



**Form ADV Part 2A - Disclosure Brochure  
March 2020**

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**CRD Number: 283883**

*This brochure provides information about the qualifications and business practices of Northlight Group LLP ("Northlight" or the "Firm"). If you have any questions about the contents of this brochure, please contact us at +44 207 518 9235 or [jonathan.griffin@northlight.co.uk](mailto:jonathan.griffin@northlight.co.uk). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Northlight is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

## **Item 2 - Material Changes**

This section discusses material changes since the last annual update of this brochure. There have been no material changes to highlight since our last annual amendment filed in March 2019.

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## **Item 4 - Advisory Business**

### **Overview of the Firm**

Northlight Group LLP (“Northlight”, the “Firm”, the “Investment Manager”) is an investment adviser registered with the SEC under the Investment Advisers Act of 1940 (“Advisers Act”). The Firm was founded in September 2009 and registered with the SEC as an investment adviser in May 2016. Northlight is based in London, United Kingdom, where it has been authorised and regulated by the U.K. Financial Conduct Authority (number: 506925) since February 2010. The Firm is a Limited Liability Partnership which was established under UK law (number: OC348379).

Northlight is owned by Cyril Armleder, Charles Lorthioir, Nicolas Mueller and Shahar Zer.

### **Investment Services**

The Firm provides discretionary investment management and advisory services to a select number of private funds and separately managed accounts.

Northlight serves as the Investment Manager to the Northlight European Fundamental Credit Master Fund (the “Master Fund”), Northlight European Fundamental Credit Fund and Northlight European Fundamental Credit Fund LP (both “Feeders” of the Master Fund), and to the Northlight QIAIF Credit Opportunity Fund (the “Credit Opportunity Fund”), a sub fund of the Northlight QIAIF PLC (collectively, the “Funds” and together with the separately managed accounts, the “clients”).

The Firm manages the Funds in accordance with the investment objectives outlined in each Fund’s private placement memorandum and governing documents. Investment advice is provided directly to the Funds and not to individual limited partners or shareholders.

Northlight undertakes investments for separately managed account clients in accordance with mutually agreed upon written investment guidelines and provides continuous supervision of client portfolios. Northlight has established procedures and controls to help ensure compliance with each client’s investment guidelines and any client-imposed restrictions.

### **Assets under Management**

As of December 31, 2019, Northlight manages approximately \$374 million of discretionary regulatory assets under management.

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

### **Funds**

Northlight generally charges a management fee of 1.5-2.0% of assets under management, and a performance-based fee of 15 - 20%, calculated by reference to the relevant high water marks for such advisory accounts. More detail is available in Item 6 – Performance-Based Fees and Side-By-Side Management.

Management Fees relating to the Funds are deducted on a monthly basis, performance fees are generally deducted on an annual basis, as detailed in the Confidential Private Offering Memoranda (“OM”) for each Fund.

Generally, the Funds will bear all expenses as defined in each Fund’s OM. These expenses include (but are not limited to) the administration of the Fund and/or the Master Fund including, the charges and expenses of legal advisers and auditors, all taxes and corporate fees payable to governments or agencies, fees and expenses of the Directors, communication expenses with respect to investor services and all expenses of meetings of Shareholders and of preparing, printing and distributing financial and other reports, proxy forms, prospectuses and similar documents, the cost of insurance (if any) for the benefit of the Directors, and all other organisational and operating expenses.

### **Separately Managed Accounts**

Northlight reserves the right to negotiate fees.

Northlight generally charges a management fee of 1.0-1.5% of assets under management, and a performance-based fee of 15 - 20%, calculated by reference to the relevant high water mark for such advisory accounts. More detail is available in Item 6 – Performance-Based Fees and Side-By-Side Management.

Management and performance fees relating to separately managed accounts will be deducted on a pre-agreed basis.

Clients will pay other expenses in addition to the fees paid to Northlight. For example, clients will pay costs such as brokerage commissions, transaction fees, custodial fees, transfer taxes, wire transfer fees and electronic fund fees, and other fees and taxes charged to security transactions which are unrelated to the fees collected by Northlight. For more information regarding our brokerage practices please see Item 12.

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

### **Performance-Based Fees**

For some accounts, Northlight receives performance-based fees for its investment management services. This fee is based upon a percentage (generally 15 - 20%) of the net profits of the account being managed. When calculating net profits, performance-based fees may be subject to both high water marks and hurdles.

A management fee along with a performance-based fee represents our standard fee arrangement. Any such arrangement will be made in compliance with the Advisers Act or other applicable requirements.

### **Side-By-Side Management**

Northlight has adopted policies and procedures to mitigate possible inherent conflicts associated with managing accounts for multiple clients. Northlight has adopted trading and allocation policies designed to ensure that its side-by-side management of accounts with different types of fees is at all times consistent with its fiduciary responsibilities to its clients, and that no client account is favoured over another. These policies include requirements that all accounts in the same strategy generally be managed the same way, that is, the accounts must have the same portfolio holdings and must be traded at the same time, regardless of the fee arrangement. Clients are regularly reviewed by the compliance department to ensure these policies are closely followed and that buy and sell opportunities are allocated fairly among client accounts.

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

Northlight provides portfolio management services to the Funds and separately managed account clients.

Each Fund imposes certain minimum investment requirements and investor eligibility criteria, which are detailed in each Fund's OM. Although the Investment Manager has the authority to accept subscriptions for a lesser amount, the minimum initial investment is generally \$1 million.

Minimum account size is generally \$50 million for opening a separately managed account, although Northlight reserves the right in its sole discretion to accept client accounts with fewer initial assets.

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

### **Northlight European Fundamental Credit Strategy**

#### **Strategy**

The Northlight European Fundamental Credit Fund is a long/short credit Fund investing primarily in the European high yield corporate credit market. The Fund's objective is to generate attractive liquidity adjusted absolute returns with an emphasis on risk management and capital preservation.

The Firm's separately managed account clients follow the same strategy as the Fund.

Northlight uses extensive bottom-up fundamental analysis to identify opportunities with an attractive risk return profile. Research is carried out by the in-house team of research analysts, who make use of proprietary and third party research to build financial models and formulate investment recommendations. Market analysis contributes to determining an instrument's relative value, pricing trends and liquidity risk.

The Fund will typically invest in secured and unsecured bonds and loans of sub-investment grade companies which derive a substantial part of their revenues from activities in Europe or whose capital structure instruments, in part or in total, trade in Europe. These instruments may be listed or unlisted and may or may not be rated.

Capital is allocated to high conviction investments through long, short, relative value, event, and trading strategies.

#### **Long**

Investments are allocated to the long strategy when the fundamental analysis process indicates that a security is trading below its intrinsic value on a "yield to worst" basis. Long strategy investments may also be made if a security has an attractive current yield.

#### **Short**

Short strategy investments allow the Fund to express a negative view based on a company's fundamental ability to repay its debt or a dislocation between a security's price and its intrinsic value. Short investments also allow the Fund to be directionally positioned in weak credit environments.

#### **Relative Value**

These investments take the form of a long/short pair trade within the capital structure of an issuer or across different issuers in the same sector. They are used to express views on the value of securities relative to one another or to hedge situations where an event will affect one security, but not the other.

#### **Event**

This strategy is used to take advantage of specific future corporate events, such as M&A or a refinancing, which have the potential to significantly influence a security's price. Positions may be long or short.

#### **Trading**

The trading strategy allows the Fund to trade primary issuance, opportunistic investments in secondary markets and to benefit from short term price discovery or market trends. The strategy is also used to adjust the Fund's net exposure to local market risk.



In addition, a macro overlay is used to hedge tail risks and manage risks that have the potential to affect the portfolio. This strategy may use a wide range of financial instruments.

**Hedging**

Individual positions may be hedged or un-hedged with instruments through the same capital structure or a comparable company. Market and tail risks are managed using trading and macro strategies. Non-core market risks such as currency and interest rate risks are monitored daily and hedged at the discretion of the Fund to comply with the Fund's risk limits.

**Market Exposure**

Gross market value exposure of the portfolio is limited to 300% of the Fund's net asset value.

**Portfolio Concentration**

The portfolio typically contains 35-40 investments. There may be either a long or short bias. Concentration limits are defined by the Fund's risk limits.

**Geographical Market Focus**

The Fund invests primarily in the European high yield credit market. The Fund's risk limits are applied on a country by country basis.

**Liquidity**

The Fund invests primarily in liquid instruments. This is a distinguishing characteristic of the Fund. Northlight expects to maintain liquidity of the Fund such that under normal liquidity conditions, 50% of the portfolio should, in principle, have an unwind timeframe of 5 business days and 100% of the portfolio an unwind timeframe of 15 business days.

The Fund strategy is dedicated to one of the fastest growing markets. The European high yield market has doubled in size since inception of the Fund in 2009 and continues its growth primarily as a result of:

- Basel III recommendations and their implementation reducing banks' ability to finance companies;
- the need for companies to diversify their source of funding; and
- a low yield environment.

The structural growth of the European high yield market creates an investment universe that is under researched.

**Material Risk Factors of the Northlight European Fundamental Credit Strategy**

Investing in securities involves risk of loss that investors and clients should be prepared to bear. The following are certain material risks involved in the Investment Manager's investment strategy. This list does not purport to be a complete enumeration or explanation of the risks involved in such strategy.

**Attorney-Client Relationship**

The law firms of Simmons & Simmons LLP (with respect to English law matters), Maples and Calder (with respect to Cayman Islands law matters) and Tannenbaum Helpert Syracuse & Hirschtritt LLP (with respect to US law matters) (collectively, "Counsel") serve as counsel to the Fund and/or the Manager and the Investment Manager and, together or individually, may serve as counsel to other investment funds sponsored or managed by the Manager, the Investment Manager or their affiliates.

To the extent a conflict or dispute arises among the parties, separate counsel may need to be retained as circumstances dictate. Counsel does not represent the Shareholders and furthermore no independent counsel has been, nor is it anticipated to be, retained to represent the Shareholders. Potential investors should seek independent legal counsel before making an investment in the Fund. No attorney-client relationship exists between Counsel or any other person or entity solely by virtue of such person or entity making an investment in the Fund.

#### Availability of Investment Strategies

The success of the Master Fund's investments depends on the Investment Manager's ability to identify investment opportunities and to exploit price discrepancies in the financial markets, as well as to assess the importance of news and events that may affect securities in the portfolio and the financial markets. Identification and exploitation of the investment strategies to be pursued by the Master Fund involves a degree of uncertainty. No assurance can be given that the Investment Manager will be able to locate suitable opportunities in which to deploy all of the Master Fund's assets or to exploit discrepancies in markets.

#### Below Investment-Grade Investments

The Master Fund's investment portfolio will primarily consist of exposure to non-investment grade loans and high-yield debt securities, which are subject to liquidity, market value, credit, interest rate and certain other risks. In addition, there can be no assurance that the Investment Manager will correctly evaluate the nature and magnitude of the various factors that could affect the value of and return on the Master Fund's investments. Additionally, in case of persistent volatility in the credit markets, accompanied by increased interest rates, a tightening of liquidity and declines in prices and valuations of various classes of assets, could affect the ability of the Master Fund, if required, to sell investments as permitted under the Master Fund's investment policy or in connection with a liquidation following an event of default. It is anticipated that the Master Fund's investments generally will be subject to greater risks than investment grade debt. These risks could be exacerbated to the extent that the portfolio is concentrated in one or more particular types of underlying issuer or sector. The value of the Master Fund's investments may be volatile and fluctuate due to a variety of factors that are inherently difficult to predict, including but not limited to changes in interest rates, prevailing credit spreads, general economic conditions, financial market conditions, domestic and international economic or political events, developments or trends in any particular industry, and the financial condition of the obligors of the investments. The market for high-yield debt notes has experienced periods of price volatility and periods of reduced liquidity. Additionally, loans and interests in loans have significant liquidity and market value risks since they are not generally traded in organised exchange markets but are traded by banks and other institutional investors engaged in loan syndications. As loans are privately syndicated and loan agreements are privately negotiated and customised, loans are not purchased or sold as easily as publicly traded securities. In addition, historically, the trading volume in the loan market has been small relative to the high-yield debt securities market. The market for high-yield debt securities has experienced periods of volatility and reduced liquidity. High-yield debt securities may be secured or unsecured, may be subordinated to other obligations of the underlying issuer and generally have greater credit, insolvency and liquidity risk than is typically associated with investment grade debt. High-yield debt securities are often issued in connection with leveraged acquisitions or recapitalisations in which the underlying issuers incur a substantially higher amount of indebtedness than the level at which they had previously operated. The lower rating of high-yield debt securities reflects a greater possibility that adverse changes in the financial condition of the obligor or general economic conditions (including, for example, a substantial period of rising interest rates or declining earnings or disruptions in the financial markets) or both may impair the ability of the obligor to make payments of principal and interest. High-yield debt securities and leveraged loans have historically experienced greater default rates than has been the case for

investment grade securities. There can be no assurance as to the levels of defaults and/or recoveries that may be experienced on the Master Fund's investments. A non-investment grade loan or debt or an interest in a non-investment grade loan is generally considered speculative in nature and may become a defaulted obligation for a variety of reasons. Upon any investment becoming a defaulted obligation, such defaulted obligation may become subject to either substantial workout negotiations or restructuring, which may entail, among other things, a substantial reduction in the interest rate, a substantial write-down of principal, and a substantial change in the terms, conditions and covenants with respect to such defaulted obligation. In addition, such negotiations or restructuring may be quite extensive and protracted over time, and therefore may result in substantial uncertainty with respect to the ultimate recovery on such defaulted obligation. The liquidity for defaulted obligations may be limited, and to the extent that defaulted obligations are sold, it is highly unlikely that the proceeds from such sale will be equal to the amount of unpaid principal and interest thereon. Furthermore, there can be no assurance that the ultimate recovery on any defaulted obligation will be at least equal to the minimum recovery rate assumed by any rating agency in rating the investments.

#### *Borrowings and Leverage*

The Master Fund may employ leverage by borrowing and/or the use of derivatives and other non-fully funded instruments for the purpose of making investments. The use of leverage creates special risks and may significantly increase the investment and counterparty risks of the Master Fund. The Investment Manager sets a maximum level of leverage as described in the section headed "Investment Objective and Strategy". Borrowing creates an opportunity for greater yield and total return but, at the same time, will increase the exposure of the Master Fund to capital risk and interest costs. Any investment income and gains earned on investments made through the use of borrowings that are in excess of the interest costs associated therewith may cause the Net Asset Value of the Master Fund to increase more rapidly than would otherwise be the case. Conversely, where the associated interest costs are greater than such income and gains, the Net Asset Value of the Master Fund may decrease more rapidly than would otherwise be the case. The risks associated with the use of derivatives are set out in the "Derivatives" risk factor paragraph below.

#### *Brexit and the European Union*

In a referendum held in June 2016, the United Kingdom electorate voted to leave the European Union. On 29 March 2017 the Government of the United Kingdom formally notified the European Union that it will leave and there is a period of exit negotiations before the United Kingdom is expected to leave the European Union. The future economic and political relationship between the United Kingdom and the European Union (and between the United Kingdom and other countries) is uncertain, and a period of economic and political uncertainty is ongoing in the United Kingdom, in the rest of the European Union and globally. The United Kingdom's exit from the European Union is expected to result in regulatory changes, which may be adverse to the Investment Manager. The ultimate nature and extent of the impact of these events on the Fund, the Master Fund and the Investment Manager are uncertain, but may be significant.

Other member states of the European Union may also reconsider their European Union membership. This could result in one or more other countries leaving the European Union, or in major reforms or changes being made to the European Union or to the Eurozone. The nature and extent of the impact

of any such changes on the Fund, the Master Fund and the Investment Manager are uncertain, but may be significant.

### Business Risk

There can be no assurance that the Fund or the Master Fund will achieve its investment objective. There is limited operating history by which to evaluate their likely future performance. The investment results of the Fund and the Master Fund will be reliant upon the success of the Investment Manager.

The Fund and the Master Fund will compete with other hedge funds and market participants (such as public or private investment funds and the proprietary desks of investment banks) for investment opportunities. The number of such hedge funds and market participants and the scale of the assets managed by such entities may increase. Such competitors may be substantially larger and have considerably greater financial, technical and marketing resources than are available to the Fund and the Master Fund or they may also have a lower cost of capital and access to funding sources that are not available to the Fund and the Master Fund, which may create competitive disadvantages with respect to investment opportunities. The net effect of these developments may be to reduce the opportunities available for the Investment Manager to generate returns and/or reduce the quantum of these returns. Historic opportunities for some or all hedge fund strategies may be eroded over time whilst structural and/or cyclical factors may reduce investment opportunities for the Investment Manager temporarily or permanently reducing the potential returns of the Fund and the Master Fund.

### Client Money

Where the terms of any agreement between the Master Fund and any of the Prime Brokers and Custodians or a clearing broker (each a “Broker”) provide for all or some of the Master Fund’s cash received or held by the relevant Broker to be treated as client money for the purpose of the FCA’s client money rules, the portion of the Master Fund’s cash (if any) that receives the benefit of client money protection should not be available to the relevant Broker to use in the course of its business (subject to the paragraphs below).

To the extent that, in accordance with the FCA’s client money rules and the specific terms agreed between the relevant Broker and the Master Fund, any other cash is not to be treated as client money for the purposes of the FCA’s client money rules, then such other cash will not be segregated from such Broker’s own cash and such other cash may be used by such Broker in the course of its normal business. The Master Fund will rank as an unsecured creditor of the relevant Broker in relation thereto and, in the event of such Broker’s insolvency, the Master Fund may not be able to recover such cash in full, or at all.

In respect of the portion of the Master Fund’s cash (if any) which a Broker has agreed to treat as client money, such portion of cash is required to be held with approved banks and/or institutions (not necessarily in the United Kingdom), and in certain circumstances may be transferred to an exchange, clearing house or an intermediate Broker in respect of a client transaction.

In the event of the insolvency of the relevant Broker, subject to any enforcement rights of such Broker in respect of amounts owed by the Master Fund to such Broker, or any rights of an approved bank, approved institution, exchange, clearing house or intermediate broker, that portion of the Master Fund’s cash is not expected to form part of the asset pool available to satisfy claims of such insolvent Broker’s creditors. However, that portion of the Master Fund’s cash will be held on a pooled basis with cash held as client money on behalf of the relevant Broker’s other clients and, in the event of a shortfall upon the insolvency of such Broker and/or an approved bank or institution, such shortfall will be

shared on a pro rata basis amongst such Broker's clients (including the Master Fund) that have client money protection.

