

Advocate Capital Management LLC

Part 2A of Form ADV Brochure

499 Park Avenue, 10th Floor
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This Brochure provides information about the qualifications and business practices of Advocate Capital Management LLC (“Advocate”). If you have any questions about the contents of this Brochure, please contact us at richard.shea@advocatecapmgt.com or (212) 705-8517

The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

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

Item 2: Material Changes

Advocate's business activities have not changed materially since the last filing of March 2019.

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Item 4: Advisory Business

A. General Description of Advisory Firm

Advocate is an investment advisory firm organized in 2016 under the laws of the State of Delaware as a limited liability company. Advocate provides discretionary investment advisory services to family offices, hedge funds and other institutional investors.

Mr. Scott Peng and trusts controlled by him own 62.5% of Advocate and the remaining 37.5% is owned by Macro Management Holding LLC.

B. Description of Advisory Services

Advocate offers its services to clients in separately managed accounts and private investment funds (collectively with separately managed accounts, “Clients”). Advocate designs and implements Macro Risk Hedging strategies associated with client specific or generic portfolios and/or asset indexes. Advocate will typically analyze an institutional investor’s portfolio that is generally exposed to broad macroeconomic risk across global capital markets. Advocate will assess the “risk fingerprint” of the portfolio and propose a customized Macro Risk strategy that would seek to protect the Client’s portfolio against market shocks which could cause a significant decline in its market value. Advocate’s Macro Risk Hedging strategy would utilize financial instruments that Advocate expects to maintain, and have historically maintained, liquidity during periods of market stress. Using proprietary analytics, Advocate will seek to establish an appropriate coverage ratio based on the portfolio risk fingerprint and seek to create a dynamic, discretionary portfolio that seeks to support the underlying portfolio when markets are experiencing significant volatility due to macroeconomic shocks.

Prospective investors in funds advised by Advocate should refer to the private placement memoranda, investment management agreements, limited partnership agreements and other governing documents of the funds or accounts.

The strategies that Advocate pursues are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any Client will be achieved.

C. Availability of Tailored Services for Clients

Advocate tailors its advisory services to meet the specific risk profile of each separately managed account. Separately managed account clients may impose restrictions such as concentration limits on investing in certain securities and financial instruments. Separately managed account clients may also provide Advocate with a list of securities where they may have material inside information and therefore prohibit Advocate from taking a position in any of them. In providing services to each separately managed account clients and subject to the terms of the advisory agreement, Advocate assists in formulating its investment objectives, directs and manages the investment and reinvestment of the separately managed account client’s assets.

Advocate's investment management and advisory services to private funds are provided pursuant to the terms of the relevant offering memorandum and investors in the private funds cannot obtain services tailored to their individual specific needs.

D. Wrap Fee Programs

Advocate does not participate in wrap fee arrangements.

E. Assets under Management

As of December 31, 2019, Advocate had regulatory assets under management of approximately \$42.8 million on a fully discretionary basis. Advocate had approximately \$6 billion in assets under advisement. This is a macro risk hedging program for two separately managed accounts. We do not have non-discretionary assets.

Item 5: Fees and Compensation

Advisory Fees and Compensation

Advocate typically receives compensation based on a percentage of assets under management (the "Management Fee") and a percentage of the performance achieved (the "Performance Fee").

The exact fee and the manner in which the Management Fee and the Performance Fees are calculated depend on the services to be provided to the Client. Separately managed account client fees are individually negotiated. Clients are required to pay management fees quarterly, in advance. Advocate provides invoices to clients at the beginning of each quarter. The Management Fee is typically 1% of assets under management as calculated by the administrator.

With respect to Performance Fee, Advocate receives fees equal to an agreed upon portion of the net capital appreciation attributable to the Client's account for the preceding fiscal year. The Performance Fee will be in a range of 10% to 20%. In calculating the annual net capital appreciation of the account, prior losses are carried forward and must be made up before performance-based fees are made. Performance-based fees are assessed at the end of the fiscal year or upon full or partial withdrawal of an investor's capital.

Depending on the terms included in the Client advisory agreement, Clients can remit payment by check or authorize deduction from the client accounts in response to the invoice. Fees are not automatically deducted from client accounts.

A client advisory agreement may be cancelled upon written notice by either party at will after 12 months from inception, or at any time if gross portfolio returns fall below certain return levels. If the agreement is terminated during a quarter, the pro-rata Management Fee paid in advance to Advocate is refunded to the Client.

Expenses

In addition to paying Management Fees and Performance Fees, client accounts are subject to other investment expenses such as custodial charges, administrator fees, charges for data feeds such as Bloomberg (including terminal charges), brokerage fees, commissions and related costs; taxes, duties and other governmental charges. We describe trading costs in greater detail in the subsequent “Brokerage Practices” section of this brochure. In the case of a separately managed account client, fees and expenses are defined and detailed in the investment management agreement. The fees charged to any given Client by Advocate may be higher than fees charged to other Clients, for advisory services to accounts of comparable size and investment objectives. From time to time, Advocate reserves the right to renegotiate certain client fee schedules based on objective standards established by Advocate. Advocate may, in its sole discretion, waive or rebate all or part of the advisory fee or performance-related fees otherwise due with respect to any investment. To the extent that a Client is invested in an exchange-traded fund or mutual fund, the Client will bear, along with other shareholders, its pro rata portion of the exchange-traded fund’s or mutual fund’s management, trading, and administrative fees and expenses. Private funds will be charged their costs and expenses, such as investment-related expenses (e.g., commissions, fees, or markups to intermediaries), investment pricing data feed costs and expenses, clearing and settlement charges, custodial fees, interest expenses, attorneys, futures commission merchants, brokers or other professionals or advisors who provide research, advice or due diligence services with regard to investments and investment banking expenses related to the purchase and sale of illiquid investments); fees and expenses of members of any advisory committee; accounting, auditing and tax planning and return preparation expenses; fees and expenses relating to fund administrators; expenses relating to the offer and sale of shares of the fund; fees and expenses associated with regulatory and compliance filings with respect to the fund, investment-related travel expenses; expenses related to liability insurance for directors of the fund, its General Partner, the Management Company, their affiliates and their respective members, directors, officers, employees and agents; organizational expenses; extraordinary expenses; and other similar expenses related to the fund. The offering document of the fund has a full description of the fund’s expenses.

If a Client and one or more other Clients, or other Clients of Advocate may be responsible for some or all of a particular cost or expense, Advocate may allocate the cost or expense among those entities and Clients in its discretion in a fair and equitable manner. Expenses allocated to separately managed account clients may be negotiated individually with respect to each separately managed account client. Furthermore, at its discretion or pursuant to the terms of an investment advisory agreement, Advocate may pay expenses that would otherwise be allocated to a Client. Clients that do not pay expenses may benefit from services paid for by other Clients or the Advocate.

Prepayment of Fees

As explained above, the Management Fee and Performance Fee payable by investors are generally prorated and subject to adjustment for any partial periods.

Additional Compensation for the Sale of Securities

Neither Advocate nor its officers, employees, or other affiliates accept compensation for the sale of securities or other investment products.

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

As described in Item 5 above, Advocate expects to receive performance-based fees. The receipt of a performance-based fee may create an incentive for Advocate to make investments that are riskier or more speculative than would be the case if such compensation arrangements were not in place.

Advocate has an incentive to favor higher fee paying Client accounts, which frequently include those that pay performance-based compensation, over other accounts. Advocate has a conflict of interest when one fee structure causes higher fees to Advocate than the other fee structure, because Advocate has an incentive to favor the Client accounts that pay the higher fees. To the extent that any Clients did not pay performance-based fees, Advocate could have an incentive to favor its performance-based compensation Clients when allocating investment opportunities. Similarly, if different Clients have private fund investors with different high water marks for purposes of calculating incentive allocations, Advocate could have an interest in favoring a private fund client or fund investors that are most likely to pay performance-based compensation. To address this conflict, Advocate typically allocates investment opportunities on a pro rata basis based on each Client's assets under management. In addition, Advocate has processes to review Client account investment allocations on a regular basis.

Item 7: Types of Clients

As described in Item 4 above, Advocate provides investment advice to family offices, private funds and expects in the future, to provide advice to other institutional investors. Advocate has a minimum investment of \$5 million, which may be waived subject to our sole discretion.

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

Advocate's principal investment objective is to provide protection from losses due to macroeconomic shocks for its Clients. Advocate expects to invest primarily in swaps, futures, forwards, options, foreign currencies and sovereign debt, but it may invest in other instruments as well.

Methods of Analysis

Advocate employs fundamental and empirical analysis to determine whether observed or conjectured macro risk hedging strategies are effective and, more importantly, likely to be sustained in the future. Advocate believes these techniques may have certain advantages versus a purely quantitative approach including the potential ability to: control for the impact of particular macro

events, evaluate phenomena over longer history, systematically assess confidence levels based on availability of data, evaluate performance over certain sub-periods and market cycles, identify certain possible causation and lead/lag effects, and evaluate a range of macro risk hedging strategies in a systematic manner.

Advocate uses its proprietary models to allocate and manage risk across a wide breadth of quantitative investment strategies, geographies and asset classes - a process known as risk budgeting. Advocate employs these models to construct a portfolio, trade assets and manage risk. These strategies are offered in relatively unconstrained portfolios and any strategy may include sub-strategies in currencies, commodities, equities, fixed income/credit, volatility, cross-asset class trades and opportunistic strategies.

Material Risks

Operating History. Advocate commenced business in 2016. The Client accounts have limited operating history. In addition, the past investment performance of the Client accounts or other entities or accounts managed by Advocate or any of their employees or affiliates may not be indicative of the future performance of the Client accounts.

Business Dependent upon Key Individuals. The Clients have delegated authority for all investment decisions to Advocate, which is controlled by Scott Peng. Advocate is given broad discretion and flexibility to select and manage the investments of the Client accounts. The success of the Client accounts is largely dependent upon the expertise of Advocate and Scott Peng in particular. Furthermore, while Scott Peng has significant incentive to continue his activities on behalf of Advocate, there can be no assurance that he will do so.

Conflicts of Interest. Advocate, as well as Scott Peng and other employees of Advocate, will be subject to a variety of conflicts of interest in making investments on behalf of the Client accounts. For instance, in the event of different investment programs, strategies, objectives, restrictions, available capital, portfolio positions and other relevant considerations, a Client account may have competing or different positions with respect to the same or similar investments (*e.g.*, with respect to a particular investment, Advocate may determine to purchase such investment for a Client account, whereas one or more other Client accounts may determine to sell such investment, whether as part of a short sale or otherwise, and vice versa). Furthermore, Advocate, as well as Scott Peng and Richard Shea and other employees of Advocate, may manage other funds and accounts, and they may have incentives to favor those funds. Advocate, as well as Scott Peng and Richard Shea and other employees of Advocate, are not subject to any absolute restrictions on managing new funds or taking new accounts, which could increase the competition for their time and adversely impact the performance of Client accounts.

Financial Industry Regulation. The financial services industry generally, and certain investment activities of similar to those of the Client accounts, and the advisers of those accounts, in particular, have been subject to intense and increasing regulatory scrutiny. There has been an international

effort to increase the stability of the financial system in general, and the over-the-counter (“OTC”) derivatives market in particular, in response to the recent financial crisis. As a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), signed into law on July 21, 2010, the regulation of derivatives has significantly changed. In particular, as a result of the market downturn and credit crisis that began in 2008, the Dodd-Frank Act has changed the current structure of regulation, with the implementation of new registration requirements for hedge funds and investment advisers, increased regulatory oversight and greater accountability to ensure financial stability and protections. Market participants in the U.S. derivatives markets, and the markets themselves, are subject to comprehensive regulation by the CFTC and self-regulatory organizations, such as the National Futures Association (“NFA”). The Dodd-Frank Act reforms almost every area of U.S. financial regulation. Its implications could affect Advocate and its Clients by mandating new trading, clearing, collateral and reporting requirements, restricting the activities of these entities and imposing additional costs. The implications of the Dodd-Frank Act may have an adverse effect and impose greater requirements on Advocate in the management of its strategies. Future regulatory developments could cause changes to Advocate’s ability to implement its investment strategies. Although the CFTC and SEC, as well as other federal regulators, responsible for promulgating rules to implement the Dodd-Frank Act have adopted many final rules that are in effect, the full impact of the Dodd-Frank Act remains uncertain. The financial crisis that began in 2008 may also lead to additional proposals. Such scrutiny may increase the exposure of Advocate and its Clients to potential liabilities and to legal, compliance and other related costs. Increased regulatory oversight, enhanced regulation and the adoption of new statutes, rules or regulations with respect to the investment activities of the Client accounts may also reduce the amount and availability of the investment opportunities. Such increased regulatory oversight and regulation may also impose additional administrative burdens on Advocate.

Systems Risk. Advocate is dependent upon various computer and telecommunications technologies. The successful deployment of Advocate’s investment strategy, the implementation and operation of such investment strategy, and various other critical activities of Advocate on behalf of the Clients could be severely compromised by telecommunications failures, power loss, software-related “system crashes,” cyber-attacks (including, but not limited to, viruses, worms, Trojan horses, denial-of-service attacks, and hacking), fire or water damage, or various other events or circumstances. Advocate does not provide comprehensive and foolproof protection against all such events (whether because it believes such to be impractical or prohibitively expensive in terms of financial expenditures and/or scheduling delays, or for other reasons), and does not expect to secure such comprehensive or foolproof protection. Any event that interrupts Advocate’s computer and/or telecommunications operations, however, could result in, among other things, the inability to establish positions for, modify, liquidate, or monitor the Clients’ portfolios, and, for those and other reasons, could have a material adverse effect on the Client accounts. In the case of the most severe business disruptions (*e.g.*, regional power outage, cyber-attacks, or loss of personnel), Advocate may not resume establishing positions for, modifying, liquidating, or monitoring the Clients’ portfolios for one or more business days, because (among other things) such resumption is dependent on other critical business constituents, including FCMs, brokers and exchanges, and on

the nature of the disruption. No assurance can be made that Advocate would be able to resume operations following a business disruption.

General Economic Conditions. The success of any investment activity is influenced by general economic and financial conditions that may affect the level and volatility of equity prices, interest rates, general levels of economic activity, and the extent and timing of investor participation in the markets for both equity and interest-rate-sensitive securities. Unexpected volatility, illiquidity, governmental action, currency devaluation, or other events in global markets in which the Client accounts directly or indirectly hold positions, or national and international circumstances (such as terrorist acts, wars, or security operations) or acts of God (including tornadoes, hurricanes, epidemics, and earthquakes), could impair the ability of Advocate to carry out its business and could cause the Client accounts to incur substantial losses. In recent years, U.S. and non-U.S. securities markets and exchanges experienced high volatility, market disruption and substantial losses and resulted in governmental reform affecting the financial industry. Prospective investors should be aware that similar market conditions in the future may present significant challenges to investors, including managers with past success under other market conditions.

Investment and Trading Risk. Advocate believes that the investment program and strategy of the Client accounts moderate this risk through a careful selection of investments and financial instruments. However, no guarantee or representation is made that the investment program of the Client accounts will be successful. An investor should be aware that it may lose all or part of its investment. In the event that a Client account makes short term transactions or frequently trades, (a) its performance would be subject to market trends in general and changes in market trends during a trading day and (b) portfolio turnover and commissions to intermediaries (and therefore trading expenses incurred and paid by the Client account) may be greater than for other investment entities of similar size not frequently trading or engaging in short term transactions.

Illiquid Investments. The Client accounts may in certain circumstances hold illiquid investments. Such illiquid investments will be difficult to value and there will generally be no collateral to secure an investment once made. Such investments may require a significant amount of time from the date of initial investment before disposition. Sales of such investments may not be possible and, if possible, may be made at substantial discounts from cost.

Short Term Trading Risks. A portion of the investment program of the Client accounts is based on the ability of Advocate to take advantage of very short-term market trends and the market's volatility. The Client accounts' annual portfolio turnover rate may vary, depending on market conditions, and at times the Client accounts will engage in substantial short-term trading. The Client accounts have not placed any limit on the rate of portfolio turnover and portfolio investments may be sold without regard to the time they have been held when, in the opinion of Advocate, investment considerations warrant such action. Because market trends in general and changes in market trends during a trading day cannot be predicted with any degree of accuracy or consistency, the Client account's performance may fluctuate substantially from period to period, and it is possible that the Client accounts may sustain substantial and continuing losses. In addition, a portion of the Client

accounts' investment program requires the Client accounts to make very short term transactions, with the possibility of making several transactions in one investment in a single trading day. As a result, the commissions payable by the Client accounts may be substantially in excess of those normally paid by an investor of comparable size.

Frequency of Trading. Generally, Advocate will hold a position for 6 months or more. However, some of the strategies and techniques employed by Advocate may require frequent trades to take place and, as a consequence, portfolio turnover and commissions to intermediaries (and therefore trading expenses incurred and paid by the Client accounts) may be greater than for other investment entities of similar size.

Competitive Market for Investments; Unidentified Investments. The business of identifying and structuring certain transactions of the nature contemplated by Advocate is competitive (and may become more competitive in the future), and involves a high degree of uncertainty. There can be no assurance that Advocate will be able to locate and complete attractive investments, that it will be able to adhere to the investment selection criterion outlined herein or that, if adhered to and implemented, any such investments will produce superior risk-adjusted capital growth or otherwise achieve the objectives of the Client accounts. Furthermore, there can be no assurance that suitable investment opportunities will be available.

Concentration of Investments. The Client accounts may participate in a limited number of investments, and may seek to make several investments in one economic sector or one geographic area. As a result, the Client accounts' investment portfolios could become highly concentrated and their aggregate return may be affected substantially by the performance of only a few holdings.

Derivatives. Advocate has unlimited discretion to use derivative instruments, including (among others) interest rate swaps, currencies, broad market indices, options (including speculative positions such as buying and writing call options and put options on either a covered or an uncovered basis), futures, forward contracts, repurchase agreements, reverse repurchase agreements and many different types of swap agreements. In many cases, derivatives provide the economic equivalent of leverage by magnifying the potential gain or loss from an investment in much the same way that incurring indebtedness would. Many derivatives provide exposure to potential gain or loss from a change in the market price of an asset, security or instrument (or a basket or index) or other event or circumstance in a notional amount that greatly exceeds the amount of cash or assets required to establish or maintain the derivative contract. Accordingly, relatively small price movements in the underlying asset, security or instrument or other events or circumstances may result in immediate and substantial losses to the Client accounts. In some cases, the Client accounts' exposure under a derivative contract is limited to the amount invested (for example, when Advocate buys a call option for the Client). In other cases, the derivative contract creates an open-ended obligation (for example, if Advocate writes a call option for the Client Account). Many derivatives, particularly those negotiated over-the-counter, may be substantially illiquid or could become illiquid under certain market conditions. As a result, it may be difficult or impossible to determine the fair value of the Client accounts' interest in such contracts. Many derivative contracts involve exposure to the

credit risk of the counterparty or an established exchange, because the Client accounts acquires no direct interest in the underlying asset, security or instrument, but instead depends on the counterparty's ability to perform under the contract. It is possible that in the event of a counterparty credit default, the Client accounts may not be able to recover all or a portion of its investment in such derivative instrument and may be exposed to additional liability (i.e., the obligations associated with what has become an unhedged position). Further, if and when the Client accounts take economic exposure through a derivative, it may not be able to pursue legal remedies that would be available if it invested directly in the underlying asset, security or instrument.

Many derivatives also involve substantial legal risk and uncertainty, because the terms of the contract may be difficult to draft, apply, interpret and enforce, particularly in the context of unforeseen market conditions or events. In many cases, the counterparty has discretion (either pursuant to the express terms of the contract or in practice) to interpret the contract, make required calculations (including pricing the instrument) and demand or withhold payments in the manner most favorable to the counterparty and most unfavorable to the Client accounts. Such calculations could result in an overstatement of the Client accounts' value, and may have a material adverse effect on the Client accounts if Advocate is required to sell derivative instruments in order to raise funds for margin purposes. In addition, any adverse interpretation or calculation under one derivative contract could trigger cross-defaults with other contracts and could have a material adverse impact on the Client accounts' liquidity and performance. Any dispute concerning a derivative contract could be expensive and time consuming to resolve, particularly given the potential for complex and novel legal issues and the involvement of multiple legal jurisdictions. Even a favorable resolution could come too late to prevent cross-defaults, trading losses and material liquidity problems.

Bilateral OTC transactions differ from exchange-traded or cleared derivatives transactions in several respects. Bilateral OTC transactions are transacted directly with dealers and not with a clearing corporation. Without the availability of a clearing corporation, bilateral OTC transaction pricing is normally done by reference to information from the applicable counterparty. As bilateral OTC transactions are entered into directly with a dealer, there is a risk of nonperformance by the dealer as a result of its insolvency or otherwise. Under recently-adopted regulations by the CFTC and federal banking regulators ("Margin Rules"), the Client accounts will be required to post collateral (known as variation margin) to cover the mark-to-market exposure in respect of its uncleared swaps as of March 1, 2017 or at such later time as required by guidance issued by the CFTC and Board of Governors of the Federal Reserve System (SR 17-3). The Margin Rules also mandate that collateral in the form of initial margin be posted to cover potential future exposure attributable to uncleared swap transactions. However, due to the compliance timeline within the Margin Rules, it is unlikely that the Client accounts will be required to comply with such initial margin requirements until March 1, 2020. In the event a Client account is required to post collateral in the form of initial margin or variation margin in respect of its uncleared swap transactions, all such collateral will be posted with the counterparty. Likewise, when the value of a position increases

the Client account will request variation margin from the counterparty. These variation margin requirements work to mitigate the Client account's credit exposure to counterparties and vice versa.

The requirement to execute certain OTC derivatives contracts on swap execution facilities ("SEFs") may offer certain advantages over traditional bilateral OTC trading, such as ease of execution, price transparency, increased liquidity and/or favorable pricing. However, SEF trading may make it more difficult and costly for the Client accounts to enter into highly tailored or customized transactions and may result in additional costs and risks. Market participants such as the Client accounts that execute derivatives contracts through a SEF, whether directly or through a broker intermediary, are required to submit to the jurisdiction of the SEF and comply with SEF and CFTC rules and regulations which impose, among other things disclosure and recordkeeping obligations. In addition, the Client accounts will generally incur SEF or broker intermediary fees when it trades on a SEF. The Client accounts may also be required to indemnify the SEF or broker intermediary for any losses or costs that may result from the Client accounts' transactions on the SEF.

Risks Associated with Swap Agreements. The Client accounts may enter into swap agreements and options on swap agreements ("swaptions") as part of its investment strategy. Swap agreements can be individually negotiated and structured to include exposure to a variety of different types of investments, asset classes or market factors. The Client accounts, for instance, may enter into swap agreements with respect to interest rates, credit defaults, currencies, securities, indexes of securities and other assets or other measures of risk or return. Depending on their structure, swap agreements may increase or decrease the Client accounts' exposure to strategies, equity securities, long term or short term interest rates, foreign currency values, corporate borrowing rates or other factors and thus directly affect the overall volatility of the Client accounts. Swap agreements can take many different forms and are known by a variety of names. The Client accounts are not limited to any particular form of swap agreement if consistent with the Client accounts' investment objective.

Whether the Client accounts' use of swap agreements or swaptions will be successful will depend on Advocate's ability to select appropriate transactions for the Client accounts. Swap transactions may be highly illiquid and may increase or decrease the volatility of the Client accounts' portfolio. Moreover, the Client accounts bear the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty. The Client accounts will also bear the risk of loss related to swap agreements, for example, for breaches of such agreements or the failure of the Client accounts to post or maintain required collateral. Many swap markets are relatively new and still developing. It is possible that developments in the swap markets, including potential government regulation, could adversely affect the Client accounts' ability to terminate existing swap transactions or to realize amounts to be received under such transactions.

General Risks Associated with Investing in Commodity Interests. Investing in commodity interests, including interest rate instruments may involve substantial risks. The low margins or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a contract or security can produce a disproportionately larger

profit or loss. There is no assurance that a liquid secondary market will exist for commodity futures contracts or options purchased or sold, and the Client accounts may be required to maintain a position until exercise or expiration, which could result in losses. In addition, the Client accounts, as the case may be, may not be able to execute futures contract trades at favorable prices if trading volume in such contracts is low. It is also possible that an exchange or the CFTC may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract or order that trading in a particular contract be conducted for liquidation only. Trading in commodity futures contracts and options are highly specialized activities that may entail greater than ordinary investment or trading risks, which may be even greater in case of non-U.S. futures and options. In addition, there is a risk that statutes, rules, orders or regulations may be imposed that limits or prohibits certain hedging transactions.

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

Futures contracts generally provide the economic equivalent of leverage by magnifying the potential gain or loss from an investment in much the same way that incurring indebtedness would and by providing exposure to potential gain or loss related to a notional amount that greatly exceeds the amount of cash or assets required to establish or maintain the position. Accordingly, the risks associated with leverage and with derivatives generally apply to futures positions.

When a purchase or sale of a futures contract is made by the Client accounts, the Client accounts is required to deposit with its futures commission merchant a specified amount of liquid assets ("initial margin"). The margin required for a futures contract is set by the exchange on which the contract is traded and may be modified during the term of the contract. The initial margin is in the nature of a performance bond or good faith deposit on the futures contract that is returned to the Client accounts upon termination of the contract, assuming all contractual obligations have been satisfied.

As mentioned above, in the futures markets, initial margin deposits are typically low relative to the value of the futures contracts purchased or sold. Low margin deposits mean that a relatively small price movement in a futures contract may result in immediate and substantial losses to the investor. For example, if at the time of purchase 10% of the price of a futures contract is deposited as margin, a 10% decrease in the price of the futures contract would, if the contract is then closed out, result in a total loss of the margin deposit before any deduction for the commissions to intermediaries and

other transaction costs. Thus, like other leveraged investments, any purchase or sale of a futures contract may result in losses in excess of the amount invested.

Futures positions may be illiquid because, for example, some U.S. 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.” When such rules are invoked once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in such futures contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Futures contract prices in various commodities occasionally have moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Client accounts from promptly liquidating unfavorable positions and subject the Client accounts to substantial losses. In addition, the Client accounts may not be able to execute futures contract trades at favorable prices if trading volume in such contracts is low. It is also possible that an exchange or the CFTC may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract or order that trading in a particular contract be conducted for liquidation only. The CFTC and certain commodity exchanges have also established limits referred to as speculative position limits, or position limits, on the maximum net long or net short position which any person or group of persons may hold or control in particular futures and options. Limits on trading in options contracts also have been established by the various options exchanges. It is possible that the trading decisions of Advocate may have to be modified and that positions held by the Client accounts may have to be liquidated in order to avoid exceeding any of such limits. Such modification or liquidation, if required, could have a material adverse effect on the operations and profitability of the Client accounts.

Securities futures contracts include both futures contracts on single stocks and futures contracts on narrow-based securities indices. They are treated as both futures and securities and, therefore, are subject to the joint jurisdiction of the SEC and the CFTC. Securities futures contracts are subject to the same risks as other securities, as well as to the greater volatility and risks of futures trading.

Forward Contracts. Forward contracts generally provide the economic equivalent of leverage by magnifying the potential gain or loss from an investment in much the same way that incurring indebtedness would and by providing exposure to potential gain or loss related to a notional amount that greatly exceeds the amount of cash or assets required to establish or maintain the position. Accordingly, the risks associated with leverage and with derivatives generally apply to forward positions.

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

certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in forward markets due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward (and futures) trading to less than that which Advocate would otherwise recommend, to the possible detriment of the Client accounts. Market illiquidity or disruption could result in significant losses to the Client accounts.

Index-Based Trading. Trading in index-based unit investment trusts and exchange-traded funds generally involves risks similar to other securities trading. Additionally, these instruments may not move in tandem with the indices upon which they are based. The Client accounts may also purchase and sell indices, futures on indices, execute total return swaps to pay or receive the total return of such indices as well as call and put options on indices, whether or not stock indices listed on securities exchanges or traded in the over-the-counter market. Such indices may be listed on a securities exchange or traded in the over-the-counter market. An index or index option fluctuates with changes in the market values of the stocks included in the index. Because the value of an index or index option depends upon movements in the level of the index rather than the price of a particular instrument, whether the Client accounts will realize gains or losses from the purchase or writing of options on indices depends upon movements in the level of instrument prices in the instrument market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular instruments.

Stock Index Options. The Client accounts may purchase and sell call and put options on stock indices listed on securities exchanges or traded in the over-the-counter market. A stock index fluctuates with changes in the market values of the stocks included in the index. Because the value of an index option depends upon movements in the level of the index rather than the price of a particular stock, whether the Client accounts will realize gains or losses from the purchase or writing of options on indices depends upon movements in the level of stock prices in the stock market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular stocks. Accordingly, successful use by the Client accounts of options on stock indices will be subject to Advocate's ability to correctly predict movements in the direction of the stock market generally or of particular industries or market segments. This requires different skills and techniques than predicting changes in the price of individual stocks.

Stock Index Futures. The price of stock index futures contracts may not correlate perfectly with the movement in the underlying stock index because of certain market distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, shareholders may close futures contracts through offsetting transactions that would distort the normal relationship between the index and futures markets. Secondly, from the point of view of speculators, the deposit requirements in the futures market are less onerous than margin requirements in the securities market. Therefore, increased participation by speculators in the futures market also may cause price

distortions. Successful use of stock index futures contracts by the Client accounts also is subject to Advocate's ability to correctly predict movements in the direction of the market.

Risks Associated with Options. Options contracts generally provide the economic equivalent of leverage by magnifying the potential gain or loss from an investment in much the same way that incurring indebtedness would and by providing exposure to potential gain or loss related to a notional amount that greatly exceeds the amount of cash or assets required to establish or maintain the position. Accordingly, the risks associated with leverage and with derivatives generally apply to options positions.

The Client accounts may use options contracts in furtherance of its investment program. Options positions may include both long positions, where a Client account is the holder of put or call options, as well as short positions, where a Client account is the seller (writer) of an option. Although option techniques can increase investment return, they also involve a high level of risk. For example, the expiration of unexercised long options effectively results in the loss of the entire cost of, or premium paid for, the option. Conversely, the writing of an uncovered put or call option can involve, similar to short-selling, a theoretically unlimited risk of an increase in the Client accounts' cost of selling or purchasing the underlying securities in the event the option is exercised.

The seller (writer) of a call option which is covered (*i.e.*, the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security or other instrument below the purchase price of the underlying instrument, less the amount of premium received by the seller, and effectively forgoes the opportunity for gain on the underlying instrument above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The securities necessary to satisfy the exercise of an uncovered call option may be unavailable for purchase, except at much higher prices, thereby reducing or eliminating the value of the premium. Purchasing securities to cover the exercise of an uncovered call option can cause the price of the securities to increase, thereby exacerbating the loss. The buyer of a call option assumes the risk of losing its entire investment (the premium paid) in the call option. If the buyer of a call option sells short the underlying security or other instrument, a loss on the call option itself may be offset, in whole or in part, by any gain on the short sale of the underlying position. The seller (writer) of a put option which is covered (*i.e.*, the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security or other instrument above the sales price (in establishing the short position) of the underlying instrument, plus the premium received by the seller, and forgoes the opportunity for gain on the underlying instrument below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment (the premium paid) in the put option. If the buyer of a put option holds a long position in the underlying security

or other instrument, a loss on the put option itself may be offset, in whole or in part, by any gain on the underlying position.

With certain exceptions, exchange listed options generally settle by physical delivery of the underlying security or currency, although in the future cash settlement may become available. Index options are cash settled for the net amount, if any, by which the option is “in-the-money” (i.e., where the value of the underlying instrument exceeds, in the case of a call option, or is less than, in the case of a put option, the exercise price of the option) at the time the option is exercised. Frequently, rather than taking or making delivery of the underlying instrument through the process of exercising the option, listed options are closed by entering into offsetting purchase or sale transactions that do not result in ownership of the new option. The Client account’s ability to close out its position as a purchaser or seller of a listed put or call option is dependent, in part, upon the liquidity of the option market.

Over-the-counter options are purchased from or sold to securities dealers, financial institutions or other parties through direct bilateral agreement with such counterparty. In contrast to exchange listed options, which generally have standardized terms and performance mechanics, all the terms of an over-the-counter option, including such terms as method of settlement, term, exercise price, premium, guarantee, and security, are set by negotiation of the parties. A Client account may enter into over-the-counter options that have cash settlement provisions, although it is not required to do so. Unless the parties provide for it, there is no central clearing or guaranty function in an over-the-counter option. As a result, if a counterparty fails to make or take delivery of the security, currency or other instrument underlying an over-the-counter option it has entered into with the Client account or fails to make a cash settlement payment due in accordance with the terms of that option, the Client account’s loss of premium it paid for the option will not be offset by any anticipated benefit of the transaction.

When a Client account purchases an option, it must pay the price of the option and transaction charges to the intermediary effecting the transaction. If the Client account acquires an investment by exercising an option as opposed to purchasing such investment directly, the total cost of acquiring an investment to the Client account may be more than the amount of the costs which would be payable if the investment were to be purchased directly. If a put or call option purchased by a Client account were permitted to expire without being sold or exercised, the premium that the Client account paid for the option will not be offset by any potential gain on the exercise of the option.

The profitability of the Client accounts’ option trading will depend upon the attractiveness of option premiums relative to such factors as price volatility, strike price and expirations. Numerous factors can affect the level of option premiums. Although high premiums can make option writing more attractive, they can effectively preclude other favorable trading opportunities. Option premium costs, as well as the cost of covering options written by the Client accounts, can reduce or eliminate position profits, and could subject the Client accounts to substantial losses. The Client accounts’ ability to close out its position as a purchaser of an exchange-listed option is dependent upon the

existence of a liquid secondary market on option exchanges. The Client accounts may also use options with limited liquidity, such as over-the-counter options. Profitability in options trading may further depend upon a variety of market factors, such as the presence of a requisite degree of volatility, liquidity in pricing options and the underlying securities, efficiency of trading execution and the absence of so-called catastrophic or aberrational market factors. Successful implementation of option strategies generally requires a high degree of skill and expertise and trading in options entails greater than ordinary investment risks. There is no guarantee any option trading strategies of Advocate or the Client accounts will be successful or profitable, and such strategies may lead to substantial losses for the Client accounts.

Short Selling. The Client accounts' investment portfolios may include short positions. Short selling involves selling securities which may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from decline in the price of a particular security. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Client accounts of buying those securities to cover the short position. There can be no assurance that the security necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

In addition, there is a risk that statutes, rules, orders or regulations may be imposed that limits or prohibits short selling. For instance, beginning in September 2008, a number of countries imposed bans on short sales (and related transactions) of financial sector (and, in some cases, other) securities, typically on an "emergency" basis, resulting in some cases in material losses for market participants and making it difficult or impossible for numerous market participants (including participants employing investment strategies similar to the Client accounts) either to continue to implement their strategies or to control the risk of their open positions. In addition, the SEC imposed a temporary short-sale reporting requirement that had the effect of deterring short-selling of U.S. equities in general. Any ongoing or future regulatory limitations on short-selling, or any ongoing or future requirement to disclose short positions, may materially adversely affect the ability of Advocate to implement the Client accounts' investment strategy.

Loans of Portfolio Securities. The Client accounts may from time to time lend securities (if any) from its portfolio to brokers, dealers and financial institutions and receive collateral in cash or securities believed by Advocate to be equivalent to securities rated investment grade by any nationally recognized rating organization. Any cash collateral received by the Client accounts will be invested in short-term securities. The Client accounts will retain all rights of beneficial ownership as to the loaned portfolio securities, including voting rights and rights to interest or other distributions, and will have the right to regain record ownership of loaned securities to exercise such beneficial rights. Such loans will be terminable at any time. The Client accounts may pay finders',

administrative and custodial fees to persons unaffiliated with the Client accounts in connection with the arranging of such loans.

Credit Default Swaps. The Client accounts may invest in credit default swaps, which can be used to implement Advocate's view that a particular credit, or group of credits, will experience credit improvement or deterioration. In the case of expected credit improvement, the Client accounts may sell credit default protection or enter into a paired strategy, in which case it receives a premium to take on the risk. In such an instance, the obligation of the Client accounts to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. In the case of expected credit deterioration, the Client accounts may buy credit default protection, in which case the Client accounts will pay a premium regardless of whether there is a credit event. Alternatively the Client accounts may enter into a paired strategy where it will buy and sell the credit default protection in which case it may pay a net premium or receive a net premium to take on risk. Any credit default swap transaction may also give rise to numerous other risks described herein, including counterparty credit risks.

Repurchase and Reverse Repurchase Agreements. The Client accounts may enter into repurchase and reverse repurchase agreements. When a Client account enters into a repurchase agreement, the Client account "sells" securities issued by the U.S. or a non-U.S. government, or agencies thereof, to a broker-dealer or financial institution, and agree 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 Client account "buys" securities issued by the U.S. or a non-U.S. government, or agencies thereof, 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 Client account, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by the Client accounts 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 cases may involve costs to the Client accounts.

Synthetic Securities. If and when a Client account invests in a synthetic security, it will usually have a contractual relationship only with the counterparty of the synthetic security, and not the reference obligor (the "Reference Obligor"). Therefore, the Client account generally will have no right directly to enforce compliance by the Reference Obligor with the terms of a reference obligation nor any rights of set-off against the Reference Obligor, nor have any voting rights with respect to a reference obligation. In the event of the insolvency of any counterparty, the Client account's recourse will be limited to the collateral, if any, posted by the counterparty and, in the absence of collateral, the Client account will be treated as a general creditor of the counterparty. Consequently, the Client account will be subject to the credit risk of the counterparty, any collateral posted by the counterparty, the Reference Obligor and the obligors of the deliverable obligations, if any.

While Advocate expects that returns on a synthetic security may reflect those of each related reference obligation, as a result of the terms of the synthetic security and the assumption of the

credit risk of the counterparty, a synthetic security may have a different expected return, a different (and potentially greater) probability of default and different expected loss and recovery characteristics following a default. Upon the occurrence of a credit event, maturity, acceleration or other termination of a synthetic security, the terms of the synthetic security may permit or require the counterparty to satisfy its obligations under the synthetic security by delivering to the Client accounts one or more deliverable obligations (which may not be the reference obligation) or a cash payment (which may be less than the then-current market value of the reference obligation). In addition, a synthetic security may provide for early termination at a price based upon a marked-to-market valuation, which may be less than the principal or notional amount of the synthetic security.

Certain of the synthetic securities purchased by the Client accounts may be structured as credit default swaps, credit-linked obligations, or other similar instruments. In any such case, the Client accounts may be required to grant the related counterparty a first priority security interest in certain synthetic security collateral. Upon the occurrence of a credit event, the related synthetic security collateral will be delivered to the counterparty in exchange for the deliverable obligation. The Client accounts will have no right to sell or transfer any synthetic security collateral until the synthetic security is terminated, sold or matures, even under circumstances where the synthetic security collateral deteriorates in credit quality. In addition, the Client accounts may realize a loss upon any sale of synthetic security collateral that has been released to the Client accounts under the terms of the synthetic security.

The Client accounts may enter into short synthetics in which the Client accounts is the purchaser of credit protection and will be required to make periodic payments calculated by reference to a stated notional amount. The market value of a short synthetic at any time will depend upon a variety of factors, including most importantly the market's perception of the credit risk associated with the reference obligor. If such credit risk improves, the market value of the short synthetic could be expected to decline. Under a short synthetic, the Client accounts will only receive a payment if a credit event occurs. If a short synthetic expires without the occurrence of a credit event, the Client accounts will not receive any payment. The Client accounts may enter into short synthetics for speculative purposes.

The value of a short synthetic is most likely to improve if the market perceives that the credit risk associated with the Reference Obligor has increased.

Synthetic securities are specialized securities that are expected to be less liquid and not as readily tradable as other collateral obligations and may be subject to more variability between their market value and actual sale price than other collateral obligations. In addition, there is no assurance that a buyer will be available if Advocate decides to sell a synthetic security.

Hedging Risks. Advocate expects to use explicit and implicit leverage to achieve the risk levels targeted for each strategy to achieve the target level of return in high market stress environments. Such techniques include, without limitation, hedging, utilizing derivatives on various asset classes, futures, forward settlements, and selling short among others. The use of these techniques has

attendant risks and can, in certain circumstances, substantially increase the risk of loss to which the investment portfolio of the Client accounts may be subject.

Advocate frequently may decide not to hedge against certain risks, and many risks exist that are not identified or hedged effectively (for example credit risk, relating to both particular securities and counterparties). Furthermore, Advocate may change its hedging philosophy, methodology and strategy at any time, in its sole discretion and without any notice to Limited Partners, choosing for example not to hedge risks that it has generally attempted to hedge in the past. Advocate is not required to hedge any particular risk or type of risk, and the Client accounts may have exposure to any risk or hold any position on an unhedged basis.

Even when Advocate does attempt to hedge against a particular risk, there can be no guarantee that its hedging strategy will be successful. The success of any hedging transaction is subject to Advocate's ability to structure correctly the portfolio of the Client accounts. Therefore, while Advocate may enter into hedging transactions to seek to reduce market risk, improper structuring of the portfolio may result in a poorer overall performance for the Client accounts than if it had not engaged in such transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy varies over time and may vary significantly from prior periods. Unanticipated changes in such correlations, among many other factors, could prevent Advocate from constructing a portfolio that is actually hedged as to any risk and could result in material losses for the Client accounts. It should be assumed, therefore, that the Client accounts' portfolios may still be exposed to significant risks, notwithstanding Advocate's intended hedging strategies.

Equity Swap Baskets. Equity swap baskets may be used to implement certain strategies. For example, a Client account might enter into a swap in which it is entitled to the profits that result when a predetermined basket of securities or indexes decreases in value relative to another basket of securities or indexes. If Advocate correctly identifies the correlation between one such basket and another, the basket would perform as expected and generate gains during periods of market stress. There is no guarantee that Advocate will be able to correctly determine this correlation. If Advocate fails to correctly assess the degree of correlation between the components of the equity swap basket, the Client account could incur losses on multiple components of the equity basket. This would result in a poorer overall performance for the Client account than if it had not engaged in any equity swap basket transactions.

Non-U.S. Investments. The Client accounts may invest in securities of foreign corporations and foreign countries. Investing in the equity securities of non-U.S. companies involves certain considerations not usually associated with investing in securities of U.S. companies, including, without limitation: (i) political and economic considerations, such as greater risks of expropriation and nationalization, the potential difficulty of repatriating funds, general social, political and economic instability, and other conditions; (ii) the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; (iii) fluctuations in the rate of exchange between currencies and costs associated with

currency conversion; (iv) government approvals under corporate, securities, exchange control, non-United States investment and other similar laws and regulations; (v) financing and structuring alternatives and exit strategies that differ substantially from those commonly used in the United States; (vi) non-United States taxes; and (vii) certain government policies that may restrict the Client accounts' investment opportunities. In addition, accounting and financial reporting standards that prevail in foreign countries generally are not equivalent to U.S. standards and, consequently, less information may be available to investors in companies located in foreign countries than is available to investors in companies located in the United States. There is also less regulation, generally, of the securities markets in non-U.S. countries than there is in the United States. The foregoing factors may increase transaction costs and adversely impact the value of the Client accounts' investments in the securities of non-United States Portfolio Companies.

Fixed-Income Investments. The Client accounts may invest in bonds or other fixed income securities, including, without limitation, commercial paper and "higher yielding" (and, therefore, higher risk) debt securities. Such securities may be below "investment grade" and face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower rated debt securities tend to reflect individual corporate developments to a greater extent than do higher rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher rated securities. Companies that issue such securities often are highly leveraged and may not have available to them more traditional methods of financing. It is likely that a major economic recession could severely disrupt the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

The value of the fixed-income securities in which the Client accounts may invest will generally change as the general levels of interest rates fluctuate. Generally, when interest rates decline, the value of the Client accounts' long fixed-income portfolio can be expected to rise while that of its short fixed-income portfolio can be expected to decline. Conversely, when interest rates rise, the value of a long fixed-income portfolio can be expected to decline while that of a short fixed-income portfolio can be expected to rise.

Other Instruments. The Client accounts may take advantage of opportunities with respect to certain other instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of the Client accounts and legally permissible. Special risks may apply to instruments that are invested in by the Client accounts in the future that cannot be determined at this time or until such instruments are developed or invested in by the Client accounts (including, without limitation, market risk, liquidity risk, the risk of non-performance by the counterparty,

including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk).

Leverage and Financing Risk. The portfolio of the Client accounts may be leveraged to enhance returns and/or for cash management purposes. Accordingly, the assets of the Client accounts may be pledged in order to borrow additional funds. The investment return of the Client accounts may also be leveraged with repos and reverse repos, short sales, swaps, forwards and other derivative instruments. The amount of borrowings which the Client accounts may have outstanding at any time may be very large in relation to its capital and may vary, depending on the nature of its investments. While leverage presents opportunities for increasing the total return of the Client accounts, it has the effect of potentially increasing losses as well. Accordingly, any event which adversely affects the value of an investment would be magnified to the extent that leverage is employed. The cumulative effect of the use of leverage by the Client accounts in a market that moves adversely to the investments of such entities could result in a substantial loss to the Client accounts, which would be greater than if leverage were not employed.

In general, the anticipated use of short-term margin borrowings results in certain additional risks to the Client accounts. For example, should the securities pledged to brokers to secure the margin accounts of the Client accounts decline in value, the Client accounts could be subject to a “margin call,” pursuant to which the Client accounts must either deposit additional funds or securities with the broker, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden drop in the value of the assets of the Client accounts, the Client accounts might not be able to liquidate assets quickly enough to satisfy its margin requirements.

The Client accounts’ FCMs and, to the extent applicable, brokers, including those effecting short sales on behalf of the Client accounts and counterparties with respect to certain derivative instruments, may impose on the Client accounts certain financial and non-financial covenants, including requiring that the capital of the Client accounts exceed certain levels and/or that decreases in the Client accounts’ capital (whether by losses or otherwise) do not exceed certain amounts or percentages. In the event these or other covenants are violated, such FCMs, brokers and counterparties may require the liquidation of some or all of the positions in the Client accounts’ portfolios. Even absent a violation of a covenant or other agreement, such FCMs, brokers and counterparties may have the right to compel a Client account to close a short position with little (or no) notice. The Client account may be materially adversely affected (a) if the Client account fails to meet any collateral requirements, whether as a result of increased requirements imposed by any such FCMs, brokers or counterparties or as a result of market fluctuations affecting the value of collateral or of the short position, (b) if some or all of the Client account’s positions are liquidated in order to meet such increased requirements or in response to a violation of a covenant or other agreement, or (c) if securities to be sold short become unavailable or short positions become difficult or expensive to maintain.

Further, there is a risk that the institutions, including FCMs, brokerage firms and banks, with which a Client account may trade or invest, may encounter financial difficulties that may require such

institutions to reduce the amount of financing previously granted to the Client account, resulting in forced liquidation of substantial portions of the Client account's portfolio. Any financial difficulty of any such counterparty, or any reduction in the amount of financing granted to a Client account by any such counterparty, could have a material adverse effect on the Client account.

In addition, turmoil in the past few years in the U.S. and non-U.S. debt markets may affect the ability of a Client account to obtain financing on acceptable terms in connection with its investment activities. Financing may not be available to the Client account or may be available to the Client accounts only on terms that are not favorable, which risk is more likely given the market downturn and credit crisis that began in 2008. If the Client account is unable to raise additional funds or obtain capital on terms acceptable to Advocate, it may have to delay, modify or abandon part or all of its investment strategies. The inability to obtain such financing may adversely affect the number of investments made by the Client accounts and the returns on such investments.

Futures Commission Merchant Risk. The Client accounts will enter into transactions to purchase, hold, sell, clear and settle investments, with or through FCMs. In connection with their role accepting and soliciting orders for futures contracts, options for futures contracts and swaps, FCMs are required to be registered with the CFTC and are subject to CFTC rules and regulations, including with respect to minimum capital requirements, segregation of customer accounts, margin lending rules, customer disclosure requirements and filing requirements. FCMs are also subject to the rules and regulations of the various clearinghouses and exchanges of which they are members. The Client accounts' investments may also be adversely affected if an FCM with which the Client accounts transact decides to terminate the relationship with the Client accounts or call in any margin loans extended to the Client accounts. As active participants in the financial markets, FCMs are also subject to systemic risk as well as significant counterparty risk. A political or economic event affecting other participants in U.S. or global financial and commodities markets could have an adverse effect on the FCM's financial viability and/or ability to successfully complete and execute transactions on behalf of the Client accounts. The Client accounts could be exposed to liquidity and credit risk in the event of a failure of an FCM.

Bank Risk. The Client accounts will maintain a bank account to hold cash that has not been pledged as initial margin or variation margin, and to hold any margin calls that it may make to counterparties. Such bank account will also be used to post any required initial margin or variation margin.

Prime Broker Risk. To the extent the Client accounts retains any brokers to act as its prime brokers, the securities in margin accounts maintained with any prime broker and any securities for which the Client accounts has not fully paid together with all attendant ownership rights may be loaned to a prime broker or to others, or may be used by the prime broker as collateral for their general loans. Such assets may become available to third party creditors of such prime broker.

Currency. A Client accounts may invest a portion of its assets in instruments denominated in currencies other than the U.S. dollar, the price of which is determined with reference to currencies other than the U.S. dollar. The Client account will, however, value its assets in U.S. dollars. To

the extent unhedged, the value of a Client account's assets will fluctuate with U.S. dollar exchange rates as well as the price changes of the Client account's investments in the various local markets and currencies. Thus, an increase in the value of the U.S. dollar compared to the other currencies in which the Client account makes its investments will reduce, all other economic factors being constant, the effect of increases and magnify the effect of decreases in the prices of the Client account's investments in their local markets. Conversely, a decrease in the value of the U.S. dollar will have the opposite effect on the Client account's non-U.S. dollar investments. The Client accounts may utilize futures, swaps, options and forward contracts to hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be effective.

Counterparty and Settlement Risk. To the extent a Client account invests in non-U.S. securities, swaps, or derivatives, or other over-the-counter transactions, in certain circumstances, the Client account may take a credit risk with regard to parties with whom it trades and may also bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded transactions which generally are backed by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default. It is expected that all assets deposited with custodians or brokers will be clearly identified as being assets of the Client account. However, it may not always be possible to achieve this and there may be practical or time problems associated with enforcing the Client account's rights to its assets in the case of an insolvency of any such party.

Some of the markets in which the Client accounts may effect transactions are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes the Client accounts to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Client accounts to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a Client account has concentrated its transactions with a single or small group of counterparties. The Client account is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Moreover, Advocate's internal credit function which evaluates the creditworthiness of its counterparties may prove insufficient. The lack of a complete and "foolproof" evaluation of the financial capabilities of the Client account's counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Client account.

The clearing, settlement, and custody of a Client account's positions is likely to be carried out by one or a limited number of counterparties, resulting in the creation of a concentration of exposure to such counterparty or counterparties. Further, to the extent the Client account invests in securities, the Client account will not maintain custody of its securities or place its securities in the custody of a bank or a member of a national securities exchange in the manner required of registered

investment companies under rules promulgated by the SEC. A registered investment company that places its securities in the custody of a member of a national securities exchange is required, among other things, to have a written custodian agreement, which provides that securities held in custody will be at all times individually segregated from the securities of any other person and marked to identify clearly such securities as the property of such investment company. The Client account generally maintains its accounts at brokerage firms that do not segregate such assets. Under the provisions of the U.S. Securities Investor Protection Act of 1970, as amended, the bankruptcy of any such brokerage firm could have a greater adverse effect on the Client account than would be the case if the Client account's brokerage accounts were maintained so as to meet the requirements applicable to registered investment companies.

In addition, the institutions, including brokerage firms and banks, with which a Client account may trade or invest may encounter financial difficulties that impair the operational capabilities or the capital position of the Client account. This may expose the Client account to additional risks, including credit risks (resulting from a counterparty's failure to meet its financial obligations) and/or legal risks (resulting from the insolvency or bankruptcy of a counterparty, or from the changed characterization of a transaction or a counterparty's legal capacity to enter into a financial contract).

The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in Advocate's investment strategy. There can be no assurance that Clients will achieve their investment objectives. Investing in securities, derivatives, and commodity interests involves risk of loss that Clients and private fund investors should be prepared to bear. Advocate may utilize significant leverage in its investment programs. Prospective Investors in private funds should read the offering documents of the funds and consult with their own advisers before deciding to invest.

Item 9: Disciplinary Information

Neither Advocate nor its employees have been involved in any legal or disciplinary events in the past 10 years that would be material to a Client, investor's or prospective investor's evaluation of Advocate's advisory business or its personnel.

Item 10: Other Financial Industry Activities and Affiliations

A. Broker-Dealer Registration Status

Neither Advocate nor any of its management persons are registered, or have an application pending to register, as a broker/dealer or a registered representative of a broker-dealer.

B. Futures Commission Merchant, Commodity Pool Operator or Commodity Trading

Advocate is registered with the CFTC as a commodity trading advisor (“CTA”) and has become a Member of the National Futures Association (“NFA”).

C. Material Relationships or Arrangements with Other Industry Participants

Advocate does not maintain material relationships or arrangements with other financial industry participants. However, affiliates or related persons of Advocate may act as general partner, investment manager, managing member, or other controlling entity of private funds that Advocate provides investment advisory services to.

D. Material Conflicts of Interest Relating to other Investment Advisers

Advocate does not recommend or select other investment advisers for its Clients or have other business relationships with investment advisers that it has determined create a material conflict of interest.

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

Advocate has adopted a Code of Ethics that requires its employees to put the interests of Clients before their own interests and to act honestly and fairly in all respects in their dealings with Clients. Advocate personnel are also required to comply with applicable federal securities laws. Clients or prospective clients may obtain a copy of the Code by contacting Richard Shea, Chief Compliance Officer (“CCO”), by email at richard.shea@advocatecapmgt.com or by telephone at [\(212\) 705-8517](tel:2127058517). The Code includes the following policies.

1. Personal Trading

The Code requires, among other things, Advocate’s employees to:

- Pre-clear personal securities transactions in initial public offerings, private placements and other types of investments with the CCO, who may deny permission to execute the transaction if such transaction will have any adverse economic impact on one of Advocate’s clients;
- Report personal securities transactions on at least a quarterly basis; and
- Provide Advocate with information regarding certain personal securities holdings (both initially upon commencement of employment and annually thereafter).

Advocate or an employee may invest in the same securities (or related securities or instruments, e.g., warrants, options or futures) that Advocate recommends to clients, which poses a conflict of interest. However, Advocate’s personal trading policy prohibits employees from trading in securities or instruments that are recommended to Client without preclearance for such transactions from the Chief Compliance Officer. If such an investment poses a conflict of interest, we will seek to act in a way that favors the interests of our clients. We have also established procedures under the Code designed to ensure that the personal securities transactions, activities and interests of the

employees of Advocate will not interfere with making decisions in the best interest of Clients while, at the same time, allowing employees to invest for their own accounts. Our firm's officers and employees may invest personally in our private fund clients. These investments could pose a conflict of interest with our other clients because officers and employees may be motivated to allocate time, attention, and/or investment opportunities to our private fund clients at the expense of other clients. We have adopted written policies and procedures governing the allocation of investment opportunities, and will seek to treat all clients fairly over time.

Participation or Interest in Client Transactions

Advocate, its employees or a related entity (collectively "Related Persons"), will generally have an investment in the Funds managed by Advocate. As a result, Related Persons have an interest in an investment that may also be recommended to Clients.

Insider Trading

By reason of its various activities, Advocate may become privy to material non-public information and be restricted from effecting transactions in investments that might otherwise have been initiated. Advocate has designed and implemented policies in order to prevent the improper use of material non-public information (the "Insider Trading Policies").

Advocate's Insider Trading Policies prohibit Advocate and its personnel from (i) trading either personally or on behalf of Clients or recommending trading, in securities of a company while in possession of material non-public information in violation of federal securities law and (ii) communicating material non-public information to others in violation of federal securities law. Additionally, Advocate's personnel are required to promptly inform the Chief Compliance Officer if they come into contact with material non-public information. The CCO will then take steps, as appropriate, to prevent dissemination of material non-public information and to restrict the trading in the security by Advocate and its personnel. If our firm restricts trading in a security due to potential exposure to material non-public information, this may limit clients' investment opportunities.

Each person covered by the Insider Trading Policies must acknowledge at the time of hire and on an annual basis thereafter that he or she understands and agrees to adhere to the Insider Trading Policies.

2. Political Contributions.

Advocate maintains policies and procedures to govern, monitor and place limitations on the political contributions made by its employees and affiliates in order to comply with the Advisers Act and local laws and regulations.

3. Gifts and Entertainment.

Advocate maintains policies and procedures intended to prevent employees from being unduly influenced in their decisions by the receipt of gifts or other inducements from third parties, such as

trading counterparties, vendors and investors. To do so, Advocate's Code requires the preclearance of gifts and entertainment above certain values.

4. Outside Business Activities.

Certain outside business activity of an employee is subject to approval by Advocate. For example, an employee may not serve as an officer or director of a public or private company without obtaining the requisite approval. In granting approval, Advocate will consider whether any outside business activity conflicts or may conflict with the business of Advocate.

Item 12: Brokerage Practices

Selection of Broker-Dealers

Advocate has discretionary authority to determine what securities are bought or sold, as well as the broker-dealer(s) that will effect those transactions for Clients.

Selection Criteria

In recommending or selecting an executing broker-dealer and determining the reasonableness of the broker-dealer's compensation, Advocate considers, among other things, the broker-dealer's execution capabilities, research, reputation and access to the markets for the securities and financial instruments that are being traded. In selecting broker-dealers, Advocate does not consider client referrals from a broker-dealer. In selecting a broker-dealer to execute transactions (or series of transactions) for discretionary accounts and determining the reasonableness of the broker-dealer's compensation, Advocate solicits competitive bids. It is generally Advocate's practice to negotiate what it believes are "execution only" commission rates. Although Advocate has not entered into formal "soft dollar" arrangements with brokerage firms, it receives research from its brokers and the quality of such research is taken into consideration in the selection process. Advocate is newly-formed, and has not acquired any products or services with client brokerage commissions in the last fiscal year, and does not anticipate doing so. Advocate does not anticipate entering into any formal soft dollar arrangements, but will only use soft dollars to obtain products and services that fall within the safe harbor under Section 28(e) of the Securities Exchange Act of 1934. Advocate may benefit indirectly from commission payments made by a client (including payments by way of soft dollar benefits). For example, Advocate's receipt of soft dollar benefits presents a potential conflict of interest, because Advocate is effectively using client assets to pay for research or brokerage that it might be able to generate internally or would otherwise have to purchase, and as a result, Advocate may have an incentive to favor broker-dealers who provide such benefits. Although research products and services that may be obtained by Advocate will generally be used to service all of its clients, a brokerage commission paid by a specific client may be used to pay for research that is not used in managing that specific client's account. Research and brokerage services obtained by the use of commissions arising from Client portfolio transactions generally benefit all Advocate Clients though they may benefit Advocate as well.

If Advocate determines in good faith that the amount of commissions charged by a broker is reasonable in relation to the value of the brokerage and products or services provided by such broker, including prime brokerage services, clients may pay commissions to such broker in an amount greater than the amount another broker might charge for effecting the same transaction. Advocate also maintains policies and procedures to review the quality of executions, including periodic reviews by our trading and investment professionals.

Our clients generally do not direct us to trade through any particular counterparty. A client's insistence on the use of one or more particular counterparties in connection with the trading of its account can have a materially adverse effect on the quality of execution that is available to the client. Among other things, clients that direct our use of trading counterparties may pay higher transaction costs and receive inferior execution prices, be excluded from aggregated orders, and trade after our other clients have traded.

Advocate or affiliates may receive introductions to private fund investors through broker-dealers that execute trades on behalf of Advocate. Advocate does not believe that it pays any additional fees or higher commissions as a result of these introductions. Advocate seeks best execution on all transactions. However, Advocate may have an incentive to select or use a broker-dealer based on Advocate or an affiliate receiving private fund investor referrals from that counterparty.

Order Aggregation

Currently, Advocate trades only for a single separately managed account and, consequently, does not aggregate trades. If Advocate acquires additional Clients, it will adopt appropriate policies and procedures to address the conflicts involved in aggregating orders of multiple accounts. When Advocate purchases or sells investments in the same issuer at the same time for Clients, Advocate may submit an aggregated trade for execution if it believes that the use of an aggregated trade reasonably furthers its efforts to seek best execution. Participants in aggregated trades receive the average execution price and incur their pro rata share of the trading costs.

To the extent that trades are partially filled, Advocate will allocate the results of the partially completed trade pro rata between participating Clients based on the initial allocation instructions submitted for execution. Impacted accounts receive the average execution price and incur their pro rata share of the trading costs with respect to the partially completed trade. If an order cannot be fully executed under prevailing market conditions, Advocate may allocate the securities traded among the participating Clients on a basis which Advocate considers equitable in its sole discretion.

Advocate Capital expects to deploy and manage its strategy across different types of Client Accounts, both separately managed accounts and private funds. The investment objective will be to manage each portfolio based on its unique risk profile target. All things being equal, each portfolio would have equal proportions invested in the same strategies and instruments. Advocate's separately managed account clients trade on a notional account value. Advocate determines an equivalent asset under management level for such client accounts to provide the basis for allocation with private fund clients. Advocate's portfolio manager will prepare an allocation that identifies each participating account and each such account's expected participation in a trade as a percentage

of the block, or as a percentage of the account's notional value at the beginning of the month. In determining the allocation, Advocate will consider each participating account's risk profile, diversification, cash availability, investment objectives, account guidelines, trading agreements, regulatory restrictions, and any other relevant factors.

There may be some differences in portfolio composition due to a variety of factors. These factors include, but are not limited to: different credit terms available to each portfolio due to their differing credit profiles; differences in the nature of derivatives traded for each account (bilateral versus cleared, CME cleared versus LCH cleared, etc.), counterparty availability, differences in initial margin for each strategy including whether the trades are bilateral or through a clearing house, and differences in relative cheapness of each of the strategies at the time of deployment between various portfolios. As such, Advocate can offer no assurance that two portfolios with the same target risk profile would have the same proportional investment in the same strategies, but will seek to allocate trades in a manner we believe is fair to the Clients. It is the policy of Advocate to allocate investment opportunities for the Clients fairly and equitably, to the extent possible, over a period of time. Advocate, however, will have no obligation to purchase, sell or exchange any security or financial instrument for one Client that Advocate may purchase, sell or exchange for another Client if Advocate believes in good faith at the time the investment decision is made that such transaction or investment would be unsuitable, impractical or undesirable for a particular Client. Advocate will follow procedures to ensure that allocations or trades and investment opportunities do not involve a practice of appearing to favor or disadvantage any Client. Advocate may deviate from aggregation and allocation policies and procedures if it concludes it to be in the best interest of Clients as determined by Advocate in its sole discretion.

Instances in which Client orders may not be aggregated include, but are not limited to, the following: (1) Advocate determines that the aggregation is not appropriate because of market conditions; (2) Situations in which Advocate must effect the transactions at different times or prices, making aggregation unfeasible; (3) account guidelines including counterparty availability and approved trading venues, and (4) A determination is made by Advocate not to aggregate orders because of tax, legal, regulatory or administrative reasons such as typical trading increments or quantities.

Trade Errors

A "trade error" is generally considered to include an error that (i) prevents portfolio trading instructions given by the portfolio manager on behalf of a Client or Fund from being effectuated in substantially the manner intended by the portfolio manager; (ii) results in the execution of a trade on behalf of a Client that was not intended for that Client; or (iii) causes a violation of any applicable investment policies or restrictions mandated by the Client or by law. Depending on the relevant facts and circumstances, other events might also be considered trade errors.

Advocate seeks to detect trade errors prior to settlement and to correct and/or mitigate them in an expeditious manner. To the extent an error is caused by a third party, such as a broker, Advocate will seek to recover any losses associated with the error from that third party. However, there is no guarantee that Advocate will be able to do so. Advocate has also established trade processes and procedures designed to reduce the likelihood of errors. Advocate's general policy is to seek to identify and correct any trade errors promptly and in a way that mitigates any losses. Trade errors

in separately managed accounts will be borne by Advocate, subject to the terms of the investment management agreement. Private fund clients will bear the cost of errors unless the error is a result of bad faith, gross negligence, or willful misconduct by Advocate. Advocate has a conflict of interest in determining whether an error has occurred or was caused as a result of bad faith, gross negligence, or willful misconduct. Advocate will generally not net gains and losses associated with multiple errors related to separate investment decisions, but gains and losses stemming from an interrelated set of errors may generally be netted. Advocate will not use soft dollars or commitments of future brokerage business to compensate any broker-dealer for absorbing the cost of a trade error.

Item 13: Review of Accounts

Review of Accounts

Advocate investment professionals will continuously monitor and review positions held by its Clients in the context of their stated investment objectives. Currently, Advocate's review of accounts is typically daily. A review of a Client account may also be triggered by any unusual activity or special circumstance identified by Advocate.

Reporting to Investors

Advocate provides daily account reporting to its managed account client. The daily report lists each strategy along with its mark to market value at the previous day's valuation. Each strategy also includes a month to date, year to date and inception to date return. Collateral reports and cash balances are also shown with a detailed breakdown of collateral posted with each of Advocate's counterparties. Advocate will provide investors in private funds with monthly estimates of net asset value, and investors will also receive monthly statements from the fund administrator.

Item 14: Client Referrals and Other Compensation

Advocate does not have any arrangements to compensate anyone or be compensated for the referral of investors, although it may use placement agents for private funds in the future.

Item 15: Custody

Advocate does not have custody of client assets for separately managed accounts. However Advocate is deemed to have custody of the private fund assets it advises. All assets are held by qualified custodians and separately managed account clients are invoiced for advisory services. Advocate does not have the authority to deduct fees from separately managed accounts. Separately

managed account clients receive bank statements directly from the custodians of their accounts. Investors in private funds will receive monthly estimates of net asset value from Advocate, as well as monthly capital account statements from the fund administrator. Private fund investors will also receive audited financial statements, prepared in accordance with U.S. generally accepted accounting principles no later than 120 days after the end of each fiscal year. Advocate encourages separately managed account clients to compare the account statement received from its custodian to the reporting received from Advocate.

Item 16: Investment Discretion

Advocate has discretionary authority to determine which securities and the amounts of securities that are bought or sold, as well as the broker-dealer to be used and the commission rates to be paid with respect to its Clients.

Advocate receives written discretionary authority from separately managed account clients through the investment management agreement (“IMA”) at the outset of an advisory relationship to select the financial instruments and securities to be traded on behalf of the account that are consistent with the investment objectives and guidelines agreed upon with the Client. The terms of the IMA may limit Advocate’s authority to purchase securities that are inconsistent with the investment objectives. Clients may further limit Advocate’s discretion through reasonable restrictions on the account. These restrictions generally may take the form of prohibitions or constraints with respect to particular securities, issuers, financial instruments, exposures, or trading counterparties.

Private fund governing documents grant Advocate full discretionary authority to determine, without obtaining specific consent from the fund or fund investors, the securities and the amounts to be bought or sold on behalf of the private fund and to conduct the day-to-day investment operations of the fund. Fund investors do not have authority to impose restrictions on Advocate’s investment discretion.

Item 17: Voting Client Securities

Advocate does not hold publicly-traded securities and, as a result, does not vote proxies. Our current investment management agreements do not give us authority to vote client proxies. In the event we receive the authority to vote proxies we will develop policies and procedures designed to comply with Rule 206(4)-6 under the Advisers Act and these policies and procedures will be made available upon written request.

Item 18: Financial Information

Advocate has never filed for bankruptcy nor is it aware of any financial condition that is expected to impair its ability to meet its contractual commitments to its Clients.