may, in hindsight, be more correlated than expected.

*Service Provider and Counterparty Risk.* Institutions, such as banks and brokers, have custody of the assets of the WAM Funds. Bankruptcy or fraud at one of these institutions may cause a fund to lose all or a portion of its assets held by those custodians or to be unable to access those assets for an extended period of time. For instance, in September of 2008, the bankruptcy of certain Lehman Brothers subsidiaries resulted in certain investment funds being unable to access their cash or securities.

The markets in which the WAM Funds effects some of its transactions are OTC or “interdealer” markets. Unlike members of “exchange-based” markets, the participants in such markets are typically not subject to credit evaluation and regulatory oversight. This exposes the WAM Funds to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the WAM Funds to suffer a loss. This counterparty risk is accentuated for contracts with longer maturities or that have greater volatility if, as is typically the case, there is no requirement on the counterparty to make mark-to-market payments, exposing the WAM Funds to large counterparty obligations.

The risk of a large loss may be greater if the WAM Funds have concentrated their transactions with one or a few counterparties. However, transacting with many counterparties may increase the risk of incurring some loss (albeit a smaller loss). The WAM Funds are not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty.

The events at Refco, Inc., Bear Stearns & Co., Inc., Lehman Brothers, American International Group, Inc. and MF Global, Inc. since 2007 demonstrated the extent to which investors, especially investors trading with leverage or who have otherwise posted substantial collateral with counterparties, are exposed to counterparty risk.

*Suspensions of Trading.* Financial exchanges may from time to time suspend or limit trading. Such a suspension could render it difficult or impossible for the WAM Funds to liquidate affected positions and thereby expose them to losses. There is also no assurance that off-exchange markets will remain liquid enough for the WAM Funds to close out positions. When there is aberrational trading or pricing activity in the markets, such as the “flash crash” that occurred on May 6, 2010, financial exchanges and government regulators may impose ad hoc or after-the-fact measures such as cancelling trades or orders. The imposition and effects of such measures are unpredictable and may causes material losses to market participants such as the WAM Funds.

*Market Risks in General.* All of WAM’s strategies are subject to some dimension of market risk, including directional price movements, deviations from historical pricing relationships, changes in the regulatory environment, changes in interest rates, changes in market volatility, changes in the liquidity of certain positions or categories thereof, flights to quality, credit squeezes and other market conditions. WAM’s style of investing is risky, and potentially more risky than other investing strategies. Numerous examples exist of hedge fund strategies, particularly those that involve the use of leverage or illiquid securities, from time to time incurring sudden and dramatic

losses arising from market risk and other factors. There can be no assurance that the Fund will not sustain a sudden, dramatic — and potentially total — loss.

The WAM Fund's positions and strategies may not be diversified at particular points in time. Regardless, diversification, even if significant, may not provide meaningful risk control. In fact, diversification may reduce the WAM Fund's profit potential as a result of certain strategies being unprofitable while others are profitable.

*Political Uncertainty.* Some of the results of recent elections and referenda in the United States, the United Kingdom, Italy and other developed market countries have been unexpected and resulted in material market changes and increases in market uncertainty. Given recent changes in administrations and applicable law following these votes, the future of current regulations, or the adoption of new regulations, is also uncertain. These uncertainties may have adverse impacts on, or alternatively create investment opportunities for the WAM Funds.

*Volatility.* The prices of the instruments traded by WAM have been subject to periods of excessive volatility in the past, and such periods can be expected to recur. Price movements are influenced by many unpredictable factors, such as market sentiment, inflation rates, interest rate movements and general economic and political conditions. Governments from time to time intervene, directly and/or by regulation, in certain markets, particularly those in currencies and interest rate related futures and options. Intervention is often intended to influence prices and may, together with other factors, cause such markets to move rapidly.

While market volatility can create profit opportunities for the WAM Funds, it can also create the risk that historical or theoretical pricing relationships will be disrupted, causing what may otherwise have been considered to be comparatively low risk positions to incur significant losses.

*Stagnant Markets.* Although volatility is one indication of market risk, certain of the investment strategies employed by WAM depend on market volatility for their profitability. In periods of trendless, stagnant markets and/or deflation, many alternative investment strategies have materially diminished prospects for profitability.

*Inflation.* Global infusion of credit could eventually lead to material levels of inflation, particularly in the less developed nations in which WAM may invest a portion of its portfolio. Inflation and rapid fluctuations in inflation rates have had, and may continue to have, negative effects on the economies and securities markets of many countries. There can be no assurance that inflation will not become a serious problem in the future and have an adverse effect on the WAM Funds' returns.

*Concerns Regarding Europe; "Brexit".* There is often a high degree of government regulation in European economies, including in the securities markets. Action by such governments may directly affect foreign investment in securities in those countries and may also have a significant indirect effect on the market prices of securities and of the payment of dividends and interest. Changes in policy with regard to taxation, fiscal and monetary policies, repatriation of profits, and other economic regulations are possible, any of which could have an adverse effect on private investments.

The United Kingdom and other European countries have undergone a substantial political and social transformation and there can be no assurance that the economic, educational and political reforms necessary to complete political and economic transformation will continue. In June 2016, the United Kingdom held an “in-or-out referendum” on the United Kingdom’s membership of the European Union (the “EU”), the result of which favored the exit of the United Kingdom from the EU, commonly known as “Brexit.” More recently, the United Kingdom Prime Minister, Theresa May, activated Article 50 of the Lisbon Treaty, which is the official mechanism through which Brexit will be implemented. The United Kingdom currently has the largest financial services sector in the EU. A process of negotiation will determine the future terms of the United Kingdom’s relationship with the EU which could take many forms. In the meantime, the United Kingdom remains a member of the EU. The potential impact of Brexit on the Fund, the WAM Funds and WAM is currently unclear. Depending on the terms of Brexit, economic conditions in the United Kingdom, the rest of the EU and global markets may be adversely affected by reduced economic growth and volatility. The uncertainty before, during and after the period of negotiation could also have a negative economic impact and increase volatility in the financial markets, particularly, but not exclusively, in the EU. This volatility and negative economic impact could, in turn, adversely affect the net asset value, liquidity and trading of the Fund. Further items that may be affected by Brexit may include the passporting of financial services within the EU and the ability of the Fund to raise capital from investors within the EU. It is possible that Brexit will stimulate further calls for referenda and political instability among member states of the EU and in the United Kingdom itself with attendant risks.

In addition, global markets and economic conditions have been negatively impacted by the ability of certain EU member states to service their sovereign debt obligations. The continued uncertainty over the outcome of the EU governments’ financial support programs and the possibility that other EU member states may experience similar financial troubles could further disrupt global markets. In particular, it has and could in the future disrupt equity markets and result in volatile bond yields on the sovereign debt of EU members. These factors could have an adverse effect on the Fund.

The uncertainty and market stress resulting from “Brexit,” coupled with the sovereign debt crisis, could also cause, among other things, severe disruption to equity markets, significant increases in bond yields generally, potential failure or default of financial institutions, including those of systemic importance, a significant decrease in global liquidity, a freeze-up of global credit markets and worldwide recession. Many of these effects have already been felt in connection with Brexit, but they could be magnified in the event of further departures from, or a complete breakup of, the EU.

*MiFID II.* The EU Markets in Financial Instruments Directive (Directive 2014/65/EU) and Markets in Financial Instruments Regulation (Regulation (EU) No 600/2014) (together, “MiFID II”) governs the provision of investment services and activities in relation to, as well as the organized trading of, financial instruments such as shares, bonds, units in collective investment schemes and derivatives. MiFID II was required to be implemented in EU member states from January 3, 2018. Although the WAM Funds are not organized in the EU, and are not authorized or regulated by any EU member state financial services regulator, certain aspects of MiFID II may have an impact on the WAM Funds.

MiFID II imposes certain restrictions as to the trading of shares and derivatives, which could apply to transactions made by or with the WAM Funds. Subject to certain conditions and exceptions, the WAM Funds may be unable to trade shares or derivatives with affected counterparties other than as provided by MiFID II. MiFID II also applies position limits to the size of a net position that a person can hold at all times in commodity derivatives traded on EU trading venues and in “economically equivalent” OTC derivatives.

More generally, EU regulated firms that have trading relationships with the WAM Funds may be obliged by MiFID II to impose certain requirements on the WAM Funds, or they may seek to do so contractually, with a view to satisfying their own compliance obligations. It is difficult to predict the full impact of MiFID II on the WAM Funds. Prospective investors should also be aware that there may be costs (whether direct or indirect) of compliance with MiFID II.

*European Market Infrastructure Regulation.* In addition to MiFID II, the European Market Infrastructure Regulation (“EMIR”) introduced certain requirements in respect of derivative contracts, which apply to varying degrees to entities established in the EU, regardless of whether they are transacting with counterparties established in the EU or outside of the EU. As such, where the WAM Funds transacts with EU counterparties, they will likely require the transaction to be EMIR-compliant, with the result that the WAM Funds become subject to additional obligations and/or costs that may not otherwise have applied.

Broadly, EMIR’s requirements in respect of derivative contracts are: (i) mandatory clearing of OTC derivative contracts declared subject to the clearing obligation; (ii) risk mitigation techniques in respect of uncleared OTC derivative contracts; and (iii) reporting and record-keeping requirements in respect of all derivative contracts. The application of these requirements is dependent on the classification of the counterparties as financial counterparties (“FCs”), non-financial counterparties above the clearing threshold (“NFC+s”) or non-financial counterparties below the clearing threshold (“NFC-s”) and trading systems with programming logic errors.

Prospective investors should be aware that there may be ongoing costs (whether direct or indirect) of compliance with EMIR, and that EMIR may adversely affect the WAM Funds’ ability to engage in certain transactions in derivatives.

*Equity Market Risk.* WAM attempts to minimize the WAM Funds exposure to the performance of the equity markets in general and the specific equities underlying its portfolio by buying or selling common stock against the portfolio. For example, each convertible security in the portfolio has an associated theoretical value (or delta), which represents the rate at which the convertible security’s price is expected to change given a change in the price of the underlying common stock. The delta is then used to determine the number of shares of the underlying stock to be shorted against the convertible stock or bonds to protect against price movement in the underlying stock.

*Market Volatility Risk.* The WAM Funds trade securities that can carry substantial embedded volatility risk. For example, a long convertible security/short common stock trade carries long volatility exposure. If during the lifetime of the position the underlying common stock realizes a higher volatility than used in our model for the purpose of computing fair value of the convertible security, the position will have greater gains than what was theoretically predicted. Conversely, a lower realized volatility would result in a lower gain than what was theoretically predicted. Where



appropriate, the WAM Funds will attempt to hedge our volatility exposure if such a hedge is reasonably available.

*Interest Rate Risk.* The WAM Funds expect to purchase investment instruments that tend to have long maturities and can have considerable exposure to movements in interest rates. Where appropriate, we expect to hedge interest rate exposure if such a hedge is reasonably available. Creating a hedge against interest rate exposure, however, is dependent on the relationship between the U.S. government bond yield curve and the yield curve for many of the investment instruments we expect to purchase. That relationship is difficult to ascertain and therefore any interest rate hedge is likely to be imperfect. Nevertheless, the WAM Funds expect to have low exposure to movements in the U.S. government bond yield curve.

*Credit Risk.* Where appropriate, the WAM Funds will attempt to hedge credit exposure if such a hedge is available and adds theoretical value. The WAM Funds intend to hedge default risk but may have exposure to short-term movements in the credit markets.

*Liquidity Risk.* A percentage of the WAM Funds' convertible or other securities positions may be comprised of securities referred to as "Rule 144A securities." Rule 144A securities have not been registered with the SEC for public sale, and can only be purchased by "qualified institutional buyers" as defined in the 1933 Act. The WAM Funds also may invest in convertible or other securities sold by public companies in the private capital markets. Private securities are generally subject to substantial restrictions on resale.

The WAM Funds may also may engage in OTC derivatives transactions to hedge its credit and volatility exposure or as a means of generating positive theoretical value. For example, the WAM Funds may enter into volatility and variance swaps. These swaps are illiquid and the WAM Funds might only be able to liquidate these positions at disadvantageous prices.

There can be no guarantee that a secondary market will develop in any of the investment instruments the WAM Funds trade.

*Relative Value Strategy Risks.* The WAM Funds will generally seek to employ investment strategies that are not correlated to the general equity and debt markets, including identifying and exploiting relative mis-pricings among interrelated instruments. Such "relative value" strategies seek to reduce exposure to the risk of overall market price movements, but in pursuing such strategies the WAM Funds remain exposed to the risks of disruptions in historical price relationships, the restricted availability of credit and the obsolescence of its valuation models. These second-order risks are different in nature, but not necessarily in magnitude, from directional market risks.

Relative value strategies include taking long positions in securities believed to be undervalued and short positions in securities believed to be overvalued. Although such relative value positions are sometimes considered to have lower risk than directional trades, they are by no means without risk. Mis-pricings, even if correctly identified, may not be corrected by the market within the time frame within which the WAM Fund maintains its positions. Even pure "riskless" arbitrage can result in significant losses if the arbitrage is not able to be sustained until expiration (due to securities borrowing recalls or margin calls, for example) and the WAM Funds rarely engage in true arbitrage as opposed to relative value trading, which is inherently a higher-risk

strategy. In the event that the perceived mis-pricings underlying the WAM Funds' trading positions fail to converge toward, or diverge further from, WAM's expectations, the WAM Funds may incur losses.

A number of relative value strategies have incurred major losses from time to time during periods when historical pricing relationships have become disrupted, dealers have restricted credit and market liquidity has declined.

*Event-Driven Strategy Risks.* Event-driven investment strategies seek to profit from anticipated events affecting specific companies or securities. If and when WAM determines that it is probable that a proposed merger, exchange offer, cash tender offer or other similar transaction will be consummated, the WAM Funds may purchase securities at prices that may be only slightly below the anticipated value to be paid or exchanged for the securities in the proposed transaction. The purchase price to the WAM Funds may be substantially above the prices at which such securities traded immediately prior to the announcement of such transaction. If the proposed transaction appears likely not to be consummated or in fact is not consummated or is delayed, or if the value of a transaction is reduced, the market price of the security to be tendered or exchanged may, and likely will, decline sharply by an amount greater than the difference between the WAM Funds' purchase price and the anticipated consideration to be paid. If WAM determines that the offer price for a security which is the subject of a tender offer is likely to be increased, either by the original bidder or by another party, the WAM Funds may purchase securities above the offer price, thereby exposing the WAM Funds to an increased risk of loss.

Where WAM determines that it is probable that a transaction will not be consummated, the WAM Funds may sell the securities of the target company short, at times significantly below the announced tender or offering prices for the securities in the transaction. If the transaction, or another transaction, such as a "defensive" merger or a "friendly" tender offer, is consummated at the announced price or a higher price, the WAM Funds may be forced to cover the short position in the market at a higher price than the short sale price, with a resulting, and perhaps significant, loss.

The consummation of mergers, exchange offers, cash tender offers or other similar transactions can be prevented or delayed by a variety of factors due to opposition from management or shareholders; the intervention of a government regulatory agency, the SEC, the Antitrust Division of the U.S. Department of Justice or the U.S. Federal Trade Commission; litigation brought by a shareholder; market conditions resulting in material changes in securities prices; or other circumstances.

Event driven investing is risky, and the returns tend to be unpredictable. This element of the WAM Fund's portfolio therefore adds volatility to the WAM Fund's performance. Because of the inherently speculative nature of event driven investing, the results of the WAM Fund's operations should be expected to fluctuate from period to period.

*Model Risk.* WAM's strategies are based in part on proprietary models for valuing and analyzing investment opportunities. Competitors and other market participants commit substantial resources to updating and maintaining existing models as well as to the ongoing development of new models and algorithms. As market dynamics shift over time, a previously successful model may become outdated or inaccurate, perhaps without WAM recognizing that fact before substantial

losses are incurred. There can be no assurance that WAM will be successful in developing and maintaining effective models.

*Lower Grade Securities.* Because WAM may invest in lower rated debt and equity linked securities on behalf of our clients, our clients' credit risks are greater than those of an account that buys only investment grade securities. Lower grade securities may be subject to greater market fluctuations and greater risks of loss of income and principal than investment grade securities. Securities that are (or have fallen) below investment grade are exposed to a greater risk that the issuers of such securities may not meet their obligations. The markets for these securities may be less liquid, making it difficult for WAM to sell them quickly at an acceptable price.

Lower grade securities may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability, and a tribunal's power to disallow, reduce, subordinate, or disenfranchise particular claims. In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (e.g., until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or new securities the value of which will be less than the purchase price to the WAM Fund of the securities in respect to which such distribution was made. WAM expects that from time to time companies in which the WAM Fund has invested will default, which could cause the WAM Fund to lose all or substantially all of its investment. These risks are often heightened by an inability to obtain reliable information about the companies and their true financial condition. These risks can reduce the client's account value and the income that it earns.

*Securities Lending and Borrowing.* The WAM Funds may lend or borrow securities in the ordinary course of business. In the event that the WAM Funds were to engage in securities lending the WAM Funds would be exposed to the risk that the third parties that borrow such securities might not be able to return these securities on demand (possibly causing the WAM Funds to default on its obligations to other parties or to be unable to exercise voting or other rights with respect to such securities), or may default on the payment obligations owed to the WAM Funds in connection with such securities loans, potentially resulting in substantial losses to the WAM Funds. In the case of securities borrowing, the WAM Funds are subject to the risk that the lender of such securities will recall them while the WAM Funds have an open short position, which could necessitate: (i) the location of securities available to borrow from another source (possibly at a materially higher cost); (ii) the unwinding of a short position earlier than anticipated (potentially affecting the WAM Funds' ability to hedge certain of its exposures); and/or (iii) the unwinding of related positions that WAM believes could be inadequately hedged if efforts to timely locate an alternative source of borrowed securities on appropriate terms prove unsuccessful.

*Special Situations.* A WAM Fund may invest in companies involved in or undergoing mergers, buy-outs, work-outs, liquidations, spin-offs, reorganizations, bankruptcies or similar transactions. In any investment opportunity involving any such a "special situation," there exists the risk that the contemplated transaction will be unsuccessful, will take longer than expected or will result in lower returns than expected. If an anticipated transaction does not occur, a WAM Fund may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies, there is a potential risk of loss by a WAM Fund of its entire investment in such companies.

*Distressed Securities.* The WAM Fund may invest in “distressed” securities — i.e., securities of issuers in weak financial condition, experiencing poor operating results, needing substantial capital investment, having low or negative net worth, facing special competitive or product obsolescence problems or involved in bankruptcy or other reorganization proceedings. Investments of this type may involve substantial financial and business risks that can result in significant or even total losses. Among the risks inherent in investments in entities experiencing significant financial or business difficulties is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers.

Distressed investments may be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability, and a tribunal’s power to disallow, reduce, subordinate, or disenfranchise particular claims. The market prices of such securities are also subject to abrupt and erratic market movements and above-average price volatility, and the spread between the bid and asked prices of such securities may be greater than those prevailing in other securities markets. It may take a number of years for the market price of such securities to reflect their intrinsic value. In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (e.g., until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or new securities the value of which will be less than the purchase price of the securities in respect to which such distribution was made.

*Emerging Markets.* WAM may invest, directly or indirectly, in emerging markets. Although WAM primarily expects to gain exposure to emerging markets through investments in ETFs and futures, WAM also may invest in emerging markets directly by purchasing individual securities. The risks described below for “International Investing” are typically increased to the extent that a fund invests in issuers located in less developed and developing nations. The securities markets of emerging countries are substantially smaller, less developed, less liquid and more volatile than the securities markets of the U.S. and other more developed countries. Disclosure and regulatory standards in many respects are less stringent than in the U.S. and other major markets. There also may be a lower level of monitoring and regulation of the markets and the activities of investors in certain less developed countries, and enforcement of existing regulations can be extremely limited. Emerging markets may have slower clearance and settlement procedures, higher transaction costs and investment restrictions that may restrict or delay trading. In addition, certain governments may require approval for, or otherwise restrict, the repatriation of investment income, capital or proceeds of sales of securities by foreign investors. War, governmental intervention, lack of capital, corruption, poor corporate management and limited resources are also common risks associated with investing in these markets.

*International Investing.* WAM may invest, directly or indirectly, in international markets. Although WAM primarily expect to gain exposure to international markets through investments in ETFs and futures, WAM also may invest in international markets directly by purchasing individual securities. Prospective investors should understand and consider carefully the greater risks involved in investing internationally. Investing in securities of non-U.S. issuers, positions which generally are denominated in foreign currencies, involve both opportunities and risks not typically associated with investing in U.S. securities. These include: fluctuations in exchange rates of foreign currencies; possible imposition of exchange control regulation or currency restrictions that would prevent cash from being brought back to the United States; less public information with respect to

issuers of securities; less governmental supervision of exchanges, securities brokers and issuers of securities; difficulties in obtaining and enforcing a judgment against a foreign issuer; different accounting, auditing and financial reporting standards; different settlement periods and trading practices; less liquidity and frequently greater price volatility in foreign markets than in the United States; imposition of foreign withholding and other taxes; and sometimes less advantageous legal, operational and financial protections applicable to foreign sub-custodial arrangements.

The cost of investing in securities of non-U.S. issuers can be higher than the cost of investing in U.S. securities. Investments in securities denominated in foreign currencies also involve the additional cost of converting currencies upon the purchase and sale of securities. In addition, we may engage in over-the-counter ("OTC") derivatives transactions to hedge credit and volatility exposure or as a means of generating positive theoretical value. These transactions are illiquid and WAM might only be able to liquidate these positions at disadvantageous prices to the WAM Funds, should WAM determine, or it becomes necessary, to do so.

*Small to Medium Capitalization Companies.* The WAM Fund may invest in and trade the debt and equity securities of companies with small to medium-sized market capitalizations in the United States and abroad. Small and medium capitalization companies provide significant opportunities, but they also involve higher risks in some respects than do investments in securities of larger companies. For example, prices of these securities are often more volatile than prices of large capitalization companies, and the public information regarding the securities of small to medium-sized companies may be less complete, accurate and timely. In addition, due to thin trading in some of these securities, investments may be less liquid than investments in the securities of larger capitalization companies.

*Use of Leverage.* The WAM Funds' investments generally are leveraged, at times, are highly levered. WAM uses leverage to enable it to make investments substantially in excess of its equity. Subject to each client's advisory agreement, WAM reserves the right to use as much borrowing and leverage as permitted under applicable law and under limits set forth by WAM's prime brokers. Although such techniques increase the opportunity for a higher return on investment, they also increase the risk of loss.

As a general matter, the institutions that provide financing to the WAM Funds may set and apply essentially discretionary policies and standards related to collateral and financing. Changes in such policies by banks and dealers to impose more restrictive credit limitations, whether due to market circumstances or government, regulatory or judicial action, may result in large margin calls, loss of financing, forced liquidations of positions at disadvantageous prices, termination of swap and repurchase agreements and cross-defaults to agreements with other dealers. Any such adverse effects may be exacerbated in the event that such limitations are imposed suddenly and/or by multiple market participants. The imposition of any such limitations could compel such WAM Funds to liquidate all or part of its portfolio at disadvantageous prices.

WAM may, from time to time, adjust the WAM Funds' leverage. Such adjustments may be in respect of certain markets or in respect of the WAM Funds' overall investment portfolio. Factors that may affect the decision to adjust leverage include: ongoing research, volatility of individual markets, risk considerations and WAM's subjective judgment and evaluation of general market conditions. Adjustments to leverage may result in greater profits or losses and increased brokerage

costs. No assurance can be given that any leverage adjustment will be to the financial advantage of investors in the funds.

*Short Sales.* WAM sells securities short as an aspect of its investment strategies. Because borrowed securities sold short must later be replaced by market purchases, any appreciation in the price of the borrowed securities results in a loss. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Furthermore, WAM may be prematurely forced out of a short position if the lender from which it borrowed stock, recalls such stock and such stock cannot be borrowed from other sources.

Governmental regulation arising from the 2008-2009 widespread disruption to the global economy may limit the WAM Funds' ability to engage in short sales. In 2008-2009, global prohibitions on short-selling certain stocks and other emergency short-selling measures resulted in tremendous strain on certain strategies. Short-selling is an integral component of many risk management methods and relative value investment strategies. However, such strategies were generally not exempted from the ban, causing dramatic disruption in the market for a wide range of Investment Instruments and losses for many market participants that were unable to hedge their exposures.

It is impossible to predict what additional interim or permanent governmental restrictions may be imposed on the markets in the event of another financial disruption and/or the effect of such restrictions on the strategies WAM employs on behalf of the funds. Further developments in the market and/or increased regulation could be materially detrimental to the funds.

*Convertible Securities.* Convertible securities are securities that may be exchanged or converted into a predetermined number of the issuer's underlying shares or the shares of another company, or securities that are indexed to a market index, at the option of the holder during a specified time period. Convertible securities exhibit characteristics of both equity and debt instruments, and while this complexity creates opportunities for the WAM Fund it also exposes the WAM Fund to risks particular to these securities.

Arbitrage strategies attempt to take advantage of perceived price discrepancies between correlated securities, typically applying leverage to increase profits. Convertible-securities arbitrage generally involves acquiring convertible securities and selling short a corresponding amount of the underlying equity security, although this relationship may be reversed.

There are many associated risks that can affect the results of this strategy. To the extent the price relationships between arbitrated positions remain constant, no gain or loss on the positions will be recognized; to the extent that the requisite elements of an arbitrage trade are not properly analyzed, or the prices of the underlying securities are affected by unexpected or extraordinary events, the WAM Fund may incur losses, and those losses will be increased if the WAM Fund uses leverage in connection with the trade. Other risks include the following: (i) interest-rate or market-volatility changes may adversely affect the relationship between securities; (ii) convertible securities tend to be significantly less liquid and have wider bid/offer spreads than equity securities, making it more difficult to enter and profitably exit such trades; (iii) convertible arbitrage trades involve an inherently imperfect and dynamic hedging relationship that must be adjusted from time to time (and the failure to make timely or appropriate adjustments may limit profitability or lead to losses); (iv) convertible arbitrage involves selling securities short, with the attendant risk of loss and

the costs of locating shares available for borrowing; and (v) the prices of the securities involved may be materially adversely affected by changes in the dividend policy of the underlying equity, changes in the issuer's credit rating, or a major transaction or development affecting the issuer.

*Synthetic Convertible Instruments Risk.* The value of a synthetic convertible instrument will respond differently to market fluctuations than a convertible security because a synthetic convertible instrument is composed of two or more separate securities, each with its own market value. In addition, if the value of the underlying common stock or the level of the index involved in the convertible component falls below the exercise price of the warrant or option, the warrant or option may lose all value.

*Hedging.* The WAM Funds engage in a variety of techniques to hedge certain risks at a position, strategy or overall portfolio level. Hedging techniques involve one or more of the following risks: (i) imperfect correlation between the performance or value of the instrument and the value of the WAM Funds' instruments needing to be hedged; (ii) possible lack of a secondary market for closing out a position in such hedged instrument; (iii) losses resulting from interest rate, spread or other market movements not anticipated by WAM; (iv) the possible obligation to meet additional margin or other payment requirements, all of which could worsen the WAM Funds' position; and (v) default or refusal to perform on the part of the counterparty with which the WAM Funds trade.

Use of derivatives and other techniques for hedging purposes involves certain additional risks, including (i) dependence on the ability to predict movements in the price of the securities hedged; (ii) imperfect correlation between movements in the securities on which the derivative is based and movements in the assets of the underlying portfolio; and (iii) possible impediments to effective portfolio management or the ability to meet short term obligations because of the percentage of a portfolio's assets segregated to cover its obligations. In addition, by hedging a particular position, any potential gain from an increase in the value of such position may be limited.

The WAM Funds may choose to hedge all or certain risks in full, in part, or not at all, and in respect of particular positions or in respect of the WAM Funds' overall portfolio. Certain risks may not be able to be effectively hedged by WAM. The WAM Funds' portfolio composition will commonly result in various directional risks remaining unhedged.

The ability of the WAM Funds to hedge successfully will depend on the ability of WAM to predict pertinent market movements, which cannot be assured. Correlations between various instruments may become disrupted or change over time. To the extent that such correlations are used to implement hedging strategies, such hedging strategies may be ineffective or result in losses. The ongoing success of any hedging strategy is dependent on the ability to adjust hedges as markets or correlations change, and there can be no assurance that WAM will be able to make such adjustments successfully.

WAM will not be required to hedge and there can be no assurance that hedging transactions will be available or, even if undertaken, will be effective and not result in losses. Any hedging activity could result in increased use of cash for margin requirements, especially when the WAM Funds' instruments and hedges are with different counterparties or clearing locations. In addition, it is not possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to

fluctuate as a result of independent factors not related to currency fluctuations. Furthermore, by hedging a particular position, any potential gain from an increase in the value of such position may be limited.

*Convertible Hedging Risk.* If the market price of the underlying common stock increases above the conversion price on a convertible security, the price of the convertible security will increase. The WAM Funds' increased liability on any outstanding short position would, in whole or in part, reduce this gain.

*Debt Securities.* Debt securities are subject to credit risk. Credit risk relates to the ability of the issuer of a security to make interest and principal payments on the security as they become due. If the issuer fails to pay principal or interest, the WAM Funds' income and/or the value of that security can be expected to decline. To the extent that the WAM Funds are "long" such a security, they can be expected to incur losses in such a scenario. Debt securities issued by corporations are subject to risk of default. A downgrade in an issuer's credit rating or other adverse news regarding the issuer can reduce the value of that issuer's debt securities.

*EU Short Selling Regulation.* The EU Regulation on Short Selling and Certain Aspects of Credit Default Swaps (the "SSR") is directly applicable in all EU member states.

The SSR applies to short sales of, and short positions relating to: (1) the issued share capital of companies whose shares are admitted to trading on a regulated market or multilateral-trading facility in the EU (unless the principal trading venue for the relevant shares is located in a country outside the EU) ("EU listed shares"); and (2) debt instruments issued by an EU sovereign issuer ("EU sovereign debt").

The SSR imposes certain private and public disclosure obligations in respect of short positions in EU listed shares and EU sovereign debt which apply to all natural or legal persons, irrespective of regulatory status, located inside and outside the EU.

The SSR also contains prohibitions on uncovered short sales of EU listed shares and EU sovereign debt in certain circumstances. In addition, the SSR prohibits uncovered positions in credit default swap agreements ("CDSs"), referencing EU sovereign debt issuers. National regulators, and in certain circumstances the European Securities and Markets Authority, are able to take certain additional emergency measures (including complete bans on short-selling activities) if certain conditions are met.

*Derivatives.* The WAM Funds may make extensive use of various derivative instruments, such as swaps, warrants, options and forward contracts. The use of derivative instruments involves a variety of material risks. These risks include the extremely high degree of leverage that can be embedded in such instruments, a risk which can be materially increased by the limited liquidity that often characterizes the derivatives markets. The pricing relationships between derivatives and the underlying instruments on which they are based also may not conform to anticipated or historical correlation patterns, resulting in unanticipated losses.

The WAM Funds' use of derivatives and other techniques (such as short sales) for hedging purposes will involve certain additional risks, including: (i) dependence on the ability to predict movements in the price of the asset being hedged; (ii) imperfect correlation between movements in



the asset on which the derivative is based and movements in the asset being hedged; and (iii) possible impediments to effective portfolio management or the ability to meet short-term obligations because of the percentage of the WAM Funds' assets segregated to secure its obligations under derivatives contracts. In addition, by hedging a particular position, the WAM Fund may limit any potential gain from an increase in the value of such position.

Some of the derivatives traded by WAM may be OTC instruments (contracts) between the WAM Funds and third parties. The risk of counterparty nonperformance can be significantly greater in the case of these OTC instruments (contracts) as opposed to exchange-traded derivative instruments. Furthermore, "bid-ask" spreads may be unusually wide in the substantially unregulated OTC markets.

*Forward Contracts.* The WAM Funds may trade deliverable forward contracts in the inter-bank currency market. Such deliverable forward contracts are not currently traded on exchanges; rather, banks and dealers act as principals in these markets. As a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), the CFTC regulates certain types of forwards, specifically non-deliverable forwards and many so-called deliverable forwards where the parties do not take actual delivery. Changes in the forward markets may entail increased costs and result in burdensome reporting requirements. There is currently no limitation on the daily price movements of forward contracts. Principals in the forward markets have no obligation to continue to make markets in the forward contracts traded. The imposition of credit controls by governmental authorities or the implementation of regulations pursuant to Dodd-Frank might limit such forward trading to less than that which WAM would otherwise recommend, to the possible detriment of the WAM Funds.

*Options.* WAM may trade options for a client's account. Investing in options can provide a greater potential for profit or loss than an equivalent investment in the underlying asset. The value of an option may decline because of a decline in the value of the underlying asset relative to the strike price, the passage of time, changes in the market's perception as to the future price behavior of the underlying asset, or any combination thereof. In the case of the purchase of an option, the risk of loss of an investor's entire investment in the option (*i.e.*, the premium paid plus transaction charges) reflects the nature of an option as a wasting asset that may become worthless when the option expires. Where an option is written or granted (sold) uncovered, the seller may be liable to pay substantial additional margin and the risk of loss is unlimited, as the seller will be obligated to deliver, or take delivery of, an asset at a predetermined price which may, upon exercise of the option, be significantly different from the then market value.

*Stock Index Options.* The WAM Funds purchase and sell call and put options on stock indices listed on securities exchanges or traded in the OTC market for the purpose of realizing its investment objectives or for the purpose of hedging its portfolio. A stock index fluctuates with changes in the market values of the stocks included in the index. The effectiveness of purchasing or writing stock index options for hedging purposes will depend upon the extent to which price movements in the WAM Funds' portfolio correlates with price movements of the stock indices selected. Because the value of an index option depends upon movements in the level of the index rather than the price of a particular stock, whether the WAM Funds realize gains or losses from the purchase or writing of options on indices depends upon movements in the level of prices in the stock market generally or, in the case of certain indices, in an industry or market segment, rather

than movements in the price of particular stocks. Accordingly, successful use by the WAM Funds of options on stock indices will be subject to WAM's ability to correctly predict movements in the direction of the stock market generally or of particular industries or market segments.

*Commodity Futures.* WAM may trade futures for a client's account. Commodity futures prices can be highly volatile. Because of the low margin deposits normally required in futures trading, an extremely high degree of leverage is typical of a futures trading account. As a result, a relatively small price movement in a futures contract may result in substantial losses to the investor. Like other leveraged investments, a futures transaction may result in losses in excess of the amount invested. Commodity futures trading is speculative with price movements impacted by a variety of factor that are often difficult to predict. The WAM Funds may trade on non-U.S. exchanges and other markets located outside of the United States where the WAM Funds will be subject to exchange rate risk and a significantly greater amount of counterparty risk. Moreover, the CFTC has adopted regulations to regulate the sale of foreign futures contracts and foreign options within the United States. These regulations may restrict the WAM Funds' access to foreign markets by limiting the activities of certain participants in such markets with whom the WAM Funds could otherwise have traded.

*Price Fluctuations.* Prices of derivative instruments are highly volatile. Prices are affected by a wide variety of complex and difficult-to-predict factors, such as supply of money, inflation, weather and climatic conditions, changing supply and demand relationships, governmental activities and regulations, political and economic events and prevailing psychological characteristics of the marketplace. These same factors also can affect the securities markets adversely.

*Illiquidity in Certain Markets.* The WAM Funds may invest in illiquid or restricted securities for which there is no established resale market. The WAM Funds might only be able to liquidate these positions at disadvantageous prices, should WAM determine, or it become necessary, to do so. For example, substantial redemptions from the WAM Funds could require the WAM Funds to liquidate its positions more rapidly than otherwise desired in order to obtain the cash necessary to fund the redemptions. Illiquidity in certain markets could make it difficult for the WAM Funds to liquidate positions on favorable terms, thereby resulting in losses or a decrease in the Net Asset Value of the WAM Funds. In addition, although many of the securities acquired by the WAM Funds may be traded on public exchanges, each exchange typically has the right to suspend or limit trading in all securities that it lists. Such a suspension could render it difficult or impossible for the WAM Funds to liquidate its positions and would thereby expose the WAM Funds to losses. The WAM Funds therefore may be locked into an adverse price movement for several days or more that may result in immediate and substantial losses to the investor.

Investors are further subject to the risk of limited liquidity arising because of the WAM Funds' potential investments in affiliated funds. Each of the affiliated funds imposes liquidity limitations on its investors, and the WAM Funds are typically subject to the same liquidity limitations as other investors in the affiliated funds.

*Changes in Portfolio Holdings and Liquidity of Shares.* The relative portfolio holdings of the WAM Funds may be altered from time to time due to certain events such as significant redemptions from the Funds. As a result, the illiquid portion of the WAM Funds' portfolio may, at times, constitute a substantial portion of the WAM Funds' overall holdings, and therefore, make

liquidation of the WAM Funds' holdings more difficult. Investors should note that WAM has been delegated the ability, in such situations, to defer redemption requests if, in its sole discretion, it determines that liquidating a portion of the WAM Funds' portfolio holdings to permit any such redemption may be detrimental to the WAM Funds or its other shareholders.

*Investments in Equity Securities.* The WAM Funds' investment portfolio includes equity and equity-related securities. Investments in equities may involve substantial risks and may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses. There are no absolute restrictions in regard to the size or operating experience of the companies in which the WAM Funds may invest. Numerous economic factors, as well as market sentiment, political and market-related factors, among others, influence the value of equities. The WAM Funds' directional equity positions may be leveraged, and even comparatively minor adverse market movements can result in substantial losses.

Common stock and similar equity securities generally represent the most junior position in an issuer's capital structure and, as such, generally only entitle holders to an interest in the assets of the issuer, if any, remaining after all more senior claims to such assets have been satisfied. Holders of common stock generally are entitled to dividends only if and to the extent declared by the governing body of the issuer out of income or other assets available after making interest, dividend and any other required payments on more senior securities of the issuer.

*OTC Transactions.* Dodd-Frank, and the rules promulgated thereunder, mandates that a substantial portion of OTC derivatives be submitted for clearing to regulated clearinghouses. OTC trades submitted for clearing are subject to minimum initial and variation margin requirements set by the relevant clearinghouse, as well as margin requirements mandated by the CFTC, SEC and/or federal prudential regulators. OTC derivatives dealers also typically demand the unilateral ability to increase the collateral requirements for cleared OTC trades beyond any regulatory and clearinghouse minimums. The regulators imposed margin requirements on non-cleared OTC derivatives and requirements regarding the holding of customer collateral by OTC derivatives dealers. These requirements may increase the amount of collateral the Fund is required to provide and the costs associated with providing it. OTC derivative dealers also are required to post margin to the clearinghouses through which they clear their customers' trades instead of using such margin in their operations, as was widely permitted before Dodd-Frank. This has increased and will continue to increase the OTC derivative dealers' costs, and these increased costs are generally passed through to other market participants in the form of higher upfront and mark-to-market margin, less favorable trade pricing, and the imposition of new or increased fees, including clearing account maintenance fees.

With respect to cleared OTC derivatives, the WAM Funds does not face a clearinghouse directly but rather does so through an OTC derivatives dealer that is registered with the CFTC or SEC and that acts as a clearing member. The WAM Funds may face the indirect risk of the failure of another clearing member customer to meet its obligations to its clearing member. Such a scenario could arise due to a default by the clearing member on its obligations to the clearinghouse triggered by a customer's failure to meet its obligations to the clearing member.

The CFTC also requires certain derivative transactions that were previously executed on a bi-lateral basis in the OTC markets to be executed through a regulated futures exchange or swap execution facility. The SEC is also expected to impose similar requirements on certain security-

based derivatives in the near future, though it is not yet clear when these parallel SEC requirements will go into effect. Such requirements may make it more difficult and costly for investment funds, including the WAM Funds, to enter into highly tailored or customized transactions. They may also render certain strategies in which the WAM Funds might otherwise engage impossible or so costly that they will no longer be economical to implement. If WAM decides to execute derivatives transactions through such exchanges or execution facilities—and especially if it decides to become a direct member of one or more of these exchanges or execution facilities—the WAM Funds would be subject to the rules of the exchange or execution facility, which would bring additional risks and regulatory requirements.

OTC derivative dealers are required to register with the CFTC and will ultimately be required to register with the SEC. Registered swap dealers will also be subject to minimum capital requirements and are subject to margin requirements, business conduct standards, disclosure requirements, reporting and recordkeeping requirements, transparency requirements, position limits, limitations on conflicts of interest, and other regulatory burdens. These requirements further increase the overall costs for OTC derivative dealers, which costs may be passed along to market participants as market changes continue to be implemented.

Although Dodd-Frank will require many OTC derivative transactions previously entered into on a principal-to-principal basis to be submitted for clearing by a regulated clearinghouse, certain of the derivatives that may be traded by the WAM Funds may not be centrally cleared. The risk of counterparty nonperformance can be significant in the case of these OTC instruments, and “bid-ask” spreads may be unusually wide in these heretofore substantially unregulated markets. While Dodd-Frank is intended in part to reduce these risks, its success in this respect may not be evident for some time after Dodd-Frank is fully implemented, a process that may take several more years. To the extent not mitigated by implementation of Dodd-Frank, if at all, the risks posed by such instruments and techniques, which can be extremely complex and may involve leveraging of the WAM Funds’ assets, include: (1) credit risks (the exposure to the possibility of loss resulting from a counterparty’s failure to meet its financial obligations); (2) market risk (adverse movements in the price of a financial asset or commodity); (3) legal risks (the characterization of a transaction or a party’s legal capacity to enter into it could render the financial contract unenforceable, and the insolvency or bankruptcy of a counterparty could preempt otherwise enforceable contract rights); (4) operational risk (inadequate controls, deficient procedures, human error, system failure or fraud); (5) documentation risk (exposure to losses resulting from inadequate documentation); (6) liquidity risk (exposure to losses created by inability to prematurely terminate the derivative); (7) system risk (the risk that financial difficulties in one institution or a major market disruption will cause uncontrollable financial harm to the financial system); (8) concentration risk (exposure to losses from the concentration of closely related risks such as exposure to a particular industry or exposure linked to a particular entity); and (9) settlement risk (the risk faced when one party to a transaction has performed its obligations under a contract but has not yet received value from its counterparty). The EU has implemented EMIR that also requires regulated clearing of certain derivatives and has other requirements.

*Currency Risk.* WAM may invest a portion of a client’s assets in debt and equity securities denominated in currencies other than the U.S. dollar and in other financial instruments, including futures, the price of which is determined with reference to currencies other than the U.S. dollar. The WAM Funds, for example, value their securities and other assets in U.S. dollars. To the extent unhedged, the value of the WAM Funds’ assets will fluctuate with U.S. dollar exchange rates as

well as with price changes of the WAM Funds' investments in the various local markets and currencies. Thus, a change in the value of the U.S. dollar compared to the other currencies in which the WAM Funds make its investments will affect the prices of the WAM Funds' securities in their local markets. WAM also may utilize forward currency contracts, futures and options to hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be effective.

*No Formal Diversification Policies.* Although diversification is an integral part of WAM's overall portfolio risk management process, WAM is not restricted as to the percentage of the WAM Funds' assets that may be invested in any particular instrument, market or asset class. The WAM Funds have not adopted fixed guidelines for diversification of its investments among issuers, industries, instruments or markets and may be heavily concentrated, at any time, in a limited number of positions. In attempting to maximize the WAM Funds' returns, WAM may concentrate the holdings of the WAM Funds in those industries, companies, instruments or markets that, in the sole judgment of WAM, provide the best profit opportunity in view of the WAM Funds' investment objective.

*FINRA New Issues.* While it is not anticipated to be a significant part of the WAM Funds' investment strategy, the WAM Funds may invest in "New Issues" (in general, any initial public offering of an equity security). Profits and losses attributable to any New Issues acquired by the WAM Funds are required, pursuant to applicable rules of FINRA to be allocated generally to shareholders who are not deemed to be "restricted" (generally, the following are deemed to be "restricted": (i) financial industry professionals and services providers, and (ii) executive officers and directors of public companies and certain non-public companies that receive services from the FINRA member allocating the New Issues).

The WAM Funds generally will avail themselves of a *de minimis* exemption pursuant to which up to 10% of any profits and losses from New Issues will be allocated to members who are "restricted." Such 10% limit may result in certain "restricted" shareholders receiving a smaller allocation of New Issues profits and losses than permitted under FINRA rules. Such 10% limit may result in certain "restricted" shareholders receiving a smaller allocation of New Issues profits and losses than permitted under FINRA rules. A shareholder may elect not to receive New Issues profits and losses in its subscription agreement.

*Precious Metals.* WAM may invest, directly or indirectly through the use of ETFs and futures, in precious metals. Investments in precious metals (such as gold) are considered speculative and subject to special risk considerations, including substantial price fluctuations over short periods of time. On the other hand, investments in precious metals coins or bullion could help to moderate fluctuations in the value of the WAM Funds' holdings because the prices of precious metals have at times tended not to fluctuate as widely as shares of issuers engaged in the mining of precious metals. Because precious metals do not generate investment income, however, the return on such investments will be derived solely from the appreciation or depreciation on such investments.

*Oil and Natural Gas.* WAM may invest, directly or indirectly through the use of ETFs and futures, in oil and natural gas. Prices for oil and gas are subject to wide fluctuation in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty, and a variety of additional factors that are beyond WAM's control. These factors include: the level of

consumer product demand; the proximity, capacity, cost and availability of oil and gas pipelines and other transportation facilities; technological advances affecting energy consumption; the impact of energy conservation efforts; weather conditions; domestic and foreign governmental regulations and taxation; the price and availability of alternative fuels; political and economic conditions in the Middle East; the availability and price of imported oil and natural gas; actions of the OPEC and other state-controlled oil companies relating to oil price and production control, and overall domestic and global economic conditions.

*Closed-End Funds.* WAM may invest in closed-end funds to gain exposure for the WAM Funds to various asset classes. Risks of investing in shares of a closed-end fund that invest in a particular asset class are similar to those risks associated with investing in the asset class directly. In addition to these risks, the shares of closed-end funds often trade at a discount to the underlying net asset value of the closed-end fund and this discount can increase significantly during various market conditions that do not otherwise impact the value of the fund's holdings. Further, closed-end funds incur investment advisory, transactional, administrative and other expenses that are in addition to the investment advisory, transactional, administrative and other expenses incurred by the WAM Funds.

*Exchange-Traded Funds.* The WAM Funds may invest in ETFs from time to time. ETFs represent shares of ownership in either funds or unit investment trusts that hold portfolios of common stocks, bonds or other instruments, which are designed to generally correspond to the price and yield performance of an underlying index. A primary risk relating to ETFs is that the general level of stock or bond prices may decline, thus affecting the value of an equity or fixed income ETF, respectively. An ETF may also be adversely affected by the performance of the specific sector or group of industries on which it is based. Moreover, although ETFs are designed to provide investment results that generally correspond to the price and yield performance of their underlying indices, ETFs may not be able to exactly replicate the performance of the indices because of various sources of tracking error, including the expenses associated with ETFs and a number of other factors.

*Credit Default Swaps.* The WAM Fund may invest in and trade credit default swap agreements ("CDSs"), or use them in its hedging strategies. The "buyer" of a CDS is obligated to pay the "seller" a periodic stream of payments over the term of the contract in return for a contingent payment upon the occurrence of a credit event with respect to an underlying reference obligation. If a credit event occurs, the seller must pay the contingent payment to the buyer, which is typically the full notional value of the reference obligation, in exchange for either physical delivery of the underlying instrument or a cash-settled recovery amount. Investing in CDSs involves greater risks than investing in the reference obligation directly. In addition to general market risks, CDSs are subject to liquidity risk, credit risk and regulatory risk. If a credit event did occur, the value of the reference obligation received by the seller, coupled with the periodic payments previously received, may be less than the full notional value it pays to the buyer, resulting in a loss of value to the WAM Funds.

CDSs are a relatively new form of financial instrument, but the volume of trading in CDSs has grown rapidly in recent years. The size and relative immaturity of the CDS market may expose the WAM Funds to large and unexpected risks. During periods of economic stress the CDS may not function as expected and may experience disruption, illiquidity, counterparty default, extreme volatility or imperfect price discovery.

The regulation of CDS transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial action. Events during 2008-2009 (including market volatility and disruptions and the bankruptcy, failure, improper practices and adverse financial results of certain financial institutions, trading firms and private investment funds) focused attention on the need for firms engaging in the trading of CDS to maintain adequate risk controls and compliance procedures, and caused heightened scrutiny of CDS transactions by the regulators and by the U.S. Congress. Dodd-Frank imposes substantial new regulation on all OTC derivatives markets in the United States, including the market for CDS, and parties, including the Fund, that are active in these markets. Regulators and legislative bodies outside the United States have also brought increased scrutiny to these markets and have focused particular attention on CDS. Regulations adopted under Dodd-Frank seek to increase the transparency of these markets by requiring exchange-trading, clearing and reporting of many types of OTC derivative trades. The regulators will also have enhanced tools to monitor trading in these markets in real time. In addition, the EU Regulation on Short Selling and Certain Aspects of Credit Default Swaps imposes restrictions on an investor's ability to enter into a CDS transaction where the reference entity is an EU sovereign issuer, such as an EU member state, the EU itself and certain other supranational organizations within the EU.

*Warrants.* The WAM Funds generally will not recognize gain or loss upon the exercise of a particular warrant. If a warrant lapses unexercised, the WAM Funds generally will recognize a taxable loss in the amount of its adjusted tax basis in the warrant. Gain or loss recognized by the WAM Funds on a sale of a warrant (and loss upon lapse of a warrant) will be treated in the same manner as gain or loss from the sale of the underlying stock or securities to which the warrant relates.

*Material Nonpublic Information.* From time to time, WAM may come into possession of material nonpublic information. The receipt of such information may cause WAM to be restricted from transacting in certain securities on behalf of the WAM Funds for a period of time because of confidentiality and regulatory constraints. As a result, WAM may lose a trading opportunity in a restricted security in which WAM would have otherwise chosen to trade. To the extent that WAM comes into possession of material nonpublic information after the acquisition of a security by the WAM Funds, WAM may be unable to sell such security until after such information becomes publically available. Any such delay could lead to losses for the WAM Funds.

*Portfolio Turnover.* The turnover rate of the WAM Funds' investment portfolio may be significant, and may involve substantial brokerage commissions, fees and other transaction costs. The bid-ask spreads within the credit markets can be unusually wide, materially increasing transaction costs.

*Real Estate Investment Trusts.* Investing in REITs involves certain unique risks in addition to those risks associated with investing in the real estate industry in general. An Equity REIT may be affected by changes in the value of the underlying properties owned by the REIT. A Mortgage REIT may be affected by changes in interest rates and the ability of the issuers of its portfolio mortgages to repay their obligations. REITs are dependent upon the skills of their managers and are not diversified. REITs are generally dependent upon maintaining cash flows to repay borrowings and to make distributions to shareholders and are subject to the risk of default by lessees or borrowers. REITs

whose underlying assets are concentrated in properties used by a particular industry, such as health care, are also subject to risks associated with such industry.

REITs (especially Mortgage REITs) are also subject to interest rate risks, may have limited financial resources, may trade less frequently and in a more limited volume and may be subject to more abrupt or erratic price movements than larger company securities. Historically REITs have been more volatile in price than the S&P 500 Index.

*Mortgage-Related and Other Asset-Backed Securities Risk.* In addition to general fixed-income instrument risks, mortgage-related and asset-backed securities are subject to extension risk and prepayment risk.

*Extension Risk.* Rising interest rates tend to extend the duration of mortgage-related securities, making them more sensitive to changes in interest rates. As a result, in a period of rising interest rates, if the Fund holds mortgage-related securities, it may exhibit additional volatility.

*Prepayment Risk.* When interest rates decline, the value of mortgage-related securities with prepayment features may not increase as much as other fixed-income securities because borrowers may pay off their mortgages sooner than expected. In addition, the potential impact of prepayment on the price of asset-backed and mortgage-backed securities may be difficult to predict and result in greater volatility.

*Private Securities.* Private securities can carry risk due to the restricted nature of the securities, significantly decreasing the investor's liquidity. While issuers in these transactions often agree to register the securities for resale after the transaction closes (thereby removing resale restrictions), there is no guarantee that the securities will in fact be registered. In addition, issuers of private securities may require a WAM Fund to agree to other resale restrictions as a condition to the sale of such securities. Thus, a WAM Fund's ability to resell securities acquired in private offering transactions may be limited, and even though a public market may exist for such securities, the securities held by the WAM Fund may be deemed illiquid. Additionally WAM might inadvertently restrict its ability to participate in future profitable transactions if, through participation in a private placement, WAM obtains material non-public information.

*Counterparty and Service Provider Risk.* Institutions, such as banks and brokers, have custody of the assets of the WAM Funds. Bankruptcy or fraud at one of these institutions may cause a fund to lose all or a portion of its assets held by those custodians or to be unable to access those assets for an extended period of time. For instance, in September of 2008, the bankruptcy of certain Lehman Brothers subsidiaries resulted in certain investment funds being unable to access their cash or securities. The markets in which the WAM Fund effects some of its transactions are over-the-counter ("OTC") or "interdealer" markets. Unlike members of "exchange-based" markets, the participants in such markets are typically not subject to credit evaluation and regulatory oversight. This exposes the WAM Fund to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the WAM Fund to suffer a loss. This counterparty risk is accentuated for contracts with longer maturities or that have greater volatility if, as is typically the case, there is no requirement on the counterparty to make mark-to-market payments, exposing the WAM Fund to large counterparty obligations.



The risk of a large loss may be greater if the WAM Funds has concentrated its transactions with one or a few counterparties. However, transacting with many counterparties may increase the risk of incurring some loss (albeit a smaller loss). The WAM Funds is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty.

The events at Refco, Inc., Bear Stearns & Co., Inc., Lehman Brothers, American International Group, Inc. and MF Global, Inc. since 2007 demonstrated the extent to which investors, especially investors trading with leverage or who have otherwise posted substantial collateral with counterparties, are exposed to counterparty risk.

*Cybersecurity Risk.* The WAM Fund is subject to risks associated with a breach in its cybersecurity. Cybersecurity is a generic term used to describe the technology, processes and practices designed to protect networks, systems, computers, programs and data from “hacking” by other computer users, other unauthorized access and the resulting damage and disruption of hardware and software systems, loss or corruption of data as well as misappropriation of confidential information. Hardware and software systems are subject to threats from hackers and others, such as a malicious attack, malware or other event that leads to unanticipated interruption or malfunction of such systems. Any interruption of the Managing Member’s hardware or software functionality could lead to material or even complete losses to the Fund. Hackers could also theoretically access and steal the Managing Member’s research or trading programs or other software or data and implement such programs or software on their own behalf. This theft could lead to increased competition for, or elimination of, the investment opportunities sought by the Trading Company or otherwise render the research or trading program obsolete, possibly resulting in material or complete losses to the Fund. If a cybersecurity breach occurs, the WAM Fund may incur substantial costs, including those associated with: forensic analysis of the origin and scope of the breach; increased and upgraded cybersecurity; investment losses from sabotaged trading systems; identity theft; unauthorized use of proprietary information; litigation; adverse investor reaction; the dissemination of confidential and proprietary information; and reputational damage. Any such breach could expose WAM and the WAM Fund to civil liability as well as regulatory inquiry and/or action. In addition, any such breach could cause substantial withdrawals/redemptions from the WAM Fund and clients could be exposed to additional losses as a result of unauthorized use of their personal information.

#### **Item 9 - Disciplinary Information**

On October 8, 2015, WAM and its affiliate Wolverine Trading, LLC, without admitting or denying the findings, reached a settlement with the SEC. The SEC found that WAM violated Section 204A of the Investment Advisers Act of 1940 by failing to establish, maintain or enforce written policies and procedures reasonably designed to prevent the misuse of material, nonpublic information in connection with the sharing of information regarding a particular exchange-traded note among affiliated entities. WAM agreed to relief in the form of a censure and a cease and desist order, and payment of \$364,145.80 in disgorgement, \$39,158.47 in prejudgment interest, and a \$375,000 penalty. In response to the SEC’s inquiry, WAM took prompt steps to enhance its policies and procedures relating to information barriers.

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

### **i) Financial Industry Activities**

WAM is registered with the SEC as an investment adviser and the United States Commodity Futures Trading Commission (“CFTC”) as a commodity pool operator and commodity trading advisor and is a member of the National Futures Association (“NFA”) in such capacities.

### **ii) Management Persons Registration**

Christopher Gust, Chief Investment Officer, Chief Executive Officer and Managing Director of WAM, is registered with the NFA as an Associated Person and Principal of WAM. Mr. Gust is registered with the NFA as a Principal of Wolverine Execution Services, LLC (“WEX”), a broker-dealer affiliated with WAM.

Robert Bellick is registered with the NFA as Principal of WAM.

Kenneth Nadel, Chief Operating Officer of WAM, is registered with the NFA as a Principal of WAM.

Andrew Sujdak, Chief Research Officer and Managing Director of WAM, is registered with the NFA as an Associated Person and Principal of WAM.

Judith Kula, Chief Financial Officer of WAM, is registered with the NFA as a Principal of both WAM and WEX.

Keri Kelly, Chief Compliance Officer of WAM is registered with the NFA as a Principal of WAM.

Onu Odum, Portfolio Manager and Head of Business Development of WAM is registered with the NFA as an Associated Person of WAM.

### **iii) Relationship with Related Persons and Conflicts of Interest**

Christopher Gust, Robert Bellick and Judith Kula are management persons of WAM and also have relationships with the following affiliated entities: Wolverine Trading, LLC (“Wolverine Trading”), Wolverine Execution Services, LLC (“WEX”), Wolverine Capital Markets, LLC (“WCM”), Wolverine Trading UK Limited, Wolverine Holdings, L.P. (“Wolverine Holdings”), Wolverine Trading Partners, Inc. (“WTP”) and Wolverine Securities, LLC (“WS”).

Mr. Gust and Mr. Bellick founded Wolverine Trading in 1994 and they founded WAM in 2001 and may be deemed to control WTP, the general partner of Wolverine Holdings. Wolverine Holdings may be deemed to control, directly or indirectly, each of WAM, Wolverine Trading, WEX, WCM, WS, and Wolverine Trading UK Limited. As a result, each of Mr. Gust and Mr. Bellick maintains significant indirect ownership interests in each of WAM, Wolverine Trading, WEX, WCM, WS, and Wolverine Trading UK Limited. Ms. Kula is the chief financial officer for WAM, WCM, Wolverine Trading, WEX, Wolverine Holdings, WS and WTP.

Wolverine Trading is an active market participant and market-maker and, in some instances, may compete with the WAM Funds for investment opportunities. To eliminate this and other conflicts of interest, procedures have been put in place to ensure that the trading operations of Wolverine Trading do not have access to WAM's trading orders and vice versa. In addition, in particular as a market-maker, Wolverine Trading may take positions that are opposite of those taken by WAM on behalf of the WAM Funds. The markets generally used by WAM require that all trades are routed on an anonymous basis. Nevertheless, WAM will not knowingly direct its clients to be a counterparty in a transaction with Wolverine Trading.

In general, any conflicts of interest that arise between our clients, on the one hand, and a management person or affiliate of WAM on the other hand, will be discussed and resolved on a case-by-case basis by representatives of WAM and senior management of such other affiliates. Any such discussion will take into consideration the interests of the relevant parties, the circumstances giving rise to the conflict and WAM's fiduciary obligation to its clients. Any potential investor in the WAM Funds should be aware that conflicts will not necessarily be resolved in favor of the WAM Funds' interests.

WAM presently uses its affiliate, WEX, among other broker-dealers, to execute transactions on behalf of its clients. This creates a conflict of interest in that WAM may have an incentive to trade more frequently on behalf of its clients in order to generate commissions for its affiliate, WEX. This practice is commonly known as churning.

In no case will WAM cause its clients to pay fees to WEX in excess of what it believes to be reasonable in light of the services provided. The fees WAM's clients pay to WEX are commensurate with, and in many cases lower than the rates charged by other broker-dealers for the execution of similar transactions. For a more detailed discussion on WAM's brokerage practices, please refer to Item 12.

**iv) Recommend or Selected Investment Advisers**

Not applicable

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

WAM maintains a policy of strict compliance with the highest standards of ethical business conduct and the provisions of applicable rules and federal securities laws, including rules and regulations promulgated by the SEC. WAM's Code of Ethics has been adopted pursuant to SEC Rule 204A-1 and is designed to ensure compliance with WAM's standards of business conduct, to ensure at all times that the interests of clients are placed first and that any conflicts of interests are avoided or mitigated. Neither WAM, nor any Employee should ever benefit at the expense of any Client. WAM's Code of Ethics provides for, among other things, safeguarding of investor information, a prohibition against insider trading, procedures dealing with gifts and political contributions, procedures regarding outside business activities and reporting of personal securities holdings and transactions. Upon request, WAM will furnish a copy of its Code of Ethics to investors and prospective investors in the WAM Funds.

Although unlikely, it is possible that WAM may purchase for the accounts of its clients securities in which WAM's affiliates have a material financial interest. Informational barriers are maintained between WAM and its affiliates so that WAM's investment personnel are not contemporaneously aware of the positions held by its affiliates. In the unlikely event that this situation were to arise, WAM would not be aware of the fact that it holds positions in which an affiliate has a material interest until meaningful time has passed. Therefore, the existence of this fact would not be a factor in WAM's investment decision process.

WAM's supervised persons are permitted to maintain their own individual personal brokerage accounts and WAM's supervised persons or affiliates may invest in the same securities in which WAM invests on behalf of the WAM Funds. This presents a potential conflict of interest whereby WAM's supervised persons or affiliates could potentially "front run" (*i.e.*, trading ahead of WAM's client accounts) the WAM Funds for their own personal benefit. In order to avoid or mitigate such conflicts while still permitting its employees to invest their personal assets, WAM has developed robust procedures surrounding employee personal trading.

The overarching principle governing the Code of Ethics' procedures regarding personal trading is that knowledge of the WAM Funds' trading activity or investment positions must not be used in any way for the benefit of WAM's employees or affiliates. WAM's Code of Ethics strictly prohibits the practice of front running and likewise the practice of "piggybacking" (*i.e.*, following a client's order) is also strictly prohibited. WAM also maintains a Restricted List including certain securities (*e.g.*, securities for which WAM may have received material non-public information) in which employees are restricted from trading. WAM requires all personal trades to be pre-cleared by compliance except for mutual fund purchases, and any request to trade an issuer below a certain market cap threshold will be automatically rejected. Furthermore, WAM's Code of Ethics prohibits employees from engaging in short-swing transactions in their personal accounts. As defined in the Code of Ethics, a short-swing transaction occurs when a purchase and sale in the same security occurs within 30 calendar days. In effect, this prohibition acts as a 30 calendar day holding period requirement. Given the active trading feature of WAM's investment strategies, the short-swing trading prohibition represents a substantial deterrent for employees to trade on the basis of their knowledge of the investment activity in the WAM Funds. As a backstop, WAM closely monitors employees' personal trading activity for the following characteristics to detect patterns and prevent abusive behavior or violations of the Code:

- Frequent and/or short-term trades in any security,
- Trading opposite of client trades;
- Trading ahead of clients; and
- Trading that appears to be based on Material Non-Public Information.

Upon review, any personal trading that appears abusive may result in further inquiry by the CCO and/or sanctions, up to and including dismissal. While WAM does not expressly prohibit employees from trading in securities for their personal accounts on or around the same time as a client account, WAM believes that the pre-clearance requirement, WAM's prohibition on short-

swing transactions and the robust monitoring procedures that WAM has in place, mitigate any potential conflict of interest with respect to personal trading.

As described above, WAM and its supervised persons serve as the discretionary investment manager for the WAM Funds. In addition to the potential competition for investment opportunities among the advisory clients as described in Item 10, WAM and its supervised persons may provide advice and enter into transactions that vary materially among the WAM Funds, and other clients.

WAM and its supervised persons expect to continue to manage such other funds and accounts in the future and are not obligated to devote any specific amount of their business time to client affairs. WAM is not required to accord exclusivity or priority to its clients, including the WAM Funds, in relation to any investment opportunities. WAM's clients do not have a right of first refusal, co-investment or other right with respect to any investment opportunity. Nevertheless, it is WAM's policy to make reasonable efforts to allocate investment opportunities among all investment funds and accounts advised in a manner we deem equitable over time. However, there can be no assurance that WAM's clients will participate in any particular investment opportunity on an equal or *pro rata* basis with any other investment funds or accounts under WAM's management.

## **Item 12 - Brokerage Practices**

When we purchase or sell securities, WAM seeks to obtain the best execution available. When routing orders on behalf of client accounts, WAM takes into consideration the price of the securities, commission rates, the size and difficulty of orders, the reliability, integrity, financial condition, general execution and operational capabilities of competing broker-dealers and the brokerage and research services they provide.

WAM presently uses its affiliate, WEX, among other non-affiliated brokers-dealers, to execute transactions on behalf of its clients. In no case will WAM cause its clients to pay fees to WEX in excess of what it believes are reasonable when considering the factors described above. WAM further anticipates that brokerage fees paid to WEX will be commensurate with the rates charged by other broker-dealers for the execution of similar transactions.

WAM currently does not have any formal "soft dollar" arrangements with any brokers. However, from time to time, WAM may cause its clients to pay commissions for executing transactions that are higher than the amount of commissions that another broker-dealer would charge for such brokerage services. As a result, clients may be deemed to be paying for research and other services with "soft" dollars. These services may include advice, either directly or through publications or writings, as to the value of securities, the advisability of investing in, purchasing or selling securities, and the availability of securities or purchasers and sellers of securities; furnishing of analysis and reports concerning issuers, securities or industries; and providing information on economic factors and trends. WAM may use such services in connection with its investment decision-making process with respect to one or more other accounts managed by WAM and may not be used exclusively with respect to the client who incurred such charges. Such arrangements, however, will not fall outside of the safe harbor for fiduciaries' use of soft dollar payments established by Section 28(e) of the Securities Exchange Act of 1934, as amended.

### Trade Errors

In the course of carrying out activities on behalf of the WAM Funds, errors in executing specific trading instructions will occur. Some of the examples of trading errors include (i) buying or selling an investment instrument at a price or quantity inconsistent with specific trading instructions generated by a particular strategy; or (ii) buying rather than selling a particular investment instrument (and vice versa). WAM will only be obligated to reimburse the Fund for any trade error resulting from WAM's fraud, gross negligence or willful misconduct.

### Brokerage for Client Referrals

WAM will maintain substantially all the assets of the WAM Funds with one or more prime brokers and other financial institutions selected by WAM. WAM is not committed to continuing its relationship with any particular prime broker for any minimum period and at WAM's discretion, the WAM Funds may employ additional or different custodians and/or prime brokers. Prime brokers routinely provide capital introduction services to their private investment fund clients such as the WAM Funds. As an ancillary benefit to using a particular prime broker, WAM may, from time to time, receive an investor referral with respect to the WAM Funds. Because WAM does not consider the provision of capital introduction services as a material factor when selecting a prime broker, WAM does not believe that the receipt of capital introduction services creates a material conflict of interest.

### Aggregation of Trades

WAM's principals are also the principals of Wolverine Trading. Wolverine Trading is an active market participant and, in some instances, may compete with the WAM Funds for positions. In addition, Wolverine Trading, may take positions that are opposite of those taken by the WAM Funds. To eliminate certain conflicts of interest, WAM will not knowingly direct the WAM Funds to be a counterparty in a transaction with Wolverine Trading.

When WAM determines that it would be appropriate for the WAM Funds and one or more other investment funds or accounts managed by WAM to participate in an investment opportunity, WAM will seek to execute orders for all of the participating investment funds and accounts on an equitable basis. If WAM determines to invest in the same instrument at the same time for more than one of these investment funds or accounts, then WAM may, but is neither required to nor in certain instances permitted to, place an aggregate order for all such investment funds or accounts. The participating investment funds or accounts will receive the aggregate price of any transactions executed pursuant to an aggregated order. If an aggregate order cannot be fully executed under prevailing market conditions, WAM may allocate the instrument traded among the participating investment funds and accounts on a basis that WAM considers to be equitable. Situations may occur where some clients could be disadvantaged because of the investment activities conducted by WAM for other investment funds and accounts.

### Investments in Affiliated Funds

WAM may invest a portion of the WAM Funds' assets in affiliated funds and may in the future provide the capital necessary to launch new affiliated funds or investment strategies, or continue their operations. The investment manager who has interests in such affiliated funds

receives the fees generated by them. However, if the WAM Funds invest in an affiliated fund, management and incentive fees associated with such investments will be waived or returned to the WAM Funds in full at either the WAM Funds level or the affiliated fund level to prevent a layering of compensation. Further, the WAM Funds' investment may make an affiliated fund more attractive to other investors and thus increase the capital invested with such affiliated funds (and thus the fees earned by WAM or its affiliates). Also, WAM's dealings with the affiliated funds (*e.g.*, capital investment decisions, redemption decisions and fee negotiations) will not be conducted at arm's length.

The WAM Funds' investments in an affiliated fund will generally be subject to the liquidity terms (which may include notice provisions, gates on redemptions and redemption fees) of the affiliated fund, which, under unusual circumstances, could limit the WAM Funds' redemptions from the affiliated fund, result in a charge with respect to such redemptions, or impair the ability of WAM to reallocate the WAM Funds' capital in such manner as WAM would otherwise advise. These limitations create conflicts of interest with respect to WAM advising the WAM Funds to make subscriptions in or redemptions from the affiliated fund.

Investors are permitted to invest directly in the affiliated funds. Under certain circumstances, the potentially disparate interests of the direct investors and the WAM Funds could materially adversely affect one or both groups of investors. For example, WAM, in managing the WAM Funds' assets, has a conflict of interest when reallocating capital away from an affiliated fund, in that WAM may need to choose between acting in the best interests of the WAM Funds' investors and acting in the best interests of the direct investors in the affiliated fund. Permitting different investor populations to participate in the same strategies or investments increases the conflicts of interest and the potential risks to which such investors are subject.

### **Item 13 - Review of Accounts**

WAM's Risk Management processes should not be considered as any assurance that substantial or total losses will not be incurred. There are numerous risks that are not monitored or controlled by WAM, and those risks which WAM does monitor may be greater than forecasted by WAM, especially in unusual market conditions resulting in such risk management processes being inadequate to prevent major losses. There are also numerous risks which WAM has no ability to control. Significant or complete losses may result from these risks or other reasons despite WAM's risk management processes.

Risk management for the WAM Funds is overseen by the Risk Committee which consists of the Chief Investment Officer, Chief Research Officer and a Portfolio Manager that has previous risk experience in risk management. WAM monitors its clients' holdings on a continuous basis. Execution and trade processing data is fed through a single account such that monitoring of trades is centralized and the risks related to unauthorized trading are reduced. Additionally, all positions are reconciled between WAM and the clients' custodians and administrators on a daily basis.

The following written reports are delivered to investors in the WAM Funds on a periodic basis:

- Monthly Risk Report – provides a portfolio recap, NAV return figures, summary risk metrics, and portfolio and exposure summary by strategy

- Quarterly Investor Reports – provides a detailed analysis of each strategy in the portfolio with allocation, return attribution, and narrative
- Annual Audited Financial Statements
- Monthly Investor Statements sent by Administrator

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

Not applicable

#### **Item 15 - Custody**

To the extent that WAM deducts fees directly from client accounts and because WAM acts as the managing member of the U.S.-domiciled feeder fund, WAM is deemed to have custody of the assets of those clients. WAM maintains substantially all of its clients' assets with one or more prime brokers and other financial institutions. Under prime brokerage agreements between WAM and each prime broker, each prime broker will clear and settle securities transactions that are effected through various brokerage firms. WAM may employ additional or different prime brokers and/or custodians in its sole discretion. As noted above in "Review of Accounts – Item 13," investors in the WAM Funds receive written reports from WAM regarding their accounts on a periodic basis, and annual audited financial statements.

#### **Item 16 - Investment Discretion**

WAM has full discretion and authority, without obtaining the prior approval of any officer or other agent, to invest all or a portion of the WAM Funds' assets. Pursuant to the investment management agreement entered into with each WAM Fund, WAM has been designated as the WAM Funds' agent and attorney-in-fact, with full power and authority and without the need for further approval of the WAM Funds to take any and all actions that WAM, in its discretion, shall deem advisable to carry out its discretion with respect to the WAM Funds.

Nevertheless, WAM's discretion is subject to the investment restrictions as outlined in the relevant offering memorandum or any other written agreement between WAM and a WAM Fund.

#### **Item 17 - Voting Client Securities**

WAM's investment management agreement with each WAM Fund expressly authorizes WAM to vote proxies. WAM's investment strategies, however, are generally not dependent on the outcome of such proxies. Proxies are considered assets of the WAM Funds and must be voted with diligence, care and loyalty in a way that maximizes value for the WAM Funds' assets. WAM, will vote on certain matters such as corporate strategic direction, support an ownership structure that enhances shareholder value without diluting management's accountability to shareholders and/or present compensation plans that are commensurate with enhanced manager performance and market practices.

WAM's clients may not direct the votes described above. In the event such voting causes a conflict of interest, WAM endeavors to resolve all conflicts in manner deemed equitable to all shareholders to the extent possible under the prevailing facts and circumstances. Shareholders of the WAM Funds may obtain the results of voting by requesting the results from WAM.



**Item 18 - Financial Information**

Item 18 of Form ADV Part 2 requires investment advisers to disclose any financial condition reasonably likely to impair their ability to meet contractual commitments to clients. At the present time, WAM has no information relevant to this Item.

**Item 19 – Requirements for State-Registered Advisers**

Not applicable