In addition, if an approved bank or institution with which the Master Fund's client money is held becomes insolvent where the relevant Broker remains solvent, there is a risk of loss of some or all of such money held at such approved bank or institution (subject to any deposit protection schemes that may apply) as, depending on the circumstances, such Broker may not have an obligation to make good that shortfall. If any exchange, clearing house or intermediate Broker to whom money has been transferred in respect of a client transaction becomes insolvent where the relevant Broker remains solvent, the Master Fund's position may be affected by a number of factors, including the law of the relevant jurisdiction or the rules of the relevant exchange or clearing house.

Under the FCA's client money rules, a proportion of the Master Fund's client money may be held with an approved bank/financial institution which is an affiliated entity of the Broker. In the event of the insolvency of the relevant Broker, there is a possibility that an approved bank/financial institution holding client money which is affiliated to the relevant Broker will also be, or become, insolvent. Such circumstances are likely to result in a greater loss of cash than would be the case if cash were held with an approved bank/financial institution which is not affiliated to the relevant Broker.

The legal and regulatory regime applying to parties holding client money outside the United Kingdom may be different to that of the United Kingdom and in the event of their default such money may be treated in a different manner from that which would apply if the money were held by such party in the United Kingdom. Accordingly such money may not be segregated from the assets of such a party and, in the event of the insolvency of such a party, the Master Fund might not be able to recover such money in full, or at all.

#### Concentration of Investments

The Fund invests all of its assets (to the extent not retained in cash) in the ordinary shares of the Master Fund and accordingly is not diversified. Although it is the policy of the Master Fund to diversify its investment portfolio, the Master Fund may at certain times hold relatively few investments. The Master Fund could be subject to significant losses if it holds a large position in a particular investment that declines in value or is otherwise adversely affected, including default of the issuer.

#### Counterparty Risk

The Fund and the Master Fund will be subject to the risk of the inability of any counterparty (including the Prime Brokers and Custodians) to perform with respect to transactions, whether due to insolvency, bankruptcy or other causes and the risk that counterparties may not have access to finance and/or assets at the relevant time and may fail to comply with their obligations under the relevant agreements. In the event of any counterparty entering an insolvency procedure, the Master Fund might not be entitled to liquidate its positions or could experience delays in liquidating its positions and incur significant losses, including the loss of that portion of the Master Fund's portfolio financed through such a transaction, a decline in value of its investment during the period in which the Master Fund seeks to (or is unable to) enforce its rights, an inability to realise any gains on its investment during such period and fees and expenses incurred in enforcing its rights. During an insolvency procedure (which may last many years) the use by the Master Fund of assets held by or on behalf of the counterparty may be restricted and accordingly (a) the ability of the Investment Manager to fulfil the investment objective may be severely constrained, (b) the Fund may be required to suspend the calculation of the Net Asset Value and as a result subscriptions for and redemptions of Shares, and/or (c) the Net Asset Value may be otherwise affected. During such a procedure, the Master Fund is likely

to be an unsecured creditor in relation to certain assets and accordingly the Master Fund may be unable to recover such assets from the insolvent estate of the counterparty in full, or at all.

### Convertible Securities

The Master Fund may invest in convertible securities. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or a different issuer within a particular period of time at a specified price or formula. A convertible security entitles its holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics in that they generally (a) have higher yields than common stocks, but lower yields than comparable nonconvertible securities, (b) are less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics and (c) provide the potential for capital appreciation if the market price of the underlying common stock increases. The value of a convertible security is a function of its “investment value” (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its “conversion value” (the security’s worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security’s investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases as the convertible security approaches maturity.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security’s governing instrument. If a convertible security held by the Master Fund is called for redemption, the Master Fund will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on the Master Fund’s ability to achieve its investment objectives. The Master Fund may invest in structured over-the-counter convertible securities offered by a bank, broker, dealer or financial intermediary, whereby the conversion value is determined by reference to a security for an issuer different from the obligor of the convertible security. Such a security would be subject to the risks inherent in other privately negotiated transactions.

### Credit Default Swaps and Other Synthetic Securities

The Master Fund enters into credit default swaps and other synthetic investments the reference obligations of which may be leveraged loans, high-yield debt securities or similar securities. Investments in such types of assets through the purchase of credit default swaps and other synthetic investments present risks in addition to those resulting from direct purchases of such investments. With respect to each synthetic investment, the Master Fund will usually have a contractual relationship only with the counterparty of such synthetic investment, and not the reference obligor on the reference obligation. The Master Fund generally will have no right directly to enforce compliance by the reference obligor with the terms of the reference obligation nor any rights of set-off against the reference obligor, may be subject to set-off rights exercised by the reference obligor

against the counterparty or another person or entity, and generally will not have any voting or other contractual rights of ownership with respect to the reference obligation. In addition, the Master Fund will not directly benefit from any collateral supporting the reference obligation and will not have the benefit of the remedies that would normally be available to a holder of such reference obligation. In addition, in the event of the insolvency of the counterparty, the Master Fund will be treated as a general creditor of such counterparty, and will not have any claim with respect to the reference obligation. Consequently, the Master Fund will be subject to the credit risk of the counterparty as well as that of the reference obligor. As a result, concentrations of synthetic investments entered into with any one counterparty will subject the Master Fund to an additional degree of risk with respect to defaults by such counterparty as well as by the reference obligor. Additionally, while the Investment Manager expects that the returns on a synthetic investment may generally reflect those of the related reference obligation, as a result of the terms of the synthetic investment and the assumption of the credit risk of the synthetic investment counterparty, a synthetic investment may have a different expected return, a different (and potentially greater) probability of default and expected loss characteristics following a default, and a different expected recovery following default. Additionally, when compared to the reference obligation, the terms of a synthetic investment may provide for different maturities, distribution dates, interest rates, interest rate references, credit exposures, or other credit or non-credit related characteristics. Upon maturity, default, acceleration or any other termination (including a put or call) other than pursuant to a credit event (as defined therein) of the synthetic investment, the terms of the synthetic investment may permit or require the issuer of such synthetic investment to satisfy its obligations under the synthetic investment by delivering to the Master Fund investments other than the reference obligation or an amount different than the then current market value of the reference obligation.

#### Cross Class Liabilities

The Articles require the establishment of separate Class Accounts for each Class and Series of Shares and separate class accounts for each class and/or each series of ordinary shares in the Master Fund ("Master Fund shares") and the attribution of assets and liabilities to the relevant Class Account or Master Fund class account, as appropriate. However, if the liabilities of a Class or Series or a class or series of Master Fund shares (including any liabilities relating to instruments used for hedging the exposure to currency risk) exceed its assets, creditors of the Fund or the Master Fund, as the case may be, may have recourse to the assets attributable to the other Classes and/or Series or classes and/or series of Master Fund shares, as the case may be.

#### Currency Exposure

The Shares are denominated in Euro, and Shares are issued and redeemed in Euro, Japanese Yen, Sterling, Swiss Francs and US Dollars. The assets of the Master Fund ultimately attributable to the CHF Shares, the JPY Shares, the Sterling Shares and the US\$ Shares are exposed to possible adverse currency fluctuations between the currency in which such Shares are issued and redeemed, and the Euro, the base currency of the Master Fund. The Investment Manager generally seeks to hedge this exposure with the aim of minimising the impact thereof on the Net Asset Value per Share of the CHF Shares, the JPY Shares, the Sterling Shares and the US\$ Shares. There can be no assurance that any hedges put in place will be effective. Prospective investors whose assets and liabilities are predominantly in other currencies should take into account the potential risk of loss arising from fluctuations in value between the Euro, the Japanese Yen, Sterling, the Swiss Franc or the US Dollar, as the case may be, and such other currencies.

In addition, certain of the Master Fund's assets may be denominated in currencies other than the Euro. Accordingly, the value of such assets may be affected favourably or unfavourably by fluctuations in currency rates. The Investment Manager may, but is not under an obligation to, seek to hedge the

foreign currency exposure of the Master Fund's assets. If undertaken, there is no guarantee that any such hedging will be effective in reducing foreign exchange risk.

### Derivatives

The Master Fund may from time to time utilise both exchange-traded and/or over-the-counter derivatives, including, but not limited to futures, forwards, swaps, options and contracts for difference as part of its investment policy. These instruments can be highly volatile and expose investors to a high risk of loss. The low initial margin deposits normally required to establish a position in such instruments permit a high degree of leverage. As a result, depending on the type of instrument, a relatively small movement in the price of a contract may result in a profit or a loss which is high in proportion to the amount of funds actually placed as initial margin and may result in unquantifiable further loss exceeding any margin deposited. In addition, daily limits on price fluctuations and speculative position limits on exchanges may prevent prompt liquidation of positions resulting in potentially greater losses. Transactions in over-the-counter contracts may involve additional risk as there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of a position or to assess the exposure to risk. Contractual asymmetries and inefficiencies can also increase risk, such as break clauses, whereby a counterparty can terminate a transaction on the basis of a certain reduction in Net Asset Value, incorrect collateral calls or delays in collateral recovery.

The Master Fund may also sell covered and uncovered options on securities. To the extent that such options are uncovered, the Master Fund could incur an unlimited loss.

The Master Fund will also be dependent on the willingness of counterparties to enter into off-exchange contracts with it. Failure to identify or delay in identifying such counterparties could limit the ability of the Master Fund to carry on its business.

### Distressed Investments: Non-Performing and Defaulted Debt, Including Trade Obligation

The Master Fund may invest in the securities of companies experiencing financial, operational or legal difficulties, including companies that are or may become subject to restructuring, refinancing or bankruptcy proceedings. These investments may include, among other things, debt securities, and bank loans or other obligations of companies that are in or near payment or covenant default. The Master Fund believes that securities of companies experiencing these difficulties represent attractive investment opportunities due to market inefficiencies in pricing these securities. Numerous factors contribute to these market inefficiencies, including the complexity of the situations in which the companies are involved and the extensive analyses required for informed decision-making; the limited universe of interested investors; and the relative lack of institutional research coverage of, and market making activity in, securities of these companies. The Master Fund may also invest in a limited number of "off-the-run" distressed situations requiring direct involvement in the bankruptcy process, creditors' committee participation, or the pursuit of a litigation strategy.

### Emerging Markets

The Master Fund may invest in securities of entities incorporated in or whose principal operations are in emerging markets. Accordingly, additional risks may be encountered. These include:

*Currency Risk:* the currencies in which investments are denominated may be unstable, may be subject to significant depreciation and may not be freely convertible.



*Country Risk:* the value of the Master Fund's assets may be affected by political, legal, economic and fiscal uncertainties. Existing laws and regulations may not be consistently applied.

*Market Characteristics:* emerging markets are still in the early stages of their development, have less volume, are less liquid and experience greater volatility than more established markets and are not highly regulated. Settlement of transactions may be subject to delay and administrative uncertainties.

*Political and legal risks:* emerging markets carry a higher degree of political risk than developed markets or regulations can impede repatriation of investment capital or earnings. It may be difficult to obtain and enforce a judgement in certain emerging markets in which assets of the Master Fund have been invested.

*Custody Risk:* custodians are not able to offer the level of service and safe-keeping, settlement and administration of securities that is customary in more developed markets and there is a risk that the Master Fund will not be recognised as the owner of securities held on its behalf by a sub-custodian.

*Disclosure:* less complete and reliable fiscal and other information may be available to Shareholders.

#### Equity and Equity-linked Securities

The Master Fund may invest in equity and equity-linked securities (including equity-based derivatives), the values, volatility and liquidity of which vary with an issuer's performance and movements in the broader equity markets. Numerous economic factors, as well as market sentiment, political and other factors, influence the value, volatility and liquidity of equities. At any given time, the Master Fund may have significant investments in companies with smaller market capitalisations. These securities often involve greater risks than the securities of larger, better-known companies, including less liquidity and greater volatility.

#### Eurozone Crisis

The current economic situation in the Eurozone has created significant pressure on certain European countries regarding their membership of the Euro. Some economists advocate the exit of certain countries from the Eurozone, and political movements in some Eurozone countries also promote their country's exit from the Eurozone for economic or political reasons, or both. It is possible that one or more countries may leave the Eurozone and return to a national currency (which may also result in them leaving the EU) and/or that the Euro will cease to exist in its current form, or entirely, and/or lose its legal status in one or more of the current Eurozone countries.

#### Exchange of Tax Information

The Cayman Islands has implemented a legal and regulatory regime that the Organisation for Economic Co-operation and Development ("OECD") has recognised as generally complying with internationally agreed standards for transparency and exchange of information for tax purposes. Furthermore, the Cayman Islands is currently treated by the OECD as a jurisdiction that has substantially implemented the internationally agreed tax standard (as developed by the OECD in co-operation with non-OECD countries and endorsed by G20 Finance Ministers and by the United Nations Committee of Experts on International Co-operation in Tax Matters). The implementation of this standard, which requires exchange of information on request in all tax matters for the administration and enforcement of domestic tax law without regard to a domestic tax interest requirement or bank secrecy for tax purposes, has involved the Cayman Islands entering into a number of bilateral tax information exchange agreements, and also the enactment of a unilateral mechanism for the Cayman Islands to provide relevant information on request to certain other specified jurisdictions.

Consequently, the Fund and the Master Fund, or any of its or their directors or agents domiciled in the Cayman Islands, may be compelled to provide information including, but not limited to information relating to the subscriber and, where applicable, the subscriber's beneficial owners and controllers, subject to a request for information made by a regulatory or governmental authority or agency under applicable law; e.g. by the Cayman Islands Monetary Authority, either for itself or for a recognised overseas regulatory authority, under the Monetary Authority Law (2018 Revision), or by the Cayman Islands Tax Information Authority, under the Tax Information Authority Law (2017 Revision) or Reporting of Savings Income Information (European Union) Law (2014 Revision) and associated regulations, agreements, arrangements and memoranda of understanding. Disclosure of confidential information under such laws shall not be regarded as a breach of any duty of confidentiality and, in certain circumstances, the Fund, the Master Fund and any of its or their directors or agents, may be prohibited from disclosing that the request has been made.

Accordingly, each Shareholder should be aware that in accordance with such arrangements (as extended or varied from time to time to comply with then current international standards, to the extent adopted by the Cayman Islands or any other relevant jurisdiction), relevant information concerning it and/or its investment in the Fund may be provided to any relevant tax authority.

#### *Event-Driven and Special Situation Investments*

The Master Fund invests in companies based upon certain situations or events, including (but not limited to) spin-offs, mergers and acquisitions, rights offerings, restructurings and bankruptcies. Frequently the securities (which may include, but are not limited to, bonds, leveraged loans and credit default swaps) of the company being acquired or the acquirer will be significantly mispriced to where it is expected to trade post the event. The Investment Manager also believes that many such special situations and events carry a high probability of indiscriminate selling or neglect of valuable assets for reasons other than a lack of investment merits. The Investment Manager intends to use event-driven investments as an investment strategy.

#### *FATCA and Similar Measures*

Under the United States Foreign Account Tax Compliance Act provisions contained in sections 1471 to 1474 of the United States Internal Revenue Code and US Treasury Regulations promulgated thereunder (together, as amended from time to time, "FATCA"), certain payments made to the Fund and Master Fund may be subject to a thirty per cent (30%) withholding tax (a "FATCA Deduction") and under the relevant Cayman Islands legislation the Fund and the Master Fund may be subject to financial penalties or other sanctions unless the Fund and the Master Fund comply with the requirements of the Intergovernmental Agreement ("IGA") between the United States and the Cayman Islands (the "US-Cayman IGA") (which seeks to implement the requirements of FATCA) and legislation enacted in the Cayman Islands to implement the US-Cayman IGA. Further information may be found under "Taxation - FATCA and Similar Measures".

The Cayman Islands have also signed an inter-governmental agreement with the United Kingdom (the "UK-Cayman IGA") that imposes similar requirements to the US Cayman IGA and enacted legislation to implement the UK-Cayman IGA in the Cayman Islands. A number of other jurisdictions have entered into or are committed to entering into inter-governmental agreements for the automatic cross-border exchange of tax information similar to the US-Cayman IGA and UK-Cayman IGA, including, in particular, under a regime known as the OECD Common Reporting Standard

("CRS"). The Cayman Islands have signed, along with over 100 other countries, a multilateral competent authority agreement to implement the CRS, and have passed regulations to give effect to the CRS. These regulations require Cayman Islands "Financial Institutions", including the Fund and/or the Master Fund, to identify specified persons in participating jurisdictions under the CRS, and to report related information to the Cayman Islands Tax Information Authority (for automatic exchange with the relevant tax authorities in such jurisdictions). The Fund and the Master Fund may be subject to financial penalties or other sanctions if they fail to comply with the requirements of the Cayman Islands regulations giving effect to CRS. Due to the overlap between the UK-Cayman IGA and CRS, reportable UK persons are reported under CRS and not the UK-Cayman IGA from 2018 and it is expected that the Cayman Islands legislation implementing the UK-Cayman IGA will be repealed in due course.

While the Fund and the Master Fund will each seek to satisfy its obligations under FATCA, the US-Cayman IGA, the UK Cayman IGA, the CRS and the associated implementing legislation in the Cayman Islands to avoid the imposition of any FATCA Deductions, financial penalties and other sanctions, the ability of the Fund and the Master Fund to satisfy such obligations will depend on receiving relevant information and/or documentation about each Shareholder and the direct and indirect beneficial owners of the Shares (if any). The Fund and the Master Fund intend to satisfy such obligations, although there can be no assurances that they will be able to do so. There is therefore a risk that the Fund and/or the Master Fund may be subject to one or more FATCA Deductions, financial penalties and other sanctions, any of which may have a material adverse effect on the Net Asset Value and hence on the Net Asset Value per Share.

Similar considerations may apply to Investment Vehicles.

All prospective investors and Shareholders should consult with their respective tax advisers regarding the possible implications of FATCA, the US-Cayman IGA, the UK-Cayman IGA, CRS and the associated implementing legislation in the Cayman Islands and any other similar legislation and/or regulations on their investments in the Fund.

#### Financing Arrangements; Availability of Credit

The Master Fund may use borrowings and may use other forms of leverage such as securities margin, futures margin, margined option premiums, bank or dealer credit lines or the notional principal amounts of contracts for differences transactions. There can be no assurance that the Master Fund will be able to maintain adequate financing arrangements under all market circumstances.

#### Fixed Income Securities

The Master Fund invests in bonds or other fixed income securities. Fixed income securities pay fixed, variable or floating rates of interest. The value of fixed income securities in which the Master Fund invests will change in response to fluctuations in interest rates. In addition, the value of certain fixed income securities can fluctuate in response to perceptions of creditworthiness, political stability or soundness of economic policies. Fixed income securities are subject to the risk of the issuer's inability

to meet principal and interest payments on its obligations (i.e. credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (i.e. market risk).

#### Forward Foreign Exchange Contracts

The Master Fund enters into forward foreign exchange contracts for currency hedging purposes. A forward foreign exchange contract is a contractually binding obligation to purchase or sell a particular currency at a specified date in the future. Forward foreign exchange contracts are not uniform as to the quantity or time at which a currency is to be delivered and are not traded on exchanges. Rather, they are individually negotiated transactions. Forward foreign exchange contracts are effected through a trading system known as the interbank market. It is not a market with a specific location but rather a network of participants electronically linked. Documentation of transactions generally consists of an exchange of telex, facsimile or electronic messages. There is no limitation as to daily price movements on this market and in exceptional circumstances there have been periods during which certain banks have refused to quote prices for forward foreign exchange contracts or have quoted prices with an unusually wide spread between the price at which the bank is prepared to buy and that at which it is prepared to sell. Transactions in forward foreign exchange contracts are not regulated by any regulatory authority nor are they guaranteed by an exchange or clearing house. The Master Fund is subject to the risk of the inability or refusal of its counterparties to perform with respect to such contracts. Any such default would eliminate any profit potential and compel the Master Fund to cover its commitments for resale or repurchase, if any, at the then current market price. These events could result in significant losses.

#### Illiquidity

Shareholders will only be able to realise their investment in the Fund by redeeming their Shares or by a transfer to an eligible person. Transfers of shares are restricted and are subject to the prior approval of the Fund. It is not anticipated that there will be an active secondary market for the Shares. Redemptions can only be effected monthly and are subject to the restrictions and limitations referred to on pages **Error! Bookmark not defined.** to **Error! Bookmark not defined.** above. Under certain circumstances, such redemption procedures may entail a significant delay in redemptions. The Fund may invest part of its assets in securities which may become illiquid (usually through special class of Shares). The Fund may not be able to readily dispose of such securities which become illiquid and, in some cases, may be contractually prohibited from disposing of such securities for a specified period of time. Certain special classes of Shares as designated by the Directors from time to time may not be redeemed by a Shareholder without the prior consent of the Directors. In particular, Directors have power to defer or suspend redemptions in accordance with the provisions set out under the section headed “Temporary suspension of determination of Net Asset Value and of issues, exchanges and redemptions of Shares”.

#### Information Technology Systems

The Investment Manager depends on information technology systems in order to assess investment opportunities, strategies and markets and to monitor and control risks for the Master Fund. Information technology systems are also used to trade in the underlying investments of the Master Fund. Although the Investment Manager has established a disaster recovery plan, there is a risk that a failure of some kind which causes disruptions to these information technology systems could materially limit the Investment Manager’s ability to adequately assess and adjust the investments of the Master Fund, formulate strategies and provide adequate risk control, any of which could harm the performance of the Master Fund, which could have a material adverse effect on the performance of the Fund and returns to Shareholders. Similarly, despite the disaster recovery plans established by the

Prime Brokers and Custodians, there is a risk that a failure of the back office functions of the Prime Brokers and/or Custodians to process trades by the Master Fund in a timely fashion could prejudice the investment performance of the Master Fund.

#### Investment Management Risk

The ability of the Fund to achieve its investment objective will be significantly dependent upon the expertise of the Investment Manager, its directors and employees and the Investment Manager's and its affiliates' ability to attract and retain suitable staff. The impact of the departure for any reason of a key individual (or individuals) on the ability of the Investment Manager to achieve the investment objectives of the Fund cannot be determined and may depend on, amongst other things, the ability of the Investment manager to recruit other individuals of similar experience and credibility. In addition, legislative, tax and/or regulatory changes which restrict or otherwise adversely affect the remuneration of key individual(s), including the ability and scope to pay bonuses, which may be imposed in the jurisdictions in which the Investment Manager operates, may adversely affect the Investment Manager's ability to attract and/or retain any such key individual(s). Although the Investment Manager's team consists of several members, the investment performance of the Fund may from time to time be substantially dependent on certain individuals. In the event of the death, incapacity, departure, insolvency or withdrawal of these individuals, the performance of the Fund may be adversely affected.

Furthermore, some of the contractual arrangements in place with certain of the Master Fund's counterparties provide the relevant counterparties with rights of termination, if certain key employees and officers of the Investment Manager cease to have responsibility for managing the Master Fund's investments or similar provisions. The assertion of such rights to terminate contracts could result in the Master Fund's contractual positions being closed out on unsatisfactory terms and in a fewer number of potential counterparties in the future. The assertion of such rights may have a material adverse impact on the business and/or financial condition of the Master Fund. There can be no assurance that the Investment Manager would be able to mitigate the effects of the loss of any such key individual.

#### Limited US Regulation

Neither the Fund nor the Master Fund is, or intends to be, registered as an investment company under the 1940 Act. Shareholders therefore will not be accorded the protective measures provided by such legislation.

The Investment Manager is registered as an investment adviser with the United States Securities and Exchange Commission pursuant to the Advisers Act. For additional information regarding the Investment Manager, please see Part 1 and Part 2 of the Investment Manager's Form ADV available at <http://www.adviserinfo.sec.gov/>.

#### Liquidity and Market Characteristics

The Master Fund may be adversely affected by a decrease in market liquidity for the instruments in which it invests which may impair the Master Fund's ability to adjust its positions. The size of the Master Fund's positions may magnify the effect of a decrease in market liquidity for such instruments.

In some circumstances, certain of the Master Fund's investments may be relatively illiquid, making it difficult or impossible to dispose of them at the prices quoted on the various exchanges or at prices

which the Investment Manager considers reflects their value and/or dispose of them as readily as other of the Master Fund's investments. Accordingly, the Master Fund's ability to respond to market movements may be impaired and the Master Fund may experience adverse price movements upon liquidation of its investments. Settlement of transactions may be subject to delay and administrative uncertainties.

#### Loans of Portfolio Securities

While not a significant element of the Master Fund's investment strategy, the Master Fund may lend its portfolio securities on both a secured and an unsecured basis. By doing so, the Master Fund attempts to increase its income through the receipt of interest on the loan. In the event of the bankruptcy of the other party to a securities loan, the Master Fund could experience delays in recovering the securities it lent. The Master Fund may experience losses if the institution with which it has engaged in a portfolio loan transaction breaches its agreement with the Master Fund (or a vehicle through which the Master Fund has invested). To the extent that the value of the securities the Master Fund lent has increased, the Master Fund could experience a loss if such securities are not recovered.

#### Market Crisis and Governmental Intervention

The global financial markets have recently undergone pervasive and fundamental disruptions which have led to extensive and unprecedented governmental intervention. Such intervention was in certain cases implemented on an "emergency" basis without much or any notice with the consequence that some market participants' ability to implement certain strategies or manage the risk of their outstanding positions was suddenly and/or substantially eliminated. In addition, as one would expect given the complexities of the global financial markets and the limited timeframe within which governments were able to take action, these interventions were sometimes unclear in scope and application, resulting in confusion and uncertainty which in itself was materially detrimental to the efficient functioning of such markets as well as previously successful investment strategies.

The United States Federal Reserve and certain non-US governments and supra-governmental agencies and organisations have previously taken, and in certain cases continue to take, significant steps to intervene in the financial markets. Current and future government and/or supra-governmental interventions may lead to a change in valuations of securities that is detrimental to the Master Fund's investments. Such intervention is subject to inherent uncertainties relating to prevailing economic conditions and political considerations.

The Investment Manager believes that it is possible that emergency intervention may take place again in the future. The Investment Manager also believes that the regulation of financial markets is likely to be increased in the future.

It is impossible to predict the impact of any such intervention and/or increased regulation on the performance of the Master Fund or the fulfilment of its investment objective.

#### Market Disruptions

The Master Fund may incur major losses in the event that disrupted markets and/or other extraordinary events affect markets in a way that is not consistent with historical pricing relationships. The risk of loss from the disconnection from historical prices during periods of market disruption is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. The financing available to the Master Fund from its banks, dealers and other counterparties will typically be reduced in disrupted

markets. Such a reduction may result in substantial losses to the Master Fund. In 1994, in 1998 and again in the “financial crisis” of 2007-2009, a sudden restriction of credit by the dealer community resulted in forced liquidations and major losses for a number of investment vehicles focused on credit-related investments. However because market disruptions and losses in one sector can cause ripple effects in other sectors, many investment vehicles suffered heavy losses even though they were not heavily invested in credit-related investments.

In addition, the global financial markets may undergo further fundamental disruptions in the future, which could result in renewed governmental and/or supra-governmental interventions which may be materially detrimental to the performance of the Master Fund, and hence the Fund. Furthermore, market disruptions caused by unexpected political, military and terrorist events may from time to time cause dramatic losses for the Master Fund, and such events may result in otherwise historically low-risk strategies performing with unprecedented volatility and risk. A financial exchange may from time to time suspend or limit trading. Such a suspension could render it difficult or impossible for the Master Fund to liquidate affected positions and thereby expose it to losses. There is also no assurance that off-exchange markets will remain liquid enough for the Master Fund to close out positions.

## MiFID 2

### *Access to research*

MiFID 2 prohibits an EU authorised investment firm from receiving investment research unless it is paid for directly by the firm out of its own resources or from a separate research payment account. EU research providers that are MiFID firms will be obliged to price their research services separately from their execution services. It is uncertain whether these changes will lead to an overall increase in the price of research and/or lead to reduced access to research for the Investment Manager in relation to the Master Fund’s investment strategy.

### *Changes to conduct rules for EU brokers*

Historically, certain EU sell-side firms have used IPO and secondary allocations as a way of rewarding their most valued buy-side clients (in terms of trading volumes or commissions) for the business that they have given to the firm previously or to incentivise future business. MiFID 2 requirements effectively prohibit such behaviour, as MiFID 2 precludes a sell-side firm from allocating issuances to clients either (a) to incentivise the payment of a large amount of fees for unrelated services provided by the EU firm or (b) which is conditional on the receipt of future orders or the purchase of any other service from the EU firm by a client. As a result, the manner in which the Investment Manager is allocated IPOs and secondary issuances by its sell-side service providers is likely to change significantly, which may have an adverse effect on the Investment Manager’s ability to implement the Master Fund’s investment strategy.

### *Changes to policies and procedures and costs of compliance*

MiFID 2 requires significant changes to a number of the Investment Manager’s policies and procedures, including with respect to best execution, payment for and access to research and conflicts of interest, which may adversely affect the Investment Manager’s implementation of the Master Fund’s investment strategy. Compliance with these requirements is likely to result in the Investment

Manager incurring significant costs and may also result in increased costs for the Fund and the Master Fund.

#### *Equities - mandatory on-exchange trading*

MiFID 2 introduces a new rule that an EU regulated firm may execute certain equities trades only on an EU trading venue (or with a firm which is a systematic internaliser or an equivalent venue in a third country). The instruments in scope for this requirement are any equities admitted to trading on any EU trading venue, including those with only a secondary listing in the EU. The effect of this rule is to introduce a substantial limit on the possibility of trading off-exchange or OTC in EU listed equities with EU counterparties. The overall impact of this rule on the Investment Manager's ability to implement the Master Fund's investment objective and investment strategy is uncertain.

#### *Extension of pre- and post-trade transparency*

MiFID 2 introduces wider transparency regimes in respect of trading on EU trading venues and with EU counterparties. MiFID 2 extends the pre- and post-trade transparency regimes from equities traded on a regulated market to cover equity-like instruments, such as depositary receipts, exchange-traded funds and certificates that are traded on regulated trading venues, as well as to cover non-equities, such as bonds, structured finance products, emission allowances and derivatives.

The increased transparency regime under MiFID 2, together with the restrictions on the use of "dark pools" and other non-regulated trading venues, may lead to enhanced price discovery across a wider range of asset classes and instruments which could disadvantage the Master Fund particularly in the fixed income markets. Such increased transparency and price discovery may have macro effects on trading globally, which may have an adverse effect on the Net Asset Value.

#### *MiFID 2*

MiFID 2 imposes new regulatory obligations on the Investment Manager. These regulatory obligations may impact on, and constrain the implementation of, the investment strategy of the Master Fund and lead to increased compliance obligations upon and accrued expenses for the Investment Manager and/or the Fund and the Master Fund.

#### *OTC derivatives*

MiFID 2 requires certain standardised OTC derivatives (including all those subject to a mandatory clearing obligation under EMIR) to be executed on regulated trading venues. In addition, MiFID 2 introduces a new trading venue, the "organised trading facility", which is intended to provide greater price transparency and competition for bilateral trades. The overall impact of such changes on the Master Fund is highly uncertain and it is unclear how the OTC derivatives markets will adapt to this new regulatory regime. (See further under "OTC Transactions" below.)

#### *Net Asset Value Considerations*

The Net Asset Value per Share is expected to fluctuate over time with the performance of the Master Fund's investments. A Shareholder may not fully recover its initial investment when it chooses to redeem its Shares or upon compulsory redemption if the Net Asset Value per Share at the time of such redemption is less than the Subscription Price paid by such Shareholder.

In addition, where there is any conflict between IFRS and the valuation principles set out in the Articles and this Prospectus in relation to the calculation of Net Asset Value, the latter principles shall take precedence.



### Primary and Initial Offerings of Securities

The Master Fund may invest in primary and initial offerings of bonds and debt securities, and may in future invest in “new issues” securities, that do not have a readily ascertainable market value or other securities which may become illiquid. Investments in such securities may be held in a separate account.

### No Revision of Net Asset Value for Dealing or Fee Purposes

If the Net Asset Value or the Net Asset Value per Share is adjusted after any Valuation Day (as a consequence, for example, of any subsequent adjustment made to the value of an illiquid investment), the Directors will not be required to revise or recalculate the Net Asset Value or Net Asset Value per Share on the basis of which any subscriptions or redemptions of Shares may have been previously accepted or to revise or recalculate the Net Asset Value or Net Asset Value per Share used to calculate or pay any Management Fee, Performance Fee or any other fee payable by the Fund or the Master Fund.

### Options

The Master Fund may buy or sell (“write”) both call options and put options, and when it writes options, it may do so on a “covered” or an “uncovered” basis. A call option is “covered” when the writer owns securities of the same class and amount as those to which the call option applies. A put option is covered when the writer has an open short position in securities of the relevant class and amount. The Master Fund’s option transactions may be part of a hedging strategy (i.e., offsetting the risk involved in another securities position) or a form of leverage, in which the Master Fund has the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be substantial, depending on the circumstances. In general, without taking into account other positions or transactions the Master Fund may enter into, the principal risks involved in options trading can be described as follows: When the Master Fund buys an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the price of the underlying security in the case of a put, could result in a total loss of the Master Fund’s investment in the option (including commissions). The Master Fund could mitigate those losses by selling short, or buying puts on, the securities for which it holds call options, or by taking a long position (e.g., by buying the securities or buying calls on them) in securities underlying put options. When the Master Fund sells an option, the risk can be substantially greater than when it buys an option. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. The risk is theoretically unlimited unless the option is “covered.” If it is covered, the Master Fund would forego the opportunity for profit on the underlying security should the market price of the security rise above the exercise price. If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction costs) would provide profit that would reduce or offset any loss the Master Fund might suffer as a result of owning the security.

### OTC Transactions

There has been an international effort to increase the stability of the financial system in general, and the OTC derivatives market in particular, in response to the recent financial crisis. The leaders of the G20 have agreed that all standardised OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties, that OTC derivative contracts should be reported to trade repositories and non-centrally cleared contracts should be subject to higher capital requirements.

In the United States, the Dodd-Frank Act includes provisions that comprehensively regulate the OTC derivatives markets for the first time. Key provisions of the Dodd-Frank Act require rulemaking by the SEC and the CFTC, not all of which has been proposed or finalised as at the date of this Prospectus. As a result, investors should expect future changes in the regulatory environment.

In an attempt to reduce systemic and counterparty risks associated with OTC derivatives transactions, the Dodd-Frank Act will require that a substantial portion of OTC derivatives must be executed on regulated markets and submitted for clearing to regulated clearing houses. OTC trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearing house, as well as possible SEC- or CFTC-mandated margin requirements. The SEC and CFTC also have broad discretion to impose margin requirements on non-cleared OTC derivatives. Although the Dodd-Frank Act includes limited exemptions from the clearing and margin requirements for so-called “end-users”, the Master Fund does not expect to be able to rely on such exemptions. In addition, the OTC derivative dealers with which the Master Fund may execute the majority of its OTC derivatives will not be able to rely on the end-user exemptions under the Dodd-Frank Act and therefore such dealers will be subject to clearing and margin requirements notwithstanding whether the Master Fund is subject to such requirements. OTC derivative dealers are also required to post margin to the clearing houses through which they clear their customers’ trades instead of using such margin in their operations, as they were previously allowed to do. This will further increase the dealers’ costs, which costs are expected to be passed through to other market participants in the form of higher fees and less favourable dealer marks.

Trades that are required to be submitted for clearing may also be required to be executed through a regulated securities, futures, or swap exchange or execution facility as opposed to on a bilateral basis as is currently the general practice. Such requirements may make it more difficult and costly for investment funds, including the Master Fund, to enter into highly tailored or customised transactions. They may also render certain strategies in which the Master Fund might otherwise engage impossible or so costly that they will no longer be economical to implement.

OTC derivative dealers and major OTC derivatives market participants are required to register with the SEC and/or the CFTC. The Master Fund, the Manager and/or the Investment Manager does not expect to have to register as a dealer or major participant in the OTC derivatives markets based on the current rules adopted by the SEC and the CFTC. Dealers and major participants will be subject to minimum capital and margin requirements. These requirements may apply irrespective of whether the OTC derivatives in question are exchange-traded or cleared. OTC derivatives dealers will also be subject to new business conduct standards, disclosure requirements, reporting and recordkeeping requirements, transparency requirements, position limits, limitations on conflicts of interest, and other regulatory burdens. These requirements may increase the overall costs for OTC derivative dealers, which are likely to be passed along, at least partially, to market participants in the form of higher fees or less advantageous dealer marks. The overall impact of the Dodd-Frank Act on the Master Fund is highly uncertain and it is unclear how the OTC derivatives markets will adapt to this new regulatory regime.

Although the Dodd-Frank Act will require many OTC derivative transactions previously entered into on a principal-to-principal basis to be submitted for clearing by a regulated clearing house, certain of the derivatives that may be traded by the Master Fund may remain principal-to-principal or OTC contracts between the Master Fund and third parties entered into privately. The risk of counterparty non-performance 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 the Dodd-Frank Act is intended in part to reduce these risks, its success in this respect may not be evident for some time after the Dodd-Frank Act is fully implemented, a process that may take several years. To the extent not mitigated by implementation of the Dodd-Frank Act, if at all, the risks posed by such instruments

and techniques, which can be extremely complex and may involve leveraging of the Master Fund's 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 characterisation 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 pre-empt 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) systemic 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). For OTC derivatives that are cleared through a clearing house, there is the additional risk that the clearing house may become insolvent or lack the financial resources to assure performance in the event of a clearing house member's default.

European Union Regulation No 648/2012 on OTC derivatives, central counterparties and trade repositories (also known as the European Market Infrastructure Regulation, or "EMIR") came into force on 16 August 2012. EMIR introduces uniform requirements in respect of OTC derivative contracts by requiring certain "eligible" OTC derivatives contracts to be submitted for clearing to regulated central clearing counterparties and by mandating the reporting of certain details of OTC derivatives contracts to trade repositories. In addition, EMIR imposes risk mitigation requirements for appropriate procedures and arrangements to measure, monitor and mitigate operational and counterparty credit risk in respect of OTC derivatives contracts which are not subject to mandatory clearing. These risk mitigation requirements are expected to include the exchange and segregation of collateral by the parties, including by the Master Fund.

EMIR has a significant impact on the Master Fund's trading of derivatives, which may include an increase in the overall costs of entering into and maintaining OTC derivative contracts. The Directors, the Manager and the Investment Manager will monitor the position. However, prospective investors and Shareholders should be aware that the regulatory changes arising from EMIR may adversely affect the Master Fund's ability to adhere to its investment strategy and achieve its investment objective.

#### Possible Indemnification Obligations; Litigation

As described under "General and Statutory Information - Material Contracts", the Fund and/or the Master Fund have each agreed to indemnify the Manager, the Investment Manager, the Prime Brokers and Custodians and the Administrator under certain circumstances. In addition, the Fund and/or the Master Fund may in the future agree to indemnify certain other service providers and/or other persons. In the event that the Fund, the Master Fund or, subject to the terms of the relevant agreement, a party which either one of them has agreed to indemnify, were named as a defendant in a proceeding, the Fund or the Master Fund, as applicable, would bear the additional costs of defending and, where appropriate, indemnifying such party against, such action. The Fund or the Master Fund, as applicable, may be at further risk if the Fund, the Master Fund or any such party failed to prevail in that proceeding.

#### Possible Law Changes

No assurance can be given that legislative, administrative or judicial changes will not occur which will alter, either prospectively or retroactively, the tax considerations or risk factors discussed in this Prospectus. Prospective Shareholders should seek, and must rely on, the advice of their own advisers

with respect to the possible impact on its investment of any future proposed legislation or administrative or judicial action.

### Price Fluctuations

It should be remembered that the value of Shares and the income (if any) derived from them can go down as well as up.

### Prime Broker and Custodian Insolvency

The Master Fund is at risk of any of the Prime Brokers and Custodians entering into an insolvency procedure. During such a procedure (which may last many years) the use by the Master Fund of assets held by or on behalf of the relevant Prime Broker and Custodian may be restricted and accordingly (a) the ability of the Investment Manager to fulfil the investment objective may be severely constrained, (b) the Master Fund may be required to suspend the calculation of the Net Asset Value and as a result subscriptions for and redemptions of Shares, and/or (c) the Net Asset Value may be otherwise affected. During such a procedure, the Master Fund is likely to be an unsecured creditor in relation to certain assets and accordingly the Master Fund may be unable to recover such assets from the insolvent estate of the relevant Prime Brokers and Custodians in full, or at all. The Investment Manager monitors on an ongoing basis the creditworthiness of the Prime Brokers and Custodians.

### Prime Brokers and Custodians to the Master Fund

In relation to the Master Fund's right to the return of assets equivalent to those of the Master Fund's assets which a Prime Broker and Custodian sells, borrows, lends, rehypothecates, disposes of, charges, takes legal and beneficial ownership of or otherwise uses for its own purposes, the Master Fund ranks as one of such Prime Broker's and Custodian's unsecured creditors and, in the event of the insolvency of such Prime Broker and Custodian, the Master Fund might not be able to recover equivalent assets in full, or at all.

In addition, the Master Fund's cash held with a Prime Broker and Custodian that is not treated as client money under the FCA's client money rules, is not segregated from such Prime Broker's and/or Custodian's own cash and is used by the relevant Prime Broker and Custodian in the course of its business and the Master Fund therefore ranks as an unsecured creditor in relation thereto.

The Master Fund is subject to the risk that one of the Prime Brokers and Custodians may be unable to perform with respect to transactions, whether due to insolvency, bankruptcy or other causes. In addition, the nature of commercial arrangements made in the normal course of business between many prime brokers and/or custodians means that in the case of one of the Prime Brokers and Custodians defaulting on its obligations to the Master Fund, the effects of such a default may have consequential negative effects on other prime brokers and custodians with whom the Master Fund deals. The Master Fund and, by extension, the Fund may, therefore, be exposed to such so-called "systemic risk" when the Master Fund deals with prime brokers and custodians whose creditworthiness may be interlinked.

Where a Prime Broker and Custodian delegates the safe custody of the Master Fund's securities held by it pursuant to the relevant agreement to a sub-custodian located outside of the United Kingdom, the settlement, legal and regulatory requirements in the relevant overseas jurisdiction may be different from those in the United Kingdom and there may be different practices for the separate identification of the Master Fund's securities. Where the Master Fund's securities are registered or recorded in the name of a Prime Broker and Custodian or a sub-custodian, they may not be segregated

and hence may not be as well protected as if they were registered or recorded in the name of the Master Fund.

### Profit Sharing

In addition to receiving a Management Fee, the Manager may also receive a Performance Fee (which it will share with the Investment Manager) based on the outperformance of the Net Asset Value per Share. The Performance Fee will increase with regard to unrealised appreciation, as well as realised gains and accordingly a Performance Fee may be paid on unrealised gains which may subsequently never be realised. The Performance Fee may create an incentive for the Investment Manager to make investments for the Master Fund which are riskier than would be the case in the absence of a fee based indirectly on the performance of the Master Fund.

### Regulatory Risks of Hedge Funds

The regulatory environment for hedge funds is evolving and changes therein may adversely affect the value of investments held by the Master Fund and/or the ability of the Master Fund to obtain the leverage it might otherwise obtain or to implement its investment strategy and achieve its investment objective. In addition, securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. Regulators and self-regulatory organisations and exchanges are authorised to take extraordinary actions in the event of market emergencies. In addition, the regulatory or tax environment for derivative and related instruments and funds that engage in such transactions is evolving and may be subject to modification by government or judicial action which may adversely affect the value of the investments held by the Master Fund. The effect of any future regulatory or tax change on the Fund and/or the Master Fund is impossible to predict.

In particular, AIFMD regulates AIFMs (such as the Investment Manager) established in the EEA. As an authorised AIFM, the Investment Manager complies with various obligations in relation to the Fund and the Master Fund which may create significant additional costs that may be borne by Shareholders. Certain conditions relating to the domicile of the Fund will have to continue to be met in order for the marketing of Shares to professional investors in the EEA to be permitted (except where the Investment Manager markets Shares at the initiative of the investor), which may create additional compliance costs that may be borne by Shareholders. The Directors, the Manager and/or the Investment Manager will continue to monitor the position and reserve the right to adopt such arrangements as they deem necessary or desirable to comply with the applicable requirements of the AIFMD and make any relevant filings in order to market Shares to professional investors in the EEA.

Market disruptions and the dramatic increase in the capital allocated to alternative investment strategies over the past decade have led to increased governmental as well as self-regulatory scrutiny of the “hedge fund” and financial services industry in general. Certain legislation proposing greater regulation of the industry, such as the Dodd-Frank Act, are periodically introduced by the US Congress, as well as by the governments of certain non-US jurisdictions. It is impossible to predict what, if any, changes in the regulations applicable to the Fund, the Master Fund, the Manager, the Investment Manager, the markets in which the Master Fund will trade and invest or the counterparties with which it will do business, may be instituted in the future. Any such laws or regulations may have a materially adverse effect on the Master Fund’s ability to implement its investment strategy and achieve its investment objective, and such laws or regulations may require increased transparency as to the identity of the Shareholders.

The Dodd-Frank Act now regulates markets, market participants and financial instruments that previously have been unregulated (or less regulated) and substantially alters the regulation of many other markets, market participants and financial instruments. Because many provisions of the Dodd-

Frank Act require rulemaking by the applicable regulatory entities before becoming fully effective, and because the Dodd-Frank Act mandates multiple agency reports and studies (which could result in additional legislative or regulatory action), it is difficult to predict the complete impact of the Dodd-Frank Act on the Fund, the Master Fund, the Manager, the Investment Manager and the markets in which the Master Fund will trade and invest or the counterparties with which it will do business. The Dodd-Frank Act could have an impact on certain investment strategies in which the Master Fund proposes to engage or may have otherwise engaged if such strategies become non-viable or non-economic to implement as a result of any new regulations. The Dodd-Frank Act and regulations adopted pursuant to the Dodd-Frank Act may materially adversely affect the Master Fund's ability to implement its investment strategy and achieve its investment objective.

In addition, securities and futures markets are generally subject to comprehensive statutes, regulations and margin requirements. Regulators and self-regulatory organisations (including but not limited to the SEC and the CFTC) and exchanges are authorised to take extraordinary actions in the event of market emergencies including, for example, the retroactive implementation of speculative position limits or higher margin requirements, the establishment of daily price limits and the suspension of trading. The regulation of swaps, futures and/or other derivative transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by governmental, regulatory and judicial actions. The effect of any future regulatory change in this area on the Fund and/or the Master Fund could be substantial and adverse and could involve, for example, increased compliance costs, compliance with certain terms relating to margin, increased disclosure requirements, the prohibition of certain types of trading and/or the inhibition of the Fund's and/or the Master Fund's ability to implement its investment strategy and achieve its investment objective with regard to these instruments.

#### Repurchase and Reverse Repurchase Agreements

The Master Fund may enter into repurchase and reverse repurchase agreements. When the Master Fund enters into a repurchase agreement, it "sells" securities to a broker, dealer or financial institution, and agrees to repurchase such securities for the price paid by the broker, dealer or financial institution, plus interest at a negotiated rate. In a reverse repurchase transaction, the Master Fund "buys" securities from a broker, dealer or financial institution, subject to the obligation of the broker, dealer or financial institution to repurchase such securities at the price paid by the Master Fund, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by the Master Fund involves certain risks including that the seller under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities. Disposing of the security in such case may involve costs to the Master Fund.

#### Risk Arbitrage

Occasionally, the Master Fund may engage in arbitrage transactions that the Investment Manager believes represent an attractive risk/reward opportunity. Risk arbitrage opportunities generally arise during corporate mergers, leverage buyouts or takeovers. Frequently the securities of the company being acquired will trade at a significant discount to the announced deal price. This discount compensates investors for the time value of money and the risk that the transaction may be cancelled. If the discount is significantly greater than the Investment Manager's assessment of the underlying risk, the strategy will be implemented. The Investment Manager may use risk arbitrage investments as a tactical, opportunistic strategy but not as part of the Master Fund's normal operations.

### Security Breaches and Disruptions

In the ordinary course of business, the Master Fund, the Manager, the Investment Manager and their service providers may collect and store, on such parties' networks and/or networks of their third party vendors, sensitive data including the intellectual property, trading data and personally identifiable information of investors. The secure processing, maintenance and transmission of this information is critical to the Master Fund's operations. Despite the security measures implemented by the Master Fund, the Manager, Investment Manager and their service providers and/or vendors, such parties' information technology and infrastructure may be vulnerable to attacks by hackers and/or breaches as a result of employee error, malfeasance or other technological disruptions. These attacks or breaches may remain undetected for an extended period of time and could compromise such networks, resulting in the information stored therein being accessed, publicly disclosed, lost and/or stolen. Any such access, disclosure or loss of information may have legal ramifications (including legal claims or proceedings, liability under laws that protect privacy of personal information and regulatory penalties under applicable securities laws) and may result in the disclosure or misuse of confidential information concerning the investors, cause reputational harm to the Master Fund and/or the Manager and/or the Investment Manager and increase their respective costs. The foregoing potential consequences of an attack or breach could negatively impact an investor's interests.

### Substantial Redemptions

Substantial redemptions of Shares by Shareholders could require the Master Fund to liquidate securities or derivative positions more rapidly than might otherwise be desirable, possibly reducing the value of the Master Fund's assets and/or disrupting its investment strategy and/or the Investment Manager's investment strategy. A reduction in the size of the Master Fund could make it more difficult to generate a positive return or to recoup losses as a result of, among other things, reductions in the Master Fund's ability to take advantage of particular investment opportunities or decreases in the ratio of its income to its expenses. Furthermore, such redemptions and the potential disruptions caused by such redemptions, may impair the ability of the Master Fund to carry on its business.

### Tax Considerations

The Master Fund may be subject to withholding, capital gains or other taxes on income and/or gains arising from its investment portfolio, including without limitation taxes imposed by the jurisdiction in which the issuer of securities held by the Master Fund is incorporated, established or resident for tax purposes. The Master Fund may also incur or bear transaction or other similar taxes in respect of the actual or notional amount of any acquisition, disposal or transaction relating to its investment portfolio, including without limitation taxes imposed by the jurisdiction in which the issuer of securities held by the Master Fund or the counterparty to a transaction involving the Master Fund is incorporated, established or resident for tax purposes. Where the Master Fund invests in securities or enters into transactions that are not subject to withholding, capital gains, transaction or other taxes at the time of acquisition, there can be no assurance that tax may not be withheld or imposed in the future as a result of any change in applicable laws, treaties, rules or regulations or the interpretation thereof. The Master Fund may not be able to recover such tax and so any change could have an adverse effect on the Net Asset Value of the Shares.

Where the Fund or the Master Fund chooses or is required to pay taxation liabilities and/or account for reserves in respect of taxes that are or may be payable in respect of current or prior periods by the Fund or the Master Fund (whether in accordance with current or future accounting standards), this would have an adverse effect on the Net Asset Value of the Shares. This could cause benefits or detriments to certain Shareholders, depending on the timing of their entry to and exit from the Fund.

### Uncertain Exit Strategies

Exit strategies which appear to be viable when an investment is initiated may be precluded by the time the investment is ready to be realised due to economic, legal, political or other factors.

### US Investors

Certain prospective investors may be subject to US federal and state laws, rules and regulations which may regulate their participation in the Fund or their engaging indirectly through the Fund in investment strategies of the types which the Master Fund may utilise from time to time. Each type of such investor may be subject to different laws, rules and regulations and should consult with their own advisors as to the advisability and tax consequences of an investment in the Fund. Investment in the Fund by entities subject to ERISA and other tax-exempt investors requires special consideration. Fiduciaries, trustees or other advisers of such investors are urged carefully to review the matters discussed in this Prospectus and in the relevant application form.

### Valuation Risks

The Net Asset Value is determined by the Administrator. The Administrator is entitled to rely on and, in the absence of material breach of the Administration Agreement by the Administrator and in the absence of gross negligence, fraud or wilful misconduct by the Administrator in the provision of its services under the Administration Agreement, will not be responsible for the accuracy of, financial data furnished to it by the Prime Brokers and Custodians, market makers and/or independent third party pricing services.

In certain circumstances, valuations of certain of the Master Fund's assets may not be indicative of what actual fair market value would be in an active, liquid or established market. There is no guarantee that the value attributable to an asset by the Master Fund, as determined by the Investment Manager in consultation with the Directors, will represent the value that will be realised by the Master Fund on the eventual disposition of such an investment.

There is a risk that a Shareholder which redeems its Shares while the Master Fund holds particular assets may be paid an amount less or more than it would otherwise be paid if the actual value of such assets is higher or lower than the value calculated by the Administrator. In addition, there is a risk that a subscription for Shares could dilute the underlying value of such assets for the other Shareholders if the actual value of such assets is higher than the value calculated by the Administrator. There is also a risk that greater Management Fees and/or Performance Fees may be paid by the Fund in respect of certain assets or liabilities of the Fund and the Master Fund than would have been paid or made if the actual value of such assets or liabilities is lower or higher than the value determined for the purposes of calculating those fees. None of the Directors, the Manager, the Investment Manager or the Administrator is under any liability (including any obligation to remit excess Management Fees or Performance Fees to the Fund, the Master Fund or any of the Shareholders) if a price reasonably believed to be an accurate valuation of a particular asset of the Fund or the Master Fund is found not to be such.

### Risk Factors Not Exhaustive

The investment risks set out above do not purport to be exhaustive and potential investors are made aware that an investment in the Northlight European Fundamental Credit Fund may be exposed to risks of an exceptional nature from time to time.



### **Northlight QIAIF Credit Opportunity Fund**

The Credit Opportunity Fund is a credit opportunity fund, investing primarily in the high yield corporate credit market.

The Credit Opportunity Fund seeks to implement its investment objective by investing primarily in the secured and unsecured bonds and loans of sub-investment grade companies. These instruments may be listed or unlisted and may or may not be rated.

Notwithstanding the preceding paragraph, the Credit Opportunity Fund is permitted to invest in any asset class, including, but not limited to: credit derivatives (including credit default swaps), convertible bonds, equities, repos, warrants, options, indices, swaps, futures and contracts for difference. The Credit Opportunity Fund may take short positions with respect to all investments and is permitted to purchase on margin and to borrow on a secured basis against the assets of the Credit Opportunity Fund. Derivative instruments may be exchange-traded or over-the-counter and may be used for hedging or investment purposes. The Credit Opportunity Fund may invest in any market, industry, sector and country and investments may be held on a short, medium or long-term basis. The Credit Opportunity Fund may effect transactions in investments the prices of which may be the subject of stabilisation.

The Credit Opportunity Fund does not expect, but reserves the right, to use hedging strategies, including but not limited to derivative instruments, to mitigate adverse effects of risk factors.

The Credit Opportunity Fund may invest in open or closed-ended collective investment undertakings (“CIUs”) that are managed or promoted by the Investment Manager or by an associated company, provided the Investment Manager considers such investment is consistent with the investment objective and policy of the Credit Opportunity Fund. Any such investment in other Investment Manager or associated company CIUs will be made into a class without management or performance fees or the Investment Manager will waive all or part of its management and performance fees to ensure that there is no double charging of fees.

The CIUs in which the Credit Opportunity Fund may invest will not be limited by their domicile and may include regulated and unregulated schemes provided that no more than 20 percent of the net assets of the Credit Opportunity Fund may be invested in any one unregulated CIU.

The Credit Opportunity Fund may retain unlimited amounts in cash or cash equivalents (including money market funds) pending reinvestment, for use as collateral or if this is considered appropriate to the investment objective.

The Investment Manager uses bottom-up, fundamental analysis on companies across all sectors to identify investment opportunities with an attractive risk return profile. Research is carried out by the Investment Manager’s team of analysts, who make use of proprietary and third-party research to build financial models and formulate investment recommendations. Market analysis contributes to determining an instrument’s relative value, pricing trends and liquidity risk.

The Investment Manager’s portfolio construction is based on the risk return characteristics of each investment opportunity and its contribution to the overall portfolio liquidity and risk profile. Emphasis is placed on selecting investments with attractive risk return profiles. Portfolio management is an

iterative process and portfolio construction is reviewed regularly to take advantage of the investment strategy opportunity set.

## **Material Risk Factors of the Northlight QIAIF Credit Opportunity Fund**

Investing in securities involves risk of loss that investors and clients should be prepared to bear. The following are certain material risks involved in the Investment Manager's investment strategy. This list does not purport to be a complete enumeration or explanation of the risks involved in such strategy.

### Currency

Shares will be issued and redeemed in the currency applicable to each Class. The underlying instruments held by the Fund may be denominated in other currencies. Changes in foreign currency exchange rates may therefore have a separate effect, favourable or unfavourable, on the gain or loss otherwise made on the instruments held by the Fund. Accordingly, the value of an investment in the Fund may be affected favourably or unfavourably by fluctuations in exchange rates, notwithstanding any efforts made to hedge such fluctuations. In addition, prospective investors whose assets and liabilities are primarily denominated in currencies other than the currency of investment should take into account the potential risk of loss arising from fluctuations in the rate of exchange between the US, GBP, euro, Swiss Franc, as applicable, and such other currency. The Fund may enter into back to back currency borrowing or utilise derivatives such as forwards, futures, options and other derivatives to hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be undertaken or if undertaken will be effective or beneficial or that there will be a hedge in place at any given time.

### Commodity Pool Operator – de minimis Exemption

While the Fund may trade commodity interests (which includes commodity futures contracts, commodity options contracts and/or swaps), including security futures products, the Investment Manager is exempt from registration with the CFTC as a CPO pursuant to CFTC Rule 4.13(a)(3) with respect to the Fund. Therefore, the CPO is not required to deliver a CFTC disclosure document to prospective investors, nor are they required to provide Shareholders with certified annual reports that satisfy the requirements of CFTC rules applicable to registered CPOs. The potential consequence of this exemption, the so-called "de minimis exemption", includes a limitation on the Fund's exposure to the commodity markets. CFTC Rule 4.13(a)(3) requires that a pool for which such exemption is filed must meet one of the following tests with respect to its commodity interest positions, including positions in security futures products, whether entered into for bona fide hedging purposes or otherwise: (a) the aggregate initial margin, premiums, and required minimum security deposit for retail forex transactions, will not exceed five per cent. (5%) of the liquidation value of the pool's portfolio, after taking into account unrealised profits and unrealised losses on any such positions it has entered into; or (b) the aggregate net notional value of such positions does not exceed 100 per cent. (100%) of the liquidation value of the pool's portfolio, after taking into account unrealised profits and unrealised losses on any such positions it has entered into.

### Operating History

The past investment performance of the Investment Manager cannot be construed as an indication of the future results of an investment in the Company. Although persons involved in the management of a Fund have had long experience in their respective fields of specialisation, each of the Funds are newly established and have no operating or performing history upon which prospective investors can evaluate likely performance. Investors should be aware that the past performance by those involved in the investment management of a Fund should not be considered as an indication of future results.

#### *Dependence on the Investment Manager*

The Investment Manager is responsible for investing the assets of the Funds. The success of each Fund depends upon the ability of the Investment Manager to develop and implement investment strategies that achieve each Fund's investment objective.

#### *Performance Fee or Allocation*

In addition to receiving a management fee, the relevant Investment Manager may also receive a performance allocation (which will be set out in the Supplement for the relevant Fund) and accordingly the performance fee or allocation will increase with regard to unrealised appreciation. Accordingly, a performance fee or allocation may be paid on unrealised gains which may subsequently never be realised. The performance allocation may create an incentive for the relevant Investment Manager to make investments for the relevant Fund which are riskier than would be the case on the absence of a fee based on the performance of the relevant Fund.

#### *Liability and Indemnification Obligations*

Pursuant to the Constitution, the Directors, agents and other officers for the time being of the Company have certain rights to an indemnity from the Company. The relevant Investment Manager, Administrator, Depositary, Prime Brokers and any other trading counterparty may be liable to the Company and/or the relevant Funds only under certain circumstances. Certain applicable laws including, but not limited to, the US Investment Advisers Act of 1940 may impose liability or allow for legal remedies even where the Investment Manager, or certain other parties, have acted in good faith and that the rights under those laws may be non-waivable. Nothing herein shall, in any way, constitute a waiver or limitation of any rights which may not be so limited or waived in accordance with applicable law.

#### *Segregated Liability Risk*

The Company is structured as an umbrella fund with segregated liability between the Funds. Each Fund therefore will be treated as bearing its own liabilities and the Company will not be liable as a whole to third parties. However, if the Directors are of the opinion that a particular liability does not relate to any particular Fund or Funds, that liability shall be borne jointly by all Funds pro rata to their respective Net Asset Values at the time when the allocation is made.

Certain jurisdictions, however, other than Ireland, might not recognise such limited right of recourse inherent in the Company's segregated structure. In such a case, creditors of a particular Fund could claim to have recourse to assets of other Funds within the Company. At the date of this Company Information Memorandum, the Directors are not aware of any such circumstances or interpretation which would give rise to such an existing or contingent liability.

### Cross-Class Liability

Each Fund may have multiple Classes. All of the assets of a Fund may be available to meet all of the liabilities of the Fund, regardless of the separate Classes to which such assets or liabilities are attributable. In practice, cross class liability will usually only arise where any Class becomes insolvent or exhausts its assets and is unable to meet all of its liabilities. In this case, all of the assets of the Company attributable to the other Classes may be applied to cover the liabilities of the insolvent Class.

### Trading through a Subsidiary

The Funds may trade through Subsidiaries. It is possible that a Fund will not recover any or all of the amount advanced to the Subsidiary. Investors should also note that in certain circumstances the Company may, on the winding-up of the Subsidiary, be liable to pay to the liquidator of the Subsidiary an amount equivalent to the whole or part of any or all of the debts provable in a winding-up, if the court is satisfied that the circumstances that gave rise to the winding-up of the Subsidiary are attributable to the actions or omissions of the Company and if the court considers that it is just and equitable to make such an order.

### Side Pockets

The Constitution outlines the provisions whereby, in certain exceptional circumstances, the Directors, acting in accordance with the requirements of the Central Bank, may create and issue at their discretion from time to time, a new Class or Classes of Shares (each a “**Side Pocket Class**”) to which assets and liabilities of a Fund may be allocated at the discretion of the Directors as being investments that are illiquid or otherwise difficult to value or realise (“**Illiquid Investments**”) plus such additional cash or other assets representing a reserve for related commitments and contingencies as the Directors in their discretion determine. Shares in such Side Pocket Class (“**Side Pocket Shares**”) shall be redeemable and/or transferrable by the Company and/or by the holders thereof only when so determined by the Directors. Shareholders may be required to maintain their Side Pocket Shares for a significant period of time as they are only likely to be able to redeem Side Pocket Shares when the assets within the Side Pocket Class are capable of being properly valued or realised. Side Pockets Classes are generally valued either at cost or estimated fair market value, as determined in accordance with the provisions contained in the Constitution. Given the illiquid nature of the assets held in Side Pocket Classes, these valuations may not reflect the actual amount that would be realised by the relevant Fund upon the disposition of such investments.

### Information Technology Systems

The Funds are dependent on the Investment Manager for investment management, operational and middle office services and upon the Prime Broker and Depository for back office functions. The Investment Manager depends on information technology systems in order to assess investment opportunities, strategies and markets and to monitor and control risks for the Funds. Information technology systems are also used to trade in the investments of the Funds. Although the Investment Manager has established a disaster recovery plan, there is a risk that a failure of some kind which causes disruptions to these information technology systems could materially limit the Investment Manager’s ability to adequately assess and adjust the investments of the Funds, formulate strategies and provide adequate risk control, any of which could harm the performance of the Funds, which

could have a material adverse effect on the performance of the Funds and returns to Shareholders. Similarly, despite the disaster recovery plans established by the Prime Broker, the Depository, and the service providers there is a risk that a failure of the back office functions of the Prime Broker, the Depository and/or the service provider to process trades by the relevant Fund in a timely fashion could prejudice the investment performance of the Fund.

#### Cyber Crime and Security Breaches

With the increasing use of the Internet and technology in connection with the Funds' operations, the Funds are susceptible to greater operational and information security risks through breaches in cyber security. Cyber security breaches include, without limitation, infection by computer viruses and gaining unauthorised access to the Funds' systems through "hacking" or other means for the purpose of misappropriating assets or sensitive information, corrupting data, or causing operations to be disrupted. Cyber security breaches may also occur in a manner that does not require gaining unauthorised access, such as denial-of-service attacks or situations where authorised individuals intentionally or unintentionally release confidential information stored on the Funds' systems. A cyber security breach may cause disruptions and impact the Funds' business operations, which could potentially result in financial losses, inability to determine a Fund's net asset value, violation of applicable law, regulatory penalties and/or fines, compliance and other costs. The Company and its shareholders could be negatively impacted as a result. In addition, because the Funds work closely with third-party service providers (e.g., custodians, transfer agent, administrator and distributor), indirect cyber security breaches at such third-party service providers may subject the Company and its shareholders to the same risks associated with direct cyber security breaches. Further, indirect cyber security breaches at an issuer of securities in which a Fund invests may similarly negatively impact the Company and its shareholders. While the Funds have established risk management systems designed to reduce the risks associated with cyber security breaches, there can be no assurances that such measures will be successful.

#### Investment Risk

Potential investors should note that the investments of the Company and any Fund are subject to normal market fluctuations and there can be no assurance that any appreciation in value will occur. The value of investments and the income from them, and therefore the value of, and income from Shares, can go down as well as up and an investor may not get back the amount invested. Investors should also be aware that in the event of a sales commission/fee and/or a redemption fee being charged, the difference at any time between the sale and redemption price of Shares in any Fund means that an investment should be viewed on a medium to long term basis. Changes in exchange rates between currencies may also cause the value of the investments to diminish or increase. Past performance of the Company, any Fund or the Investment Manager should not be relied upon as an indicator of future performance.

There can be no guarantee that the investment objective of a Fund will actually be achieved.

#### Availability of Investment Strategies

The success of the investments of a Fund depends on the Investment Manager's ability to identify investment opportunities and to exploit price discrepancies in the financial markets, as well as to

assess the importance of news and events that may affect securities in the portfolio and the financial markets. Identification and exploitation of the investment strategies to be pursued by the Funds involves a degree of uncertainty. No assurance can be given that the Investment Manager will be able to locate suitable opportunities in which to deploy all of the Funds' assets or to exploit discrepancies in markets.

#### Concentration of Investments

A Fund's investment portfolio may, at times, be confined to the securities of relatively few issuers. There will be no fixed limits regarding concentration as to issuers, industries, industry sectors or types of investments. Any concentration necessarily increases the degree of exposure to a variety of issuer-related, industry or market risks. By concentrating investments in a small number of large security positions relative to a Fund's capital, a loss in any such position could materially reduce its performance or asset base, to the extent not offset by other gains.

#### Market Risk

Some of the recognised exchanges in which a Fund may invest may be less well-regulated than those in developed markets and may prove to be illiquid, insufficiently liquid or highly volatile from time to time. This may affect the price at which a Fund may liquidate positions to meet redemption requests or other funding requirements. In addition, the investments of a Fund are subject to normal market fluctuations and the risks inherent in investment in international securities markets and there can be no assurances that appreciation or preservation of capital will occur.

#### Below Investment-Grade Investments

The investment portfolio of the Funds may primarily consist of exposure to non-investment grade loans and high-yield debt securities, which are subject to liquidity, market value, credit, interest rate and certain other risks. In addition, there can be no assurance that the Investment Manager will correctly evaluate the nature and magnitude of the various factors that could affect the value of and return on a Fund's investments. Additionally, in case of persistent volatility in the credit markets, accompanied by increased interest rates, a tightening of liquidity and declines in prices and valuations of various classes of assets, could affect the ability of a Fund, if required, to sell investments as permitted under the relevant Fund's investment policy or in connection with a liquidation following an event of default. It is anticipated that the Funds' investments generally will be subject to greater risks than investment grade debt.

These risks could be exacerbated to the extent that the portfolio is concentrated in one or more particularly types of underlying issuer or sector. The value of a Fund's investments may be volatile and fluctuate due to a variety of factors that are inherently difficult to predict, including but not limited to changes in interest rates, prevailing credit spreads, general economic conditions, financial market conditions, domestic and international economic or political events, developments or trends in any particular industry, and the financial condition of the obligors of the investments.

The market for high-yield debt notes has experienced periods of price volatility and periods of reduced liquidity. Additionally, loans and interests in loans have significant liquidity and market value risks since they are not generally traded in organised exchange markets but are traded by banks and other institutional investors engaged in loan syndications. As loans are privately syndicated and loan

agreements are privately negotiated and customised, loans are not purchased or sold as easily as publicly traded securities. In addition, historically, the trading volume in the loan market has been small relative to the high-yield debt securities market.

The market for high-yield debt securities has experienced periods of volatility and reduced liquidity. High-yield debt securities may be secured or unsecured, may be subordinated to other obligations of the underlying issuer and generally have greater credit, insolvency and liquidity risk than is typically associated with investment grade debt. High-yield debt securities are often issued in connection with leveraged acquisitions or recapitalisations in which the underlying issuers incur a substantially higher amount of indebtedness than the level at which they had previously operated. The lower rating of high-yield debt securities reflects a greater possibility that adverse changes in the financial condition of the obligor or general economic conditions (including, for example, a substantial period of rising interest rates or declining earnings or disruptions in the financial markets) or both may impair the ability of the obligor to make payments of principal and interest.

High-yield debt securities and leveraged loans have historically experienced greater default rates than has been the case for investment grade securities. There can be no assurance as to the levels of defaults and/or recoveries that may be experienced on a Fund's investments. A non-investment grade loan or debt or an interest in a non-investment grade loan is generally considered speculative in nature and may become a defaulted obligation for a variety of reasons. Upon any investment becoming a defaulted obligation, such defaulted obligation may become subject to either substantial workout negotiations or restructuring, which may entail, among other things, a substantial reduction in the interest rate, a substantial write-down of principal, and a substantial change in the terms, conditions and covenants with respect to such defaulted obligation. In addition, such negotiations or restructuring may be quite extensive and protracted over time, and therefore may result in substantial uncertainty with respect to the ultimate recovery on such defaulted obligation. The liquidity for defaulted obligations may be limited, and to the extent that defaulted obligations are sold, it is highly unlikely that the proceeds from such sale will be equal to the amount of unpaid principal and interest thereon. Furthermore, there can be no assurance that the ultimate recovery on any defaulted obligation will be at least equal to the minimum recovery rate assumed by any rating agency in rating the investments.

#### Convertible Securities Risk

Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or a different issuer within a particular period of time at a specified price or formula. A convertible security entitles its holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics in that they generally (i) have higher yields than common stocks, but lower yields than comparable nonconvertible securities, (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases. The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's



worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security's investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases as the convertible security approaches maturity.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by a Fund is called for redemption, the relevant Fund will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on the relevant Fund's ability to achieve its investment objective. Where a Fund invests in structured over-the-counter convertible securities offered by a bank, broker, dealer or financial intermediary, whereby the conversion value is determined by reference to a security for an issuer different from the obligor of the convertible security. Such a security would be subject to the risks inherent in other privately negotiated transactions.

#### *Distressed Investments: Non-Performing and Defaulted Debt, Including Trade Obligation*

A Fund may invest in the securities of companies experiencing financial, operational or legal difficulties, including companies that are or may become subject to restructuring, refinancing or bankruptcy proceedings. These investments may include, among other things, debt securities, and bank loans or other obligations of companies that are in or near payment or covenant default. The Investment Manager believes that securities of companies experiencing these difficulties represent attractive investment opportunities due to market inefficiencies in pricing these securities. Numerous factors contribute to these market inefficiencies, including the complexity of the situations in which the companies are involved and the extensive analyses required for informed decision-making; the limited universe of interested investors; and the relative lack of institutional research coverage of, and market making activity in, securities of these companies. A Fund may also invest in a limited number of "off-the-run" distressed situations requiring direct involvement in the bankruptcy process, creditors' committee participation, or the pursuit of a litigation strategy.

#### *Event-Driven and Special Situation Investments*

A Fund may invest in companies based upon certain situations or events, including (but not limited to) spin-offs, mergers and acquisitions, rights offerings, restructurings and bankruptcies.

Frequently the securities (which may include, but are not limited to, bonds, leveraged loans and credit default swaps) of the company being acquired or the acquirer will be significantly mispriced to where it is expected to trade post the event. The Investment Manager also believes that many such special situations and events carry a high probability of indiscriminate selling or neglect of valuable assets for

reasons other than a lack of investment merits. The Investment Manager intends to use event-driven investments as an investment strategy.

#### Financing Arrangements; Availability of Credit

A Fund may use borrowings and may use other forms of leverage such as securities margin, futures margin, margined option premiums, bank or dealer credit lines or the notional principal amounts of contracts for differences transactions. There can be no assurance that the relevant Fund will be able to maintain adequate financing arrangements under all market circumstances.

#### Fixed Income Securities

A Fund may invest in bonds or other fixed income securities. Fixed income securities pay fixed, variable or floating rates of interest. The value of fixed income securities in which a Fund invests will change in response to fluctuations in interest rates. In addition, the value of certain fixed income securities can fluctuate in response to perceptions of creditworthiness, political stability or soundness of economic policies. Fixed income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (i.e. credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (i.e. market risk).

#### Loans of Portfolio Securities

While not a significant element of a Fund's investment strategy, a Fund may lend its portfolio securities on both a secured and an unsecured basis. By doing so, the relevant Fund attempts to increase its income through the receipt of interest on the loan. In the event of the bankruptcy of the other party to a securities loan, the Fund could experience delays in recovering the securities it lent. The Fund may experience losses if the institution with which it has engaged in a portfolio loan transaction breaches its agreement with the Company. To the extent that the value of the securities the relevant Fund lent has increased, the Fund could experience a loss if such securities are not recovered.

#### Repurchase and Reverse Repurchase Agreements

The Company may enter into repurchase and reverse repurchase agreements. When the Company enters into a repurchase agreement, it "sells" securities to a broker, dealer or financial institution, and agrees to repurchase such securities for the price paid by the broker, dealer or financial institution, plus interest at a negotiated rate. In a reverse repurchase transaction, the Company "buys" securities from a broker, dealer or financial institution, subject to the obligation of the broker, dealer or financial institution to repurchase such securities at the price paid by the Company, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by the Company involves certain risks including that the seller under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities. Disposing of the security in such case may involve costs to the Company.

#### Swap Agreements

The Company in respect of a Fund may enter into swap agreements. Swap agreements can be individually negotiated and structured so as to include exposure to a variety of different types of

investments or market factors. Depending on their structure, swap agreements may increase or decrease the exposure of the relevant Fund to long-term or short-term interest rates, currency values, corporate borrowing rates or other factors such as security prices, baskets of equity securities, debt instruments or inflation rates. Swap agreements can take many different forms and are known by a variety of names. A Fund may not be limited to any particular form of swap agreement if consistent with its investment objective and policy.

Swap agreements tend to shift the investment exposure from one type of investment to another. For example, if the Company agrees to exchange payments in US dollars for payments in euro, the swap agreement would tend to decrease the exposure of the relevant Fund to US dollar interest rates and increase its exposure to the euro and its interest rates. Depending on how they are used, swap agreements may increase or decrease the overall volatility of a Fund's portfolio. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency, individual equity value, income and capital gains/losses or other factors that determine the amounts of payments due to and from the relevant Fund. If a swap agreement calls for payments by a Fund it must be prepared to make such payments when due. In addition, if a counterparty's credit worthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses by the relevant Fund.

#### *Risk Arbitrage*

Occasionally, a Fund may engage in arbitrage transactions that the Investment Manager believes represent an attractive risk/reward opportunity. Risk arbitrage opportunities generally arise during corporate mergers, leverage buyouts or takeovers. Frequently the securities of the company being acquired will trade at a significant discount to the announced deal price. This discount compensates investors for the time value of money and the risk that the transaction may be cancelled. If the discount is significantly greater than the Investment Manager's assessment of the underlying risk, the strategy will be implemented. The Investment Manager may use risk arbitrage investments as a tactical, opportunistic strategy but not as part of a Fund's normal operations.

#### *Redemption Risk*

Large redemptions of Shares in a Fund might result in a Fund being forced to sell assets at a time and price at which the Investment Manager would normally prefer not to dispose of those assets which may result in a lower price being obtained for such assets.

#### *Issuer Risk*

There can be no assurance that issuers of the securities or other instruments in which a Fund invests will not be subject to credit difficulties or other market conditions leading to the loss of some or all of the sums invested in such securities or instruments or payments due on such securities or instruments.

#### *Interest Rate Risk*

The value of Shares may be affected by movements in interest rates.

The fixed-income securities in which a Fund may invest are interest rate sensitive and may be subject to price volatility due to such factors including, but not limited to, changes in interest rates, market

perception of the creditworthiness of the issuer and general market liquidity. The magnitude of these fluctuations will be greater when the maturity of the outstanding securities is longer. An increase in interest rates will generally reduce the value of fixed-income securities, while a decline in interest rates will generally increase the value of fixed-income securities. When interest rates fall, the inflow of net new money to a Fund from the continuous sale of Shares in the Fund tends to be invested in instruments producing lower yields than the balance of the obligations held by the Fund, thereby reducing the Fund's current yield. In periods of rising interest rates, the opposite can be expected to occur.

The performance of a Fund will therefore depend in part on the ability of the Investment Manager to anticipate and respond to such fluctuations in market interest rates and to utilise appropriate strategies to maximise returns, while attempting to minimise the associated risks to investment capital.

#### Credit Risk

A Fund will have a credit risk to the issuer of debt securities in which it invests, which will vary depending on the issuer's ability to make principal and interest payments on the obligation. Not all of the securities in which a Fund may invest that are issued by sovereign governments or political subdivisions, agencies or instrumentalities thereof, will have the explicit full faith and credit support of the relevant government. Any failure by any such government to meet the obligations of any such political subdivisions, agencies or instrumentalities which default will have adverse consequences for a Fund and will adversely affect the Net Asset Value per Share in a Fund.

A Fund will also have a credit risk to the parties with which it trades. Foreign exchange, futures and other transactions involve counterparty credit risk and will expose the Fund to unanticipated losses to the extent that counterparties are unable or unwilling to fulfil their contractual obligations. With respect to futures contracts and options on futures, the risk is more complex in that it involves the potential default of the clearing house or the clearing broker. See "Counterparty Risk" below.

The Investment Manager on behalf of a Fund may have contractual remedies upon any default pursuant to the agreements related to the transactions.

#### Exchange Control and Repatriation Risk

It may not be possible for Funds to repatriate capital, dividends, interest and other income from certain countries, or it may require government consents to do so. Funds could be adversely affected by the introduction of, or delays in, or refusal to grant any such consent for the repatriation of funds or by any official intervention affecting the process of settlement of transactions. Economic or political conditions could lead to the revocation or variation of consent granted prior to investment being made in any particular country or to the imposition of new restrictions.

#### Share Currency Designation Risk

A Class of Shares of a Fund may be designated in a currency other than the Base Currency of the Fund. Changes in the exchange rate between the Base Currency and such designated currency may lead to a depreciation of the value of such Shares as expressed in the designated currency.

### Currency Risk

Currency fluctuations may adversely affect the value of a Fund's investments and the income thereon and, depending on an investor's currency of reference, currency fluctuations may adversely affect the value of an investment in Shares.

A significant portion of a Fund's assets may be denominated in a currency other than the base currency of a Fund or Class. There is the risk that the value of such assets and/or the value of any distributions from such assets may decrease if the underlying currency in which assets are traded falls relative to the base currency in which Shares of the relevant Fund are valued and priced. Funds are not required to hedge their foreign currency risk, although they may do so through foreign currency exchange contracts, forward contracts, currency options and other methods.

To the extent that a Fund does not hedge its foreign currency risk or such hedging is incomplete or unsuccessful, the value of that Fund's assets and income could be adversely affected by currency exchange rate movements. There may also be circumstances in which a hedging transaction may reduce currency gains that would otherwise arise in the valuation of the Fund in circumstances where no such hedging transactions are undertaken.

### Valuation Risk

The Net Asset Value is determined by the Administrator. The Administrator is entitled to rely on and, in the absence of material breach of the Administration Agreement by the Administrator and in the absence of gross negligence, fraud or wilful misconduct by the Administrator in the provision of its services under the Administration Agreement, will not be responsible for the accuracy of, financial data furnished to it by the Prime Broker and the Depositary, market makers and/or independent third party pricing services.

In certain circumstances, valuations of certain of a Fund's assets may not be indicative of what actual fair market value would be in an active, liquid or established market. There is no guarantee that the value attributable to an asset by a Fund, as determined by the Investment Manager in consultation with the Directors, will represent the value that will be realised by a Fund on the eventual disposition of such an investment.

There is a risk that a Shareholder which redeems its Shares while a Fund holds particular assets may be paid an amount less or more than it would otherwise be paid if the actual value of such assets is higher or lower than the value calculated by the Administrator. In addition, there is a risk that a subscription for Shares could dilute the underlying value of such assets for the other Shareholders if the actual value of such assets is higher than the value calculated by the Administrator. There is also a risk that greater management fees and/or performance fees may be paid by a Fund in respect of certain assets or liabilities of the relevant Fund than would have been paid or made if the actual value of such assets or liabilities is lower or higher than the value determined for the purposes of calculating those fees. None of the Directors, the Investment Manager or the Administrator is under any liability (including any obligation to remit excess management fees or performance fees to the relevant Fund, or any of the Shareholders if a price reasonably believed to be an accurate valuation of a particular asset of the Fund is found not to be such.

### Illiquid Investments

The investments and other assets in which a Fund may invest include assets that are subject to legal or contractual restrictions on their resale (e.g., investments issued by privately-held entities) or for which there is a relatively inactive trading market, making purchases or sales at desired prices or in desired quantities difficult or impossible. Further, as part of its emergency powers, an exchange or regulatory authority can suspend or limit trading in a particular instrument, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only. The possibility also exists that governments may intervene to stabilise or fix exchange rates, restricting or substantially eliminating trading in the affected currencies. Illiquid investments may be required to be held for a lengthy period of time and often require more time to sell and may result in higher brokerage charges or dealer discounts and other selling expenses than will the sale of investments eligible for trading on national securities exchanges or for which there is an active over-the-counter market. In addition, due to thin trading in certain investments or assets, investments in such investments or assets may be less liquid than alternative investments for which there is a more active trading market, which could cause the Directors to suspend Net Asset Value calculations and/or redemptions with respect to any Fund or to designate such illiquid investments as Designated Investments. Therefore, a Fund's investments in illiquid or thinly-traded investments or assets may reduce the returns of that Fund because it may be unable to sell the illiquid or thinly-traded investments or assets at an advantageous time or price.

A Fund's investments in pooled investments and other investment vehicles (e.g. hedge funds) may be subject to certain restrictions that could render such investments illiquid.

#### Rehypothecation

A Prime Broker may borrow, lend or otherwise use a Fund's money, investments and other assets for its own purposes and may take such investments as collateral. Such assets will cease to be the property of the Company and, in the event of an insolvency of that Prime Broker may be available to creditors of that Prime Broker. The Fund will rank as one of the Prime Broker's unsecured creditors in insolvency and as a result, the Company may not be able to recover such assets in full.

#### Custodial and Settlement Risk

As the Funds may invest in markets where custodial and/or settlement systems are not fully developed or in financial instruments traded on markets where custodial and/or settlement systems are not fully developed, the assets of a Fund which are traded in such markets and which have been entrusted to sub-custodians in circumstances where the use of such sub-custodians is necessary, may be exposed to risk in circumstances where the Depositary would have no liability.

#### Warehousing Exposure

A Fund may in furtherance of its investment objective and policy enter into warehousing arrangements with default swap market makers, arrangers and/or intended issuers of or counterparties in respect of structured finance securities and portfolios of credit default swaps or instruments in order to facilitate any such investment strategy. This may include financing in whole or in part or on a leveraged basis underlying investments intended to form part of the portfolios of such structured finance securities immediately following the closing thereof. Such financing is subject to market and other risks between the time of financing and the closing of the relevant structured

finance securities which may be delayed and in certain circumstances may not occur. Such risks may be increased by other parties in the arrangements having priority over the financing provided by the Fund and having the benefit of priority security and other rights in the underlying portfolios. This may result in the Fund incurring substantial losses in respect of any such arrangements. The benefit from such warehousing arrangements may in certain circumstances be participated in by the Fund but where the Directors determine that this is required in the context of the establishment of the structured finance securities and portfolios themselves, all or part of any benefits arising from the warehousing may be transferred to or be for the account of the issuer or counterparty of the instrument in which the Fund intends to invest.

#### Hedging Transactions

The Fund may in respect of each of its Funds and related Classes utilise financial instruments such as derivatives to hedge against fluctuations in the relative values of a Fund's portfolio positions as a result of changes in exchange rates. Such hedging transactions may not always achieve the intended effect and can also limit potential gains.

While the Fund may in respect of each of its Portfolios and related Classes enter into such transactions to seek to reduce currency and exchange rate risks, unanticipated changes in currency markets may result in a poorer overall performance in respect of its Fund and related Classes. For a variety of reasons, the Company may not in respect of its Fund and their related Classes obtain a perfect correlation between such hedging instruments and the portfolio being hedged. Such imperfect correlation may prevent the intended impact of the hedge or expose a Fund in respect of each of its related Classes to risk of loss.

#### Short selling

Short selling may be part of an Investment Manager's investment strategy in respect of a Fund and may be utilised both in situations where the Investment Manager believes the securities in question are overvalued, and therefore likely to experience significant price declines, over time, or as a hedge or offset to related long positions. Short selling inherently involves certain additional risks. Selling securities short creates the risk of losing an amount greater than the initial investment in a relatively short period of time and the theoretically unlimited risk of an increase in the market price of the securities sold short. There is also the risk that the securities borrowed by a Fund in connection with a short sale would need to be returned to the securities lender on short notice. If the request for return of securities occurs at a time when other short sellers of the security are receiving similar requests, a "short squeeze" can occur, and the relevant Fund might be compelled, at the most disadvantageous time, to replace borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier. In addition, short selling can involve significant borrowing and other costs which can reduce the profit or create losses in particular positions.

#### Security

The Company in respect of one or more of its Funds and related Classes may invest in obligations of an issuer of a structured finance security which are secured by an assignment by way of first fixed security, a first fixed charge and a floating fixed charge in favour of the relevant trustee over the

collateral debt securities pursuant to the trust deed on the closing date, which may take effect as a security interest over the right of the issuer to require delivery of the collateral debt securities from the depositary in accordance with the terms of the particular custody agreement.

### New Issues

The purchase of New Issues involves greater risk than securities trading in general. The prices of New Issues may not increase as expected and, in fact, may decline more rapidly. While it is often assumed that New Issues will trade at a premium to their issue price until they are liquidated, there is no guarantee that this will occur. In order for a Fund to trade New Issues, or invest in underlying funds that trade New Issues, each investor must represent and warrant in the Application Form that it either is or is not a Restricted Person and/or a Covered Person and the Fund will be relying on such representations and warranties in engaging in its business activities. Those shareholders who are Restricted Persons and/or Covered Person may not participate in some or all of the gains, losses or expenses of the Fund related to New Issues in compliance with FINRA rules.

### Derivatives Risk Generally

The prices of derivative instruments, including futures and options prices, are highly volatile. Price movements of forward contracts, futures contracts and other derivative contracts are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programmes and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly markets in currencies and interest rate related futures and options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. The use of derivatives techniques and instruments also involves certain special risks, including (1) dependence on the ability to predict movements in the prices of securities being hedged and movements in interest rates, (2) imperfect correlation between the hedging instruments and the securities or market sectors being hedged, (3) the fact that skills needed to use these instruments are different from those needed to select the Fund's securities, and (4) the possible absence of a liquid market for any particular instrument at any particular time.

Assets deposited as collateral with brokers or counterparties may not be held in segregated accounts by the brokers or counterparties and may therefore become available to the creditors of such parties in the event of their insolvency or bankruptcy. Collateral requirements may reduce cash available to a Fund for investment.

### Over-the-Counter Transactions

The Funds may invest in instruments which are not traded on organised exchanges and as such are not standardised. Such transactions are known as over-the-counter or "OTC" transactions and may include forward contracts or options. Whilst some OTC markets are highly liquid, transactions in OTC derivatives may involve greater risk than investing in exchange traded derivatives because there is no exchange market on which to close out or dispose of an open position.

It may be impossible to liquidate an existing position, to assess the value of the position arising from an off-exchange transaction or to assess the exposure to risk. Bid and offer prices need not be quoted



and, even where they are, they will be established by dealers in these instruments and consequently it may be difficult to establish what is a fair price. In respect of such trading, a Fund will be subject to the risk of counterparty failure or the inability or refusal by a counterparty to perform with respect to such contracts. Market illiquidity or disruption could result in major losses to any such Fund.

#### Use of Credit Derivatives and Structured Finance Instruments

The Company expects that some or all of the Funds may invest in credit derivatives and structured finance instruments. Credit derivatives and structured finance instruments present a risk in addition to those resulting from direct purchases of obligations of the relevant reference entities, including those described under “Credit Exposure to Reference Entities” below.

#### Credit Exposure to Reference Entities

The obligation of a Fund, directly or indirectly through other instruments and securities, to make payments to credit default swap counterparties under credit default swaps and other similar instruments creates significantly leveraged exposure to potential credit events of the relevant reference entities and credits.

A credit default swap counterparty for a particular credit default instrument may be obliged to make a payment upon an early termination date. A Fund may be exposed to the credit risk of such credit default swap counterparties for such payments. In the event of the insolvency of any credit default swap counterparty, such Fund will be treated as a general creditor of the credit default swap counterparty and will not have any claim against the reference entity. Consequently, such Fund will be subject to the credit risk of the credit default swap counterparty as well as that of a reference entity.

Following the occurrence of a credit event with respect to a reference entity, a Fund may be required to pay an amount equal to the relevant settlement amount to the credit default swap counterparty. Certain of the reference entities and/or reference obligations may be rated below investment grade (or of equivalent credit quality). Under credit default swaps where the relevant Fund has sold protection by reference to any such reference entity or which includes any such reference obligation the likelihood of the Fund being obliged to make payment is greater.

Credit default swaps present risks in addition to those resulting from direct purchases of obligations of the reference entities. Under credit default swaps, the Fund and/or issuer of structured finance securities will have a contractual relationship only with the relevant credit default swap counterparty, and not with any reference entity. Consequently, the credit default swaps do not constitute a purchase or other acquisition or assignment of any interest in any obligation of any reference entity. The relevant Fund and/or any issuer, therefore, will have rights solely against each credit default swap counterparty in accordance with the relevant credit default swap and will have no recourse against any reference entities. No Fund will have rights to acquire any interest in any obligation of any reference entity, notwithstanding the payment by the Fund of a credit default swap floating amount to a credit default swap counterparty with respect to such reference entity of a credit default unless the terms of the specific credit default swap provide for a transfer of any obligation upon the occurrence of a credit event. No Fund will directly benefit from any collateral supporting the

obligations of the reference entity and will not have the benefit of the remedies that would normally be available to a holder of any such obligation.

There is no assurance that actual payments of any credit default swap amounts will not exceed such assumed losses. If any payments of credit default swap amounts exceed such assumed losses, payment on the respective class of notes of an issuer could be adversely affected by the occurrence of synthetic credit events. Although each Fund's portfolio will be diversified as required by Section 1386(1)(a) of Part 24 of the Act, Funds will also be exposed to a credit risk in relation to the counterparties with whom they trade and may bear the risk of counterparty default.

#### Liquidity of Futures Contracts

Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits". Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a contract for a particular future has increased or decreased by the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent a Fund from liquidating unfavourable positions.

#### Futures and Options Risk

The Investment Manager may engage in various portfolio strategies on behalf of the Funds through the use of futures and options. Due to the nature of futures, cash to meet margin monies will be held by a broker with whom each Fund has an open position. In the event of the insolvency or bankruptcy of the broker, there can be no guarantee that such monies will be returned to each Fund. On execution of an option the Funds may pay a premium to a counterparty. In the event of the insolvency or bankruptcy of the counterparty, the option premium may be lost in addition to any unrealised gains where the contract is in the money.

#### Forward Trading

Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. Market illiquidity or disruption could result in major losses to a Fund.

#### Highly Volatile Markets

Price movements of forward and other derivative contracts in which a Fund's assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. A Fund is subject to the risk of failure of any of the exchanges on which its positions trade or of the clearing houses it uses.

### Counterparty Risk

Each Fund will have credit exposure to counterparties by virtue of investment positions in options, forwards and other OTC contracts held by the Fund. To the extent that a counterparty defaults on its obligation and the Fund is delayed or prevented from exercising its rights with respect to the investments in its portfolio, it may experience a decline in the value of its position, lose income and incur costs associated with asserting its rights. Although each Fund's portfolio will be diversified as required by Section 253(2)(a) of Part XIII of the Act, Funds will also be exposed to a credit risk in relation to the counterparties with whom they trade and may bear the risk of counterparty default.

### Exposure Risk

Certain transactions, such as the use of forward commitments transactions, may give rise to forms of exposure for the Company and a Fund. Although the use of derivatives may create such an exposure risk, any exposure arising as a result of the use of derivatives will not exceed the Net Asset Value of the relevant Fund.

### Borrowing and Leverage Risk

A Fund may employ leverage by borrowing and/or the use of derivatives and other non-fully funded instruments for the purpose of making investments. The use of leverage creates special risks and may significantly increase the investment and counterparty risks of a Fund. The Investment Manager sets a maximum level of leverage as described in supplement for the relevant Fund. Borrowing creates an opportunity for greater yield and total return but, at the same time, will increase the exposure of the relevant Fund to capital risk and interest costs. Any investment income and gains earned on investments made through the use of borrowings that are in excess of the interest costs associated therewith may cause the Net Asset Value of the relevant Fund to increase more rapidly than would otherwise be the case. Conversely, where the associated interest costs are greater than such income and gains, the Net Asset Value of the relevant Fund may decrease more rapidly than would otherwise be the case. The risks associated with the use of derivatives are set out above.

### Political and/or Regulatory Risks

The value of the assets attributable to a Fund may be affected by uncertainties such as national, regional or international political developments, changes in government policies, changes in taxation, restrictions on foreign investment and currency repatriation, currency fluctuations and other developments in the laws and regulations of countries in which investment may be made. Furthermore, the legal infrastructure and accounting, auditing and reporting standards in certain countries in which investment may be made may not provide the same degree of investor protection or information to investors as would generally apply in major securities markets.

### European Economic Risks

In recent years, European financial markets have periodically experienced volatility and been adversely affected by concerns about government debt levels, credit rating downgrades, and or restructuring of government debt. There have been concerns that certain eurozone states may default

on meeting their debt obligations or funding requirements. These states may be reliant on continuing assistance from other governments and institutions and/or multilateral agencies and offices, and could be detrimentally affected by any change in or withdrawal of such assistance. Any sovereign default is likely to have adverse consequences for the Member State concerned, the eurozone and the wider world economy.

It is possible that one or more eurozone states could at some point exit the euro and return to a national currency and/or that the euro will cease to exist as a single currency in its current form. The effects of an exit from the euro are impossible to predict, but are likely to be negative, and may include, without limitation, flight of capital from perceived weaker countries to stronger countries in the EU, default on the exiting state's domestic debt, collapse of its domestic banking system, seizure of cash or assets, imposition of capital controls that may discriminate in particular against foreigners' asset holdings and political or civil unrest. The exit of any country from the euro is likely to have a destabilising effect on all eurozone countries and their economies and a negative effect on the global economy as a whole.

Events of this nature could be adverse for investors including, among other things, causing extreme fluctuations in the value and exchange rate of the euro, market disruption, governmental intervention, and difficulties in valuing assets, obtaining funding or credit, transacting business with counterparties and managing investment risk.

#### Emerging Markets Risk

Certain Funds may invest in securities of issuers in emerging markets. Such securities may involve a high degree of risk and may be considered speculative. Risks include: (i) greater risk of expropriation, confiscation, taxation, nationalisation, and social, political and economic instability; (ii) the smaller markets for securities of emerging markets issuers and lower volumes of trading, resulting in lack of liquidity and in greater price volatility, (iii) certain national policies which may restrict the investment opportunities available in respect of a Fund, including restrictions on investing in issuers or industries deemed sensitive to relevant national interests and on the realisation or repatriation of foreign investment; (iv) currency instability and hyper-inflation; and (v) the absence of developed legal structures governing private or foreign investment and private property.

#### Registration Risk

In some emerging market countries evidence of legal title to shares is maintained in "book entry" form. In order to be recognised as the registered owner of the shares of a company, a purchaser or purchasers' representative must physically travel to a registrar and open an account with the registrar (which, in certain cases, requires the payment of an account opening fee). Thereafter, each time that the purchaser purchases additional shares of the company, the purchasers' representative must present to the registrar powers of attorney from the purchaser and the seller of such shares, along with evidence of such purchase, at which time the registrar will debit such purchased shares from the seller's account maintained on the register and credit such purchased shares to the purchaser's account to be maintained on the register.

The role of the registrar in such custodial and registration processes is crucial. Registrars may not be subject to effective government supervision and it is possible for the company to lose its registration

through fraud, negligence or mere oversight on the part of the registrar. Furthermore, while companies in certain emerging market countries may be required to maintain independent registrars that meet certain statutory criteria, in practice, there can be no guarantee that this regulation has been strictly enforced. Because of this possible lack of independence, management of companies in such emerging market countries can potentially exert significant influence over the shareholding in such companies.

If the company register were to be destroyed or mutilated, the Company's holding in respect of a Fund of the relevant shares of the company could be substantially impaired, or in certain cases, lost in its entirety. Registrars often do not maintain insurance against such occurrences, nor are they likely to have assets sufficient to compensate the Company and, therefore, a Fund as a result thereof. While the registrar and the company may be legally obliged to remedy such loss, there is no guarantee that either of them would do so, nor is there any guarantee that the Company would be able to bring successfully a claim in respect of a Fund against them as a result of such loss. Furthermore, the registrar or the relevant company could wilfully refuse to recognise the Company as the registered holder of shares previously purchased by or in respect of a Fund due to the destruction of the company's register.

#### United Kingdom's Withdrawal from the European Union

The U.K. voted on 23 June 2016 to leave the EU. The process of withdrawal from the EU was triggered on 29 March 2017, pursuant to Article 50 of the Treaty on European Union ("TEU"), by the U.K.'s formal notification to the European Council of its intention to withdraw from the EU.

The TEU provides for a period of up to two years from the date of the U.K.'s notification for the negotiation and coming into force of a withdrawal agreement, at the end of which (whether or not agreement has been reached) the EU treaties cease to apply to the U.K. The remaining EU member states and the U.K. may extend this period by unanimous agreement. As at today's date, the effective date of the U.K.'s withdrawal from the EU has been postponed until 31 October 2019 and may be postponed further. The agreement on the U.K.'s future relationship with the EU is separate and not subject to any formal time restriction.

During the withdrawal negotiation period and following the withdrawal of the U.K. from the EU, there is likely to be considerable uncertainty as to the U.K.'s post-withdrawal and post-transition framework, and in particular as to the arrangements which will apply to its relationships with the EU and with other countries.

This process and/or the uncertainty associated with it may, at any stage, adversely affect the return of the Fund and its investments. There may be detrimental implications for the value of the Fund's investments and/or its ability to implement its investment programme. This may be due to, among other things: (i) increased uncertainty and volatility in U.K., EU and other financial markets; (ii) fluctuations in asset values; (iii) fluctuations in exchange rates; (iv) increased illiquidity of investments located, listed or traded within the U.K., the EU or elsewhere; (v) changes in the willingness or ability of financial and other counterparties to enter into transactions, or the price at which and terms on which they are prepared to transact; and/or (vi) changes in legal and regulatory regimes to which the Fund, the Company, the Investment Manager and/or certain of the Fund's assets are or become subject.

Once the arrangements which will apply to the U.K.'s relationships with the EU and other countries have been established (and likely after the expiry of any transition period), or if the U.K. ceases to be a member of the EU without having agreed on such arrangements or before such arrangements become effective, the Investment Manager (or any of its affiliates), the Fund may need to be restructured, either to enable the Fund's objectives fully to be pursued or to enable the Investment Manager (or any of its affiliates or delegates) to fulfil most effectively its functions in relation to the Fund. This may increase costs or make it more difficult for the Company and the Fund to pursue its investment objectives.

Further, the U.K.'s vote to leave the EU has created a degree of political uncertainty, as well as uncertainty in monetary and fiscal policy, which may continue during the withdrawal negotiation period and the transition period. It may have a destabilising effect on some of the remaining members of the EU, the effects of which may be felt particularly acutely by Member States within the Eurozone.

#### Accounting, Auditing and Financial Reporting Standards

The accounting, auditing and financial reporting standards of many of the countries in which a Fund invests may be less rigorous than those applicable to Ireland and other European Union companies.

#### Legal and Regulatory Risks

Persons interested in purchasing Shares should inform themselves as to (a) the legal requirement within their own countries of residence for the purchase of Shares, (b) any foreign exchange restrictions which may be applicable, and (c) the income and other tax consequences of the purchase and redemption of Shares.

There has recently been increased legal and regulatory scrutiny of the hedge fund industry and the activities of managers involved with it. As a result, there are currently various legal and regulatory initiatives in Europe, the United States and elsewhere which may adversely affect the Company (which in this section will include, as the content allows, reference to the Funds). Any increased regulation may impact on how a Fund operates or how it is managed by the relevant Investment Manager, may increase exposure to potential liabilities and may impose additional obligations on each Investment Manager and other service providers. The Fund may have to bear increased legal, compliance and other related costs which could reduce the net amount received by investors. It is impossible to predict the effect of regulatory changes, some of which could be material and adverse.

In addition to the legal, tax and regulatory changes that are expected to occur during the term of each Fund, there may be unanticipated changes. The legal, tax and regulatory environment for hedge funds, investment advisers, and the instruments that they utilise (including, without limitation, derivative instruments) is continuously evolving.

#### AIFM Directive

The AIFMD regulates alternative investment fund managers (such as the Investment Manager) established in the EEA. As an authorised AIFM, the Investment Manager will comply with various obligations in relation to the Fund which may create significant additional costs that may be borne by the Shareholders. Any regulatory changes arising as a result of the AIFMD that impair the ability of the Investment Manager to manage the investments of the Company, or limit its ability to make available

for subscription the Shares, in the future, may materially adversely affect the Company's ability to continue to implement its investment approach and achieve its investment objective in respect of a Fund. It is difficult to predict the continuing impact of the AIFMD on the Company and the Investment Manager. The Investment Manager will continue to monitor the position and reserve the right to adopt such arrangements as they deem necessary or desirable to comply with the applicable requirements of the AIFMD.

#### MiFID II regulatory risk

MiFID II took effect on 3 January 2018. MiFID II is a wide ranging piece of legislation that will affect financial market structure, trading and clearing obligations, product governance and investor protection. While MiFIR and a majority of the so-called "Level 2" measures are directly applicable across the EU as EU regulations, the revised MiFID directive must be "transposed" into national law by member states. The transposition process can open the door to the act of so-called "gold-plating", where individual member states and their national competent authorities ("NCAs") introduce requirements over and above those of the European text and apply MiFID II provisions to market participants that would not otherwise be caught by MiFID II. NCAs in certain jurisdictions may propose a number of regulatory measures and/or regulatory positions that may be unclear in scope and application (absent ESMA guidance) resulting in confusion and uncertainty. It is not possible to predict how these regulatory positions or additional governmental restrictions may be imposed on market participants (including the Investment Manager) and/or the effect of such restrictions on the Investment Manager's ability to implement each Fund's investment objective. It is also not possible to predict the unintended consequences of MiFID II on the operation and performance of each Fund, which may be directly or indirectly impacted by changes to market structure, trading and clearing obligations, product governance and investor protection and/or regulatory interpretation.

#### Dodd-Frank Wall Street Reform and Consumer Protection Act

With the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("**Dodd-Frank**") in the United States, there has been extensive rulemaking and regulatory changes that have affected and will continue to affect private fund managers, the funds that they manage and the financial industry as a whole. Under Dodd-Frank, the SEC has mandated new reporting requirements and is expected to mandate new recordkeeping requirements for investment advisers, which are expected to add costs to the legal, operations and compliance obligations of the Investment Manager and the Fund and increase the amount of time that the Investment Manager spends on non-investment related activities. Until the SEC implements all of the new requirements of Dodd-Frank, it is unknown how burdensome such requirements will be. Dodd-Frank will affect a broad range of market participants with whom the Fund interacts or may interact, including commercial banks, investment banks, other non-bank financial institutions, rating agencies, mortgage brokers, credit unions, insurance companies and broker-dealers. Regulatory changes that will affect other market participants are likely to change the way in which the Investment Manager conducts business with its counterparties. It may take several years to understand the impact of Dodd-Frank on the financial industry as a whole, and therefore, such continued uncertainty may make markets more volatile, and it may be more difficult for the Investment Manager to execute the investment strategy of the Fund.

#### European Market Infrastructure Regulation

E.U. Regulation No 648/2012 on derivatives, central counterparties and trade repositories (also known as the European Market Infrastructure Regulation, or “EMIR”) whose primary text entered into force in 2012 requires certain “eligible” OTC derivative contracts to be submitted for clearing to regulated central clearing counterparties (the clearing obligation) and mandates the reporting of certain details of OTC and exchange-traded (“ETD”) derivative contracts to registered trade repositories (the reporting obligation). In addition, EMIR imposes requirements to measure, monitor and mitigate operational and counterparty risk in respect of OTC derivative contracts that are not centrally cleared, including the requirement to exchange initial and/or variation margin (the risk mitigation requirements).

These EMIR requirements apply to varying degrees to entities established in the EU, and in certain cases to those established outside the EU, covering both financial counterparties (“FCs”), which term includes investment firms, credit institutions, insurance companies based in the EU, and AIFs which are managed by an EU AIFM; as well as certain EU based non-financial counterparties (“NFCs”). An entity’s EMIR counterparty category determines its EMIR obligations: FCs are subject to the clearing obligation, the reporting obligation and the risk mitigation requirements. NFCs are subject to the reporting obligation and certain risk mitigation requirements, and may also be subject to the clearing obligation, subject to their positions in OTC derivative contracts exceeding certain thresholds. The clearing obligation and the requirement to post collateral in respect of uncleared OTC trades are being phased in over a period of years.

The Company, in respect of each Fund, is an “FC” or “Financial Counterparty” for the purposes of EMIR and is (where applicable) subject to the clearing obligation, the reporting obligation and the risk mitigation requirements. In the event of that the UK exit’s the EU without a withdrawal agreement, the UK will, broadly speaking, retain EMIR, with certain amendments to ensure it functions correctly (“UK EMIR”). Current expectations are that in such circumstances the Company in respect of each Fund will be subject to both EMIR and UK EMIR as an NFC (EMIR) and FC (UK EMIR). Consequently, when considering its obligations pursuant to both EMIR and UK EMIR, the Company will remain subject to the clearing obligation, the reporting obligation and the risk mitigation requirements.

Until the final position with respect to the UK’s exit from the EU is known, there is no certainty on the Fund’s obligations pursuant to EMIR and any UK EMIR. This uncertainty taken together with the possible application of the EMIR obligations that are still being phased-in means it is difficult to predict the full impact of EMIR and UK EMIR (if any) on the Company. Compliance could however result in an increase in the overall costs of entering into and maintaining OTC and ETD derivatives.

#### Withholding Tax Risk

The income and gains of any Fund from its securities and assets may suffer withholding tax which may not be reclaimable in the countries where such income and gains arise.

#### OECD BEPS

In 2013 the OECD published its report on Addressing Base Erosion and Profit Shifting (“BEPS”) and its Action Plan on BEPS. The aim of the report and Action Plan was to address and reduce aggressive international tax planning. BEPS remains an ongoing project. On 5 October 2015, the OECD published its final reports, analyses and sets of recommendations (deliverables) with a view to implementing



internationally agreed and binding rules which could result in material changes to relevant tax legislation of participating OECD countries. The final package of deliverables was subsequently approved by the G20 Finance Ministers on 8 October 2015. On 24 November 2016, more than 100 jurisdictions concluded negotiations on a multilateral instrument that will amend their respective tax treaties (more than 2,000 tax treaties worldwide) in order to implement the tax treaty-related BEPS recommendations. The multilateral instrument was signed on 7 June 2017 and entered into force on 1 July 2018. The multilateral instrument will then enter into effect for a specific tax treaty at certain times after all parties to that treaty have ratified the multilateral instrument. The final actions to be implemented in the tax legislation of the countries in which the Company will have investments, in the countries where the Company is domiciled or resident, or changes in tax treaties negotiated by these countries, could adversely affect the returns from the Company.

#### Taxation Risk

Any change in the Company's tax status or in taxation legislation could affect the value of the investments held by the Company and the Company's or any Fund's ability to provide investor returns. Potential investors and Shareholders should note that the statements on taxation which are set out herein and in each Fund Information Memorandum are based on advice which has been received by the Directors regarding the law and practice in force in the relevant jurisdiction as at the date of this Company Information Memorandum and each Fund Information Memorandum, as applicable. As is the case with any investment, there can be no guarantee that the tax position or proposed tax position prevailing at the time an investment is made in the Company will endure indefinitely. The attention of potential investors is drawn to the tax risk associated with investing in the Company as set out in the Section headed "COMPANY AND SHAREHOLDER TAXATION CONSIDERATIONS" below.

#### US Foreign Account Tax Compliance Act

Pursuant to the US Foreign Account Tax Compliance Act ("**FATCA**"), the Company (or each Fund) will be required to comply (or be deemed compliant) with extensive reporting and withholding requirements designed to inform the US Department of the Treasury of US-owned foreign investment accounts. Failure to comply (or be deemed compliant) with these requirements will subject the Company (or each Fund) to US withholding taxes on certain US-source income. Pursuant to an intergovernmental agreement between the United States and Ireland, the Company (or each Fund) may be deemed compliant, and therefore not subject to the withholding tax, if it identifies and reports US reportable account information directly to the Irish government. Shareholders may be requested to provide additional information to the Company to enable the Company (or each Fund) to satisfy these obligations. Failure to provide requested information or (if applicable) satisfy its own FATCA obligations may subject a Shareholder to liability for any resulting US withholding taxes, US tax information reporting and/or mandatory redemption, transfer or other termination of the Shareholder's interest in its Shares. Detailed guidance as to the mechanics and scope of this reporting and withholding regime is continuing to develop. There can be no assurance as to the timing or impact of any such guidance on future operations of the Company (or each Fund). The administrative cost of compliance with FATCA may cause the operating expenses of the Company (or each Fund) to increase, thereby reducing returns to investors. For additional information relating to FATCA, see "COMPANY AND SHAREHOLDER TAXATION CONSIDERATIONS".

*Risk Factors Not Exhaustive*

The investment risks set out in the Credit Opportunity Fund's Company Information Memorandum do not purport to be exhaustive and potential investors are made aware that an investment in the Credit Opportunity Fund may be exposed to risks of an exceptional nature from time to time.

## **Item 9 - Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Northlight or the integrity of Northlight's management.

Northlight has no material legal, regulatory or disciplinary events to disclose. This information has also been submitted to the Securities and Exchange Commission as Item 11 of Northlight's Form ADV, Part 1A, and can be verified at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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

Northlight and its employees are not registered, nor have an application pending to register, as a broker/dealer, commodity pool operator, or commodity trading advisor. Northlight has an affiliated adviser, Northlight GCI, as detailed in Part 1A of the Form ADV.

Northlight does not receive compensation directly or indirectly or maintain a business relationship with any third party that creates a material conflict of interest.

Neither Northlight nor any of its management persons have any other relationship or arrangement that is material to or causes a conflict with the Firm's advisory business or its clients.

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

### **Code of Ethics and Fiduciary Duty**

Northlight values client trust and places our fiduciary responsibilities to each client first and foremost in all aspects of our business. Northlight has adopted a Code of Ethics (the "Code") that complies with SEC Rule 204A-1 under the Investment Advisers Act.

The Firm's Code, sets forth standards of business conduct for the Firm and its Supervised Persons, which includes all employees, Access Persons and others designated by Northlight's Chief Compliance Officer ("CCO"). The Code is based on the principle that the Firm and its Supervised Persons have a fiduciary duty to act in the best interests of Northlight's clients.

The Code sets forth record keeping requirements and the responsibilities of the CCO with respect to review of personal securities transactions, personal holdings and trading reports and monitoring compliance with the Code. The Code also outlines policies for sanctioning supervised Persons who violate the Code.

Supervised persons must comply with federal securities laws, certify that they have read and understand the Code and report any violations of the Code to the CCO. The Code sets forth limitations on Supervised Persons receiving gifts from third parties. Supervised Persons may not solicit gifts from any party with whom we conduct or could conduct business.

The Firm's Code requires all employees to acknowledge that they have read and understand the Code, and reaffirm such acknowledgment at least annually.

A copy of Northlight's Code of Ethics will be provided to any client or prospective client free of charge upon request. If you would like to receive a copy, please contact our Chief Compliance Officer at +44 207 518 9235 or [compliance@northlight.co.uk](mailto:compliance@northlight.co.uk).

### **Personal Securities**

Supervised persons are required to submit to the CCO an initial and annual report listing their Reportable Securities and a quarterly report of transactions. All personal securities transactions, other than those specifically exempted by the Code, are required to be pre-approved by the CCO, or his delegate.

Supervised Persons are prohibited from trading in funds on the Firm's Approved List of designated funds that are approved for trading in client accounts. Supervised Persons are prohibited from trading either in their personal accounts or client accounts on the basis of material non-public information.

## **Item 12 - Brokerage Practices**

As a fiduciary, Northlight places client's interests first and foremost. The Firm's trading policies and procedures prohibit unfair trading practices and seek to avoid any conflicts of interests or resolve conflicts in the client's favour. We follow written policies and procedures for trade documentation, reporting of trade order status, resolution of trade errors, trade allocation and trade aggregation. All Northlight employees must follow these policies and procedures which are tested by Compliance to ensure their effectiveness.

### **Brokerage Discretion and Selection**

Northlight generally assumes responsibility for selecting brokers and dealers for the execution of securities transactions recommended on behalf of its clients. The Firm is not affiliated with any broker/dealers and does not execute securities transactions as a principal. Accordingly, the Firm selects unaffiliated third-party broker/dealers to execute all client transactions as permitted by applicable law. The Firm maintains a list of active/approved trading partners (i.e. counterparties) with whom the Firm may transact. Factors considered when determining whether to add a counterparty to the approved list include the price at which the order can be executed, costs of execution to the client, size of the order, and the likelihood of achieving execution and settlement.

The Firm ordinarily reviews its active broker list on a periodic basis and assesses each broker on a combination of factors including those listed above. Where issues arise or expectations are not met the Firm may meet with the brokers more frequently to review the relationship and the services being provided.

### **Soft Dollar Usage**

Northlight does not currently have and does not intend to maintain any soft dollar arrangements.

As a UK investment manager impacted by MiFID II regulations, Northlight pays for any research received. Such research may be required to invest the client portfolios.

### **Best Execution**

Northlight, as a fiduciary to its advisory clients, endeavours to seek best execution for client transactions, seeking to obtain not necessarily the lowest commission cost but the best overall qualitative execution. When determining best execution on a particular trade, Northlight's considerations include, but are not limited to, the following:

- Quality of execution
- Availability and quality of research products and services
- The nature and character of the relevant markets on which the transactions will be executed
- The broker's execution experience, integrity and credit-worthiness
- Operational efficiency

A copy of Northlight's Best Execution Policy is available on request.

### **Trade Allocation**

Northlight endeavours to act in a manner that it considers fair, reasonable and equitable in allocating investment opportunities among its clients. When the Firm determines that it would be appropriate and feasible for more than one client to participate in an investment opportunity, the Firm may place combined orders for all such clients simultaneously and, if the order is not filled at the same price, the Firm will average the prices paid over a particular trading day or such longer period consistent with the accumulation or disposition of a particular position. Similarly, if an order is placed on behalf of

more than one client and the order cannot be fully executed under prevailing market conditions, the Firm may allocate the trade execution among different clients on a basis that the Firm deems equitable. This is normally achieved by pro-rating actual trade executions among clients in accordance with the total number of shares outstanding on each client's order and rounding such executions to reflect minimum trading sizes, minimum allocations necessary to avoid undue costs being realized by clients (such as transaction and foreign exchange costs triggered by certain allocations having a de minimis value) and efficiencies inherent in trade reporting. Situations may occur where a client could be disadvantaged because they participated in the aggregate order.

The Firm anticipates that the substantial majority of its trade executions will be allocated between clients in a pro-rata manner. Where the Firm determines that this pro rata allocation methodology may not be in a client's best interest or the best interests of all clients, the Firm may, in its reasonable discretion, make an adjustment to the pro-rata allocation.

### **Block Trading of Client Orders**

Northlight believes that blocking (aggregation) of client orders may be prudent and necessary in order to fulfil Northlight's fiduciary duty to obtain the most favourable terms for each client. When aggregating client orders, management's considerations include but are not limited to the following:

- No advisory account is favoured over any other account. Clients participating in an aggregated order shall receive an average share price with other transaction costs shared on a pro-rata basis.
- The Firm will not aggregate transactions unless block trading is consistent with the Firm's duty to seek best execution and the terms of the Firm's investment management agreement with each client for which trades are being aggregated.
- Before placing a blocked trade, the Portfolio Manager will specify the participating client accounts and the intended allocation among those clients.
- If the aggregated order is filled in its entirety, it will be allocated among clients in accordance with the terms of the order; if the order is partially filled, it will be allocated on a pro-rata basis within the same terms of the order;
- The Firm's books and records will separately reflect the orders for each client account that are aggregated, as well as the securities bought and sold for and held by that account
- The Firm receives no additional compensation of any kind as a result of the proposed aggregation.

## Item 13 - Review of Accounts

### Account Reviews

Account (investment portfolio) reviews are performed on an ongoing basis every day by a Portfolio Manager or a designee.

Further review is undertaken by the Northlight Risk Committee ("RC") at least twice a month.

The RC is chaired by the Chief Risk Officer ("CRO") (in their absence the risk manager) and has a quorum of two attendees, RCO and at least one of Northlight's investment committee members. The Risk Committee provides:

- independent oversight of the client's investments, with the mandate to challenge investment ideas and portfolio management;
- control to ensure each client remains within its mandate and adheres to all Risk Limits set forth;
- supervision of Risk Limits with the responsibility to adjust these where necessary;
- definition and enforcement of the Market Regime (see section 5.4) and applied to the Fund; and
- regular review of the Risk Management Framework.

Among other things, reviewers evaluate the composition of the portfolios relative to the benchmark and review numerous risk statistics and limits. Reviewers, and more specifically the RC, will monitor and consider risk excesses and maximum exposures as well as consider risk developments and enhancements. Further, the Risk Committee may request the credit research team to provide a full fundamental breakdown and analysis of high risk or concentration trades.

Northlight and its service providers also compile an internal daily information package which includes a matrix of holdings and values per account across strategies and attribution analysis. This allows Northlight to conduct holdings based and returns based analysis at the security level coupled with exposure aggregation of relevant risk factors.

Northlight engage a third party service provider (the "Fund Accountant") to oversee prime broker and custodial reconciliations, and Net Asset Value calculations, as well as provide support to the middle office function within Northlight with respect to settlement issues. The Fund Accountant is also responsible for preparing daily profit and loss estimates to Northlight such that Northlight may monitor the ongoing accuracy of reporting against performance expectations and identify any issues with respect to incorrect reporting in advance of the Fund Administrator Net Asset Value calculation.

Positions and cash are reconciled on a daily basis. To the extent any discrepancies are identified through the performance of these reconciliations, our operations personnel will work with both our internal team, the Fund Accountants, and the custodian to resolve any such discrepancies. The statements and records of the custodian are the official books and records for the account.



## **Board Reporting**

Northlight's Fund Administrators provide written and oral reports to the boards of the client Funds at each board meeting. In addition to this, the Fund Administrator makes all relevant fund accounting and investor holding data readily available on either their portals or via electronic communication on request.

The Fund Administrators prepare the monthly Net Asset Value calculations and are also engaged to prepare the annual financial statements of the client Funds. The Fund Administrator reconciles the positions of the client Funds to prime brokers and custodians as required.

## **Client Investor Reporting**

Northlight's Fund Administrators generally provide investors with holdings reports no less frequently than monthly. We urge investors to carefully review these reports and compare to the statements that they receive from their custodian.

Northlight provide written investor reports generally monthly, and no less than quarterly. These reports include a portfolio appraisal, market commentary, performance statistics and a variety of key risk statistics.

Additional or different information may be provided to investors as agreed by Northlight and the client investor.

In addition to reports tailored to investors, Northlight issues a variety of general circulation materials for investors and consultants detailing investments, performances, and key risk factors/exposures.

Information in reports from different parties may vary for a variety of reasons such as accounting procedures, reporting dates and valuation methodologies. Northlight endeavours to reconcile any such differences immediately.

Separately managed account clients receive reports from the designated custodians no less frequently than quarterly.

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

Neither Northlight nor its employees receive compensation or incentives from third parties for providing investment advice or other advisory services to the Firm's clients.

Northlight does compensate a third party in accordance with Rule 206(4)-3 of the Advisers Act for investor referrals.

## Item 15 – Custody

Northlight is not authorised by the FCA to have custody of client assets. Northlight arranges for independent parties to act as the custodian, depositary and fund administrator for the Funds.

However, because certain Funds are private funds offered in the U.S., the Firm acknowledges that the SEC's definition of custody can be applied to it. Northlight is deemed to have custody because of the Firm's authority to obtain possession of certain client funds or securities. To comply with the custody rule, Northlight is required to ensure Funds are audited annually and that Fund investors are provided with a copy of the financial statements within 120 days of the respective Fund's year end.

The qualified custodian is required to provide each separately managed account client with at least quarterly account statements relating to the assets held within the account managed by Northlight. Each client should carefully review the qualified custodian's statement upon receipt to determine that it completely and accurately states all holdings in the client's account and all account activity over the relevant period.

In addition to the account statements provided by qualified custodians and administrators to our clients, Northlight also provides account appraisal reporting to investors on a monthly or quarterly basis. As such, we encourage investors to compare the statements provided to them by Northlight against those provided to them by the qualified custodians who hold the assets of their accounts, and to report any questions, concerns, or discrepancies to both Northlight and the qualified custodian promptly. Such questions, concerns, or discrepancies may be communicated to Northlight by contacting us at the contact information listed on the cover sheet.

Our reporting may vary from custodial statements based on accounting methods, reporting dates, and/or valuation methodologies of certain securities. However, custodian statements reflect the official books and records for the accounts we manage.

## **Item 16 – Investment Discretion**

Northlight obtains discretionary investment authority from each client through the execution of an 'investment management agreement' at the outset of the advisory relationship. Discretion is exercised in a manner consistent with stated investment objectives for the particular client account pursuant to the fiduciary duty and standard of care which we must discharge.

Investment guidelines and restrictions must be provided to Northlight in writing. Throughout the portfolio management process, Northlight observes the investment policies and limitations imposed by each client.

## Item 17 - Voting Considerations

Although Northlight typically does not trade equities, the Firm considers it to be of paramount importance when assessing proxy voting responsibilities on behalf of its clients to recognize the fiduciary responsibility it assumes in acting as investment adviser.

The Firm has a commitment to evaluate and vote proxy issues in the best interests of its clients. The Firm will generally vote proxy proposals, amendments, consents or resolutions relating to client securities, including interests in private investment funds, if any, (collectively, "proxies") in accordance with documented procedures.

Generally, all proxies are evaluated and voted on a case-by-case basis, considering each of the relevant factors set forth above. The Firm, in all cases, will vote for any proposals in the manner believed to be most advantageous for its clients.

There may be times in which conflicts may arise between the interests of the client and the interests of the Firm. The Firm will always strive to address such conflicts in the best interests of the client. If a perceived material conflict of interest arises in connection with a proxy vote, Northlight may resolve such perceived material conflicts of interest as follows:

- The Firm may delegate the voting decision for such proxy proposal to an independent third party;
- The Firm may delegate the voting decision to an independent committee of partners, members, directors or other representatives of the client, as applicable;
- The Firm may inform the investors or account of the conflict of interest and obtain consent (majority consent, in the case of a fund) to vote the proxy as recommended by the Firm; or
- The Firm may obtain approval of the decision from Northlight's Chief Compliance Officer.

If an independent third party or a committee is utilised in making a decision to vote on a proxy, the Firm will submit the proxy to such third party or committee for a decision. The Firm will execute the proxy in accordance with such third party or committee's decision and update Northlight's proxy recordkeeping.

The Firm does not take positions outside of the portfolios it manages and therefore does not anticipate a situation where there would be a conflict between maximizing long-term investment returns for clients and the interests of the Firm or its Supervised Persons. If such a situation should arise, the senior management will independently review and evaluate the proxy proposal.

A copy of Northlight's policies and procedures regarding the voting of client securities and information about how proxies were voted can be obtained by contacting our Chief Compliance Officer at +44 207 518 9235 or [compliance@northlight.co.uk](mailto:compliance@northlight.co.uk).

## **Item 18 – Financial Information**

Northlight has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

## Item 19 – Privacy

Northlight is committed to maintaining the confidentiality, integrity, and security of our current and prospective clients' non-public personal information and adheres to high standards in order to safeguard such information.

More specifically, Northlight is required to comply with Regulation (EU) No. 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (the "GDPR").

The Firm's supervisory authority with respect to the GDPR is the Information Commissioners Office ("ICO"). In addition, the Financial Conduct Authority (the "FCA") has indicated that firms should ensure compliance with GDPR as part of their obligations under the FCA Handbook.

Northlight maintains a data protection policy (the "Policy"). The Policy sets out the obligations of the Firm regarding data protection and the rights of data subjects in respect of their personal data under the GDPR.

More specifically, the Policy sets out the Firm's obligations regarding the collection, processing, transfer, storage and disposal of personal data. The procedures set out in this Policy must be followed at all times by the Firm, its employees, agents, contractors or other parties working on behalf of the Firm.

Northlight places high importance on the correct, lawful and fair handling of all personal data, respecting the legal rights, privacy and trust of all individuals with whom it deals.

A copy of Northlight's Privacy Policy is available on request from the Chief Compliance Officer [compliance@northlight.co.uk](mailto:compliance@northlight.co.uk